



CAN EMPLOYEE OWNERSHIP MAKE
EARNINGS MANAGEMENT BENEFICIAL
FOR THE FIRM?

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Earnings Management: Opportunistic or Beneficial?

- Managers use discretionary accruals to adjust the reported earnings (Davidson III et al., 2010)
- Earnings Management can be:
 - *Opportunistic: When managers' aim is to mislead stockholders and outside investors about the financial results of the company (Chung et al., 2002)*
 - *Beneficial: When managers' goal is to signal private information about the firm to outsiders who interpret the information provided by the discretionary accruals (Pham et al., 2017)*
- Jiraporn et al. (2008) suggest that the type of earnings management can be determined through an agency theory approach. They find that Earnings Management is opportunistic when it is positively related to agency costs, and beneficial when the relationship is negative.
- The few papers that studied EM in France and the effect of several governance mechanism, never investigated the **type of EM in France**, which is our first research question
- We then investigate **the effect that employee ownership has on earnings management.**

Methodology

- Panel data:
 - *133 French listed companies*
 - *Period: 2002 – 2015*
- Three Proxies for Agency Costs
 - *Utilization Ratio, Industry adjusted Utilization, Audit Fees.*
- Five different proxies for earnings management

Model	(1)	(2)	(3)	(4)	(5)
Method	Modified Jones	Modified Jones	Kothari et al.	Kothari et al.	Roychowdhury
Measure of total accruals	TNA	NOA	TNA	NOA	Sales Manipulation
Absolute value of the residuals	DAC1	DAC2	DAC3	DAC4	RAM

Conclusion

1. Earnings Management in France is used opportunistically by managers rather than beneficially
 - *Civil law country with high concentration of ownership and significant family ownership*
 - *Low protection for minority shareholders*
 - *Financial reporting and taxation systems are very related*
2. Employee ownership reduces the use of opportunistic earnings management
3. Employee ownership makes the use of earnings management less opportunistic by:
 - *Decreasing agency costs and information asymmetry*
 - Aligned interests between managers and shareholders allows managers to increase disclosure through informative earnings management
 - *Increasing managerial entrenchment*
 - Entrenched managers are less prone to engaging in opportunistic earnings management as they are less concerned about short-term results than non-entrenched managers