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A DECADE OF EARNINGS MANAGEMENT RESEARCHES: A STUDY ON RESEARCH METHODS AND MARKET REACTIONS TOWARDS OPPORTUNISTIC BEHAVIOUR

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ABSTRACT

This study is aimed to investigate the latest developments of Earnings Management (EM) researches around the globe. Furthermore, this study is aimed to describe the development of opportunistic EM researches in terms of (1) research methods used in EM; and (2) investors reactions related to the opportunistic EM.

EM literatures published between 1990 and 2011 were reviewed. For the purpose of quality and focus of the study, 2010 journal ranking provided by the Excellence in Research for Australia (ERA) in the area of accounting (1501) was used to gather literatures through dozens of electronic journal databases subscribed by the University. Summon search engine was used to find related articles on EM; then compiling them in a database using Endnote X5. This study focuses on articles that examine manager's opportunistic behaviour on EM and its market reactions where there were 39 articles matched.

It is noted that EM measurements change overtime and discretionary accrual remains the most popular technique. However, methods that were used in determining discretionary accrual evolved and the discussion on which method is used as the best measurement is still debatable. In order to find representative samples of EM study, discretionary accruals were combined with other types of measurements and events which provide incentives for managers to manipulate earnings. In the short term, investors' reaction to EM is inconsistent. Future research needs to control confounding effects while observing short-term price effect or use an alternative theory in explaining this anomaly. In the long term, investors negatively valued EM and hence the accrual anomaly found by Sloan (1996) is not prolonged.

Keywords: *discretionary accruals, opportunistic behaviour, investor's reaction to earnings management, earnings management measurements, and Excellence in Research for Australia (ERA) Journal Ranking.*