MANAGEMENT OWNERSHIP AND EARNINGS MANAGEMENT: AN EMPIRICAL TEST

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Management Ownership and Earnings Management: An Empirical Test

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ABSTRACT

This paper tests the influence of management ownership on earnings management using U.S. data. Different from event-driven and short-term incentives, management ownership may have a persistent influence on the accounting discretion of managers and long-term impact on agency problems. Through exploring both the alignment effect and the entrenchment effect of management ownership concurrently, examining interactions of management ownership with other monitoring mechanisms, and circumstances that might affect those interactions, I find that higher management ownership reduces the magnitude of abnormal accruals when management ownership is at a low level; higher management ownership increases the magnitude of abnormal accruals when management ownership reaches a high level, with a possibility that it may further get reduced when management ownership reaches a much higher level. The negative association between abnormal accruals and management ownership is stronger in upward earnings management than in downward earnings management; however the negative association between abnormal accruals and management ownership is more significantly strengthened by monitoring mechanisms, including analyst following and block shareholding.