Revista Universo Contábil, ISSN 1809-3337
Blumenau, v. 7, n. 4, p. 98-117, out./dez., 2011

doi:10.4270/ruc.2011433
Disponível em www.furb.br/universocontabil

DO CORPORATE GOVERNANCE SPECIAL LISTING SEGMENTS AND AUDITING CURB REAL AND ACCRUAL-BASED EARNINGS MANAGEMENT? EVIDENCE FROM BRAZIL[1]

LISTAGEM EM SEGMENTOS ESPECIAIS DE GOVERNANÇA CORPORATIVA E A AUDITORIA MINIMIZAM O GERENCIAMENTO DE RESULTADOS POR ESCOLHAS CONTÁBEIS E POR DECISÕES OPERACIONAIS? EVIDÊNCIAS DO BRASIL

Antonio Lopo Martinez
Doutor em Controladoria e Contabilidade pela FEA-USP
Doutor em Administração pela EAESP-FGV
Professor do Programa de Pós-Graduação em Ciências Contábeis da Fucape Business School
Endereço: Av. Fernando Ferrari, 1358 Boa Vista
CEP: 29075-505 – Vitória/ES – Brasil
E-mail: lopo@fucape.br
Telefone: (27) 4009-4444

ABSTRACT

This article examines whether enhanced corporate governance practices, auditing by one of the Big Four and qualified auditors' opinions, are associated with the propensity to engage in earnings management through accounting choices or operational decisions in Brazil. Although there are some studies on earnings management by Brazilian companies, very few have examined the presence of operational decisions in this practice and none has addressed how to minimize this. In order to infer earnings manipulation by accounting choices and operational decisions, we investigate if firms that manage earnings through discretionary accruals also make operational decisions for the same purpose. The evidence from a sample of Brazilian firms suggests that listing on the São Paulo Stock Exchange´s Corporate Governance Special Listing Segments, which requires enhanced corporate governance practices, among other requirements, and auditing by one of the Big Four firms reduce in general earnings management by accounting choices, and that qualified opinion from auditor is an indicator of earnings management. However, except in special cases, listing in the Corporate Governance Special Listing Segments and auditing by the Big Four do not assure less earnings management by operational decisions.

[1] Artigo recebido em 01.10.2010. Revisado por pares em 20.12.2010. Reformulado em 22.02.2011. Recomendado para publicação em 24.02.2011 por Ilse Maria Beuren (Editora). Publicado em 31.10.2011. Organização responsável pelo periódico: FURB.

Keywords: Earnings management by accounting choices. Earnings management by operational decisions. Discretionary accruals. Real earnings management.

RESUMO

O artigo examina como a listagem em segmentos especiais de governança corporativa, o tipo de auditoria e o parecer dos auditores estão associados com a propensão ao gerenciamento de resultados por escolhas contábeis e por decisões operacionais. Embora existam alguns estudos sobre gerenciamento de resultados pelas empresas brasileiras, mas poucos têm examinado a presença de decisões operacionais nesta prática e nenhum abordou como minimizar isso. De modo a inferir o gerenciamento de resultados por escolhas contábeis e por decisões operacionais, investigamos se as empresas que gerenciam ganhos através de acumulações discricionárias também tomam decisões operacionais para a mesma finalidade. As evidências obtidas para empresas brasileiras sugerem que a listagem em segmentos especiais e a auditoria por Big4 reduzem o gerenciamento de resultados por escolhas contábeis, entretanto, esses mesmos fatores não minimizam o gerenciamento por decisões operacionais.

Palavras-chave*: Gerenciamento de resultados por escolhas contábeis. Gerenciamento de resultados por decisões operacionais. Acumulações discricionárias.*

1 INTRODUCTION

Most research indicates that discretionary accruals are the main mechanism employed by accountants and managers to manage earnings. Examples are McNichols and Wilson (1988), Jones (1991), Dechow, Sloan and Sweeney (1995), Kang and Sivaramakrishnan (1995), Martinez (2001), Fuji (2004), Tukamoto (2005), Almeida et al. (2005). Irrespective of the methodological focus (discretionary accruals or descriptive-inferential statistics), all these authors have investigated the manipulation of accounting numbers through accounting choices. In contrast, there are very few works in the literature examining earnings management through operational decisions.

Of these few studies of manipulation of accounting figures through operational decisions, the standouts are Roychowdhury (2003; 2005), Gunny (2005), Zang (2005). These authors variously call this practice earnings management through real activities manipulation (ROYCHOWDHURY, 2005), real earnings management (GUNNY, 2005) or real manipulation (ZANG, 2005). Here we use earnings management through operational decisions.

Strictly speaking, Roychowdhury (2005, p. 3) defines making operational decisions to manipulate accounting figures as "departures from normal operational practices**,** motivated by managers' desire to mislead at least some stakeholders into believing certain financial reporting goals have been met in the normal course of operations" (underscoring added).

Roychowdhury (2005) sought to identify whether firms make certain operational decisions (related to sales, level of output and timing of discretionary expenses) to manipulate accounting numbers to avoid reporting losses. In turn, Gunny (2005) aimed to identify the consequences of operational decisions to manipulate earnings, that is, she investigated whether these decisions affect the ability to generate cash flow and earnings in future periods, as well as if analysts perceive these manipulations. Finally, Zang (2005) used a framework based on cost-benefit analysis to identify whether firms with less flexible accounting practices (subject to stricter accounting regulation) make operational decisions to manipulate accounting information more than do other firms. She also investigated the order (timing and intensity) between the two forms of manipulating accounting numbers – operational decisions and accounting decisions.

