



SESRR#168 | Does society moral values matter for earnings management? Empirical evidences around the world

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The ethics and moral issues involved in the financial reporting process has long been a concern of the accounting profession, promoting intense discussions on the part of both academia and market players. Considering this relevant debate, this study aims to analyze the effect of society moral values on earnings management. Despite manipulation of accounting amounts be one of the most discussed subjects on accounting literature, their motivation and practice related to ethics and moral values seem to be largely discussed in accounting literature only theoretically and through qualitative ways. We fill this gap and investigate the association between societies moral values and accruals-based earnings management in an international sample encompassing 12,080 firms from 39 non-US countries. We use data from the years 2000 to 2017 and the final sample is composed of 99,807 firm-year observations. Based on an international questionnaire by World Values Survey Association, we constructed an index of moral values in a country-level. Based on econometric estimations, our empirical finds suggest that societies where morally questionable behaviors are less acceptable (e.g., accepting bribery, deflecting taxes, among others) present lower levels of accruals-based earnings management, confirming that manipulation of accounting amounts is less acceptable where societies has higher moral values. Additionally, we provide empirical evidences that society moral values moderate the effect of the mandatory adoption of International Financial Reporting Standards (IFRS) on earnings management. Our study contributes to earnings management literature, discussing about society moral values and earnings manipulation in a large empirical way, providing relevant discussions to regulators and other market participants on ethical and moral implications of managers and police-makers in the preparation of accounting information.

Keywords: moral values, earnings management, IFRS.