The motivations of earnings management and financial aggressiveness in American firms listed on the NASDAQ 100

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Abstract

Purpose

The purpose of this paper is to examine the motivations of earnings management and financial aggressiveness levels in the big 100 companies listed on the NASDAQ 100 after the 2007 financial crisis.

Design/methodology/approach

This paper uses two samples. The first contains 471 observations of 100 companies listed on the NASDAQ 100 for the period 2008-2012 and is used to examine the motivations of earnings management. The second represents 282 observations of companies listed on the NASDAQ 100 that use financial aggressiveness. The authors use a panel data model to analyze the effects of four explanatory variables (corporate governance structure, CEO compensation, CEO characteristics and audit fees) on both earnings management and financial aggressiveness levels.

Findings

The results of the investigation show the significant impact of corporate governance structure, CEO compensation, CEO characteristics and audit fees on reducing the earnings management and financial aggressiveness levels.

Research limitations/implications

The findings can be valuable to both investors and researchers. For researchers, the present work may help in

corporate governance, CEO compensation and CEO characteristics in limiting such behaviors. Thus, investors are recommended to account for such variables in order to make effective investment decisions. As an extension to this study, researchers might consider other CEO psychological variables. Other market indices could also be considered in order to generalize and validate the results of the research.

Practical implications

Investors must take into consideration the corporate governance structure and ask for supplementary information about CEO characteristics to ensure better investment decisions.

Originality/value

In this paper, and in contrast to previous research, the authors test the impact of corporate governance structure, CEO compensation, CEO characteristics and audit fees together on the level of both earnings management and financial aggressiveness behavior for large US non-financial firms after the 2007 financial crisis. The authors show that older CEOs use less earnings management and financial aggressiveness. The findings can be valuable to investors, managers and regulators because they have implications for their interactive decision-making process.

Keywords

Corporate governance
Financial statement analysis
Audit
Financial accounting

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