Preface

ABOUT THE SUBJECT

The topic of earnings management has gained a huge international relevance. According to Healy and Wahlen (1999) "earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers" (p. 368). According to Schipper (1989) and Bouchareb et al. (2014), earnings management is pursued with the intention of obtaining some of its own benefits associated with opportunistic actions to increase or decrease net earnings. Thus, the concept of earnings management deals with maximization, minimization, and smoothing of earnings (Copeland & Wojdak, 1969). Research on earnings management allows us to predict future manager behavior. Basically, because helps identifying managers' behavioral patterns and how they use accounting policies in different opportunistic circumstances.

Research on these topics has been focused in the accounting quality. However, earnings management continues to face news challenges. Earnings management may be difficult for individual investors to detect due to the complexity of accounting rules, the characteristics of corporate governance structures, the kind of linguistics used by managers, and the inability of auditing some sets of disclosures. In fact, theoretically, firms with large accruals and weak governance structures are more likely to engage in earnings management. Developments in social psychology have suggested that some linguistics-based methods can detect financial manipulation. In a simpler way, accounting irregularities, deceptive restatements and financial reporting aggressiveness are associated with the tone at the top (Patteli & Pedrini, 2015) either in the CEO letters or in the conference calls. Some of these documents include voluntary information that is not audited, intrinsically linked with forward-looking information on earnings announcements, future performance and its forecasting ability. Consequently, if these pieces of information are associated with earnings management behaviors, this will affect investors' ability to predict future earnings accurately.

Therefore, it would be fruitful to investigate and disseminate the results of theoretical and empirical studies that reveal different aspects of earnings management phenomenon in order to obtain insightful knowledge on how to promote effectively the financial reporting transparency.

This book gathers several coherent chapters which allow, on a scientific basis, to discuss at an international level the new directions in earnings management upgraded and refocused, mainly, in issues such as the International Financial Reporting Standards, Corporate Governance, Auditing, Public Sector, and Ethics.

EXPECTATIONS

The editors intend this book to be useful for regulatory authorities and researchers in the field of financial accounting, corporate governance, finance, impression management, and auditing. Through dissemination of the research findings on the rigor of accounting quality this publication could also be valuable to develop and inspire further studies by researchers and students in postgraduate courses, whose research interests are related to earnings management.

This book aims to achieve the following main objectives:

- Disseminate methodologies that would ensure the quality of financial information;
- Document the earnings management that are being used by public institutions to increase their quality of financial reports;
- Review processes/governance models that promote better earnings management;
- Analyze if the earnings management involves changes in financial reports and make a critical reflection on other theoretical perspectives grounded on social psychology to explain managers' behavior;
- Discuss and disseminate the level of earnings management in less developed countries;
- Analyze if the voluntary adoption of International Financial Reporting Standards (IFRS) is associated with lower earnings management;
- Analyze the evidence about the effectiveness of mandatory audits to improve earnings quality.

ORGANIZATION OF THE BOOK

This book is organized into 13 chapters. The first three chapters are focused on literature review of earnings management phenomenon. Thus:

- Chapter 1, "Earnings Quality and Firm Valuation: A "New" Perspective Deriving From the Literature," offers a systematic literature review on earnings quality and its implication on firm value. It discusses the different existent definitions of earnings quality, the multidimensional nature of the concept, and highlights a "new" earnings quality perspective taking into account the virtuosities of the residual income model.
- Chapter 2, "Earnings Management and Stock Market Reaction," reviews prior literature on stock market reaction to earnings management and earnings quality in order to analyze if and the extent to which earnings management activities are detected by market participants.
- Chapter 3, "An Overall Perspective of Income Smoothing as a Strategy of Earnings Management," provides a systematization of the literature on the income smoothing explanatory factors that can help researchers and increase future empirical research focused on this research field.

The next two following chapters provide reflections on the association between earnings management and the International Financial Accounting Standards. In this way:

- Chapter 4, “Earnings Management and Mergers and Acquisitions: Empirical Evidence From Italian-Listed Companies,” investigates whether Italian-listed companies involved in mergers and acquisitions used goodwill as a discretionary accrual for managing earnings in response to financial market competition.
- Chapter 5, “Earnings Management in SMEs: Evidence From Portugal and Spain,” provides important insights on the influence of the recent financial crisis and the adoption of adapted International Financial Accounting Standards on the incentives for EM in the context of Portuguese and Spanish SMEs.

The following three chapters cover issues on the influence of corporate governance, auditing, and inventories on earnings management. Thus:

- Chapter 6, “Earnings Management and Corporate Governance in Family Firms: Evidence From a Small Market,” examines the relationship between earnings management and corporate governance among Portuguese listed family firms.
- Chapter 7, “Earnings Management and Audit in Private Firms: The Effect of Financial Recuperation,” investigates the relationship between the level of earnings management and the audit in private firms under the influence of financial crisis recuperation, using a sample of Ireland and Portuguese firms from 2008 to 2016.
- Chapter 8, “The Relationship Between the Quality of Financial Information in Industrial Companies and Discretionary Inventory Management,” analyses the effect of earnings management on inventories fluctuation among manufacturing firms.

Chapters 9 to 11 provide some knowledge about how linguistics and graphic manipulation are associated with financial manipulation. Thus:

- Chapter 9, “Impression Management Strategies in the Chairmen’s Statements: Evidence From the Portuguese Banking Industry,” assesses the influence of organizational performance in the adoption of impression management strategies in the Chairmen’s statements of the Portuguese financial companies. It also evaluates the impact of the financial crisis on the adoption of impression management strategies.
- Chapter 10, “Determinants of the Readability and Comprehensibility of Risk Disclosures: Evidence From Portuguese Listed Companies,” determines if managers use impression management strategies to hide or obfuscate risk disclosures, through the analyses of the risk information disclosed by Portuguese non-financial listed companies.
- Chapter 11, “The Use of Financial Graphics as an Impression Management Tool: Evidence of Portuguese Listed Companies,” analyzes which factors can actually influence the graphical discrepancy index, based on the strategies of impression management.

Finally, the last two chapters address issues concerning earnings management in emerging economies. Thus:

- Chapter 12, "Convergence of Accounting Standards to International Standards and Earnings Management in Brazilian Companies," sought to highlight the main challenges of the initial adoption of accounting standards converged to international standards applied to public companies and treasury-dependent companies and how the results of economic agents in public and private companies in Brazil are managed.
- Chapter 13, "Developments in Earnings Management Practices in the IFRS Perspective: An Application in a Public Company," examines the examples of a public company that is traded on the Istanbul Stock Exchange for the purpose of determining earnings management practices under International Financial Reporting Standards (IFRS).

Jonas da Silva Oliveira
Instituto Universitário de Lisboa (ISCTE-IUL), Portugal

Graça Maria do Carmo Azevedo
University of Aveiro, Portugal

Augusta da Conceição Santos Ferreira
University of Aveiro, Portugal

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