Essays on the Role of Managerial Type in Financial Reporting

Proefschrift

ter verkrijging van de graad van doctor aan de Universiteit van Tilburg, op gezag van de rector magnificus, prof. dr. Ph. Eijlander, in het openbaar te verdedigen ten overstaan van een door het college voor promoties aangewezen commissie in de aula van de Universiteit op dinsdag 16 december 2008 om 16.15 uur door

Yuping Jia

geboren op 24 november 1976 te Henan, China
# TABLE OF CONTENTS

**CHAPTER 1: INTRODUCTION** ........................................................................................................ 1

1.1 **RESEARCH QUESTION** ........................................................................................................ 1

1.2 **RESEARCH METHOD** ........................................................................................................... 2

1.3 **A PREVIEW OF THE MAIN FINDINGS** .................................................................................. 3

1.4 **DISCUSSION, LIMITATIONS AND FUTURE RESEARCH** .................................................. 5

1.5 **REFERENCES** ...................................................................................................................... 6

**CHAPTER 2: HONESTY IS THE BEST POLICY—WHEN THERE IS MONEY IN IT: CAN FIRMS PROMOTE HONEST REPORTING BEHAVIOR BY MANAGERS?** ............................................................... 11

2.1 **INTRODUCTION** ................................................................................................................ 11

2.2 **HYPOTHESIS DEVELOPMENT** ............................................................................................. 14

2.2.1 Incentive compensation intensity ....................................................................................... 14

2.2.2 Non-monetary governance mechanisms .............................................................................. 15

2.2.3 Interactive effects .................................................................................................................. 16

2.3 **METHOD AND DESIGN** ..................................................................................................... 18

2.3.1 Tasks .................................................................................................................................. 18

2.3.2 Manipulations ...................................................................................................................... 19

2.3.3 Participants and procedures ................................................................................................. 21

2.4 **RESULTS** ............................................................................................................................ 22

2.4.1 Manipulation checks ............................................................................................................. 22

2.4.2 Summary statistics for dependent variable .......................................................................... 23

2.4.3 Tests of hypotheses .............................................................................................................. 23

2.4.4 Sensitivity analyses .............................................................................................................. 28

2.5 **DISCUSSION AND CONCLUSION** ....................................................................................... 31

2.6 **REFERENCES** .................................................................................................................... 33

2.7 **APPENDIX A. OVERVIEW OF AN EXPERIMENTAL PERIOD** ........................................ 40

2.8 **APPENDIX B. EXIT QUESTIONNAIRE** ............................................................................... 43

2.9 **APPENDIX C. MEASURE OF SOCIAL VALUE ORIENTATION** ........................................... 44

**CHAPTER 3: TOP LEVEL EXECUTIVE CHARACTERISTICS AND EARNINGS ATTRIBUTES** ......................................................................................................................... 46
CHAPTER 3: INSIDE THE ROOM
EXECUTIVE TRAITS AND ACCOUNTING CHOICES

3.1 INTRODUCTION ........................................................................................................... 46
3.2 HYPOTHESIS DEVELOPMENT .................................................................................... 49

3.2.1 Review of the literature on the effect of executive traits on accounting choices ......................................................................................................................... 49
3.2.2 Earnings attributes as measures of earnings quality ........................................... 51
3.3 SAMPLE AND DESCRIPTIVE STATISTICS ............................................................... 52
3.4 EMPIRICAL ANALYSIS OF THE EARNINGS ATTRIBUTES OF BACKDATING AND NON-BACKDATING FIRMS ............................................................................................ 57

3.4.1 Main findings ......................................................................................................... 57
3.4.2 Additional analysis ................................................................................................. 60
3.4.3 Discussion ................................................................................................................ 62

3.5 RATIO ANALYSIS FOR MATCHED SAMPLES OF BACKDATING AND NON-BACKDATING FIRMS .................................................................................................................. 63
3.6 DISCUSSION, LIMITATIONS, AND CONCLUDING COMMENTS .............................. 69
3.7 REFERENCES .............................................................................................................. 71
3.8 APPENDIX 1 DEFINITIONS OF VARIABLES ............................................................. 75
3.9 APPENDIX 2 FIRMS INVOLVED IN THE STOCK OPTION BACKDATING SCANDAL 81

CHAPTER 4: TO MISS OR TO MEET EARNINGS BENCHMARKS?
EARNINGS MANAGEMENT OF FIRMS INVOLVED IN STOCK OPTION BACKDATING

4.1 INTRODUCTION ........................................................................................................... 85
4.2 HYPOTHESIS DEVELOPMENT .................................................................................... 87

4.2.1 Meeting/beating earnings benchmarks ............................................................... 87
4.2.2 Missing earnings benchmarks ........................................................................... 88
4.2.3 Mixed strategy of meeting or missing earnings benchmarks ......................... 89
4.3 RESEARCH DESIGN AND SAMPLE SELECTION ...................................................... 90
4.3.1 Research design ................................................................................................... 90
4.3.2 Sample selection .................................................................................................. 93

4.4 EMPIRICAL FINDINGS ............................................................................................... 94
4.4.1 Descriptive statistics ........................................................................................... 94
4.4.2 Main findings ...................................................................................................... 99
4.4.3 Additional analysis .............................................................................................102
4.5 DISCUSSION, LIMITATIONS, AND CONCLUSIONS ..............................................104
4.6 REFERENCES ................................................................................................. 106
4.7 APPENDIX 1 VARIABLE DEFINITIONS ...................................................... 109
4.8 APPENDIX 2 FIRMS INVOLVED IN STOCK OPTION BACKDATING SCANDAL .. 112