According to Tirole (2006), even without resorting to fraud, managers have substantial discretion in their financial statements. That is, they enjoy flexibility even within the confined Generally Accepted Accounting Principles. For example, the provisions for loan losses is always subjective. Of course the underprovision only shifts loss recognition in time. In the same way, the choice between capitalizing and expensing investment costs, shift income across time. Other than accounting choice the firm may distort its strategy in order to alter the external perception of the firm´s condition. For example, in order to inflate current profits, the firm may delay maintenance and reduce its inventory level. Or it may run end-or-period sales. Instead of slashing its price in January, it can boost the previous year´s profit by running December sales at the cost of reducing overall profit.

Pernicious earnings management fits the general conception of earnings management as misrepresentation (DEMSKI, 2003). This is the example when the firm attempts to mask poor performance and mislead its audience. In this context, corporate governance has a gatekeeping role of preventing pernicious earnings management and others antithetical practices.

In this work we use our own models to infer earnings management by accounting choices and operational decisions, to investigate whether Brazilian companies listed in the Bovespa´s Corporate Governance Special Listing Segments and audited by the Big Four manage earnings through these two procedures. Additionally, we analyze whether firms that manage earnings through discretionary accruals also make operational decisions for the same purpose.

The evidence obtained from our sample of firms suggests that those listed in the Corporate Governance Special Listing Segments and audited by the Big Four have lower propensity to manage their earnings by accounting choices. However, on the matter of earnings management through operational decisions, the results indicate that except in special cases, listing in the Bovespa´s Corporate Governance Special Listing Segments and being audited by one of the Big Four does not discourage earnings management.

This paper is organized in six sections including this introduction. In the next section we present a brief literature review and in the third and forth sections we discuss the research hypotheses and methodology, such as the empirical proxies for earnings management, along with the nature of the studies carried out. The results are analyzed in the fifth section and the sixth section presents our conclusions.

2 LITERATURE REVIEW

Corporate governance covers a range of practices and relationships among all interested parties, or stakeholders, inside and outside the company. The overall aim is to increase the value of the company, through transparency, respect for shareholders' rights, equal treatment of shareholders and rendering of trustworthy accounts. These corporate governance rules in their essence aim to increase the firm's efficiency.

In listed companies, a transparent posture by management, equal treatment and rendering of accurate accounts is of great importance because it involves the interests of controlling and minority shareholders, executive officers and members of the board of directors and its various committees (particularly the audit committee and compensation committee). Other interested parties are employees, customers, suppliers, creditors and independent auditors, all of whom take part in the game of often conflicting interests in terms of information, rights, form of remuneration and the entire decision process within the firm.

Bowen (2005) found that weak corporate governance makes earnings management easier, since the shareholders have information enabling them to make inferences about future events such as cash flow and stock returns. Various studies have analyzed a variety of corporate governance practices as potential ways to limit earnings management.

The specific theme of income smoothing and its relationship with firms' ownership structure has not attracted substantial attention from researchers. Authors such as Berle and Means (1932), Jensen and Meckling (1976), among others, have studied the ownership and control structures of companies in several countries. In Brazil, works such as those of Rapozo et al. (2007), Ribeiro et al. (2006), Okimura et al. (2004), Fontes Filho (2003) and Silveira (2004) have investigated the theme, relating it with other variables, and have noted that the great majority of Brazilian companies have a concentrated ownership and control structure.

Good corporate governance practices should adequately encourage the directors and officers to pursue objectives that are in the interests of the company and shareholders, to optimize the return on their investments and to assure sustained long-term growth.

According to Yamamoto (2003, p. 13), "nowadays a company's management failings can cause not only huge losses to the shareholders; they can also jeopardize the credibility of the market as a whole, with unpredictable reflections on the level of general economic activity".

The basic management structure of corporations in Brazil is established by Law 6,404 of 1976, as amended. This structure is organized as follows: (i) the general shareholders' meeting, which is the highest decision-making body; (ii) the board of directors; (iii) the executive board; and (iv) the oversight board.

All corporations must hold general meetings (at least once a year) and have an executive board. Only listed corporations and those with pre-authorized capital (allowing them to go public without amending the bylaws) must have a board of directors. The oversight board (conselho fiscal) only must be established by law in certain situations, such as during liquidation. Listed corporations must also submit their financial statements to examination by an independent auditor approved by the Brazilian Securities Commission (*Comissão de Valores Mobiliários – CVM*).

Xie et al. (2001) stated that the board of directors can play an important role in discouraging earnings management, particularly if one or more members have relevant experience in finance or accounting or if there is an audit committee and/or compensation committee. A director with previous financial or accounting experience will obviously be more able to ferret out manipulation of the results. And the existence of a special committee with responsibility for accounting or compensation matters will also tend to discourage earnings management, in the latter case because executive compensation is often tied to earnings results.

Beasley (1996) reported that fraud in the financial statements is less of a problem for firms with a relatively high proportion of independent directors. Similarly, Peasnell et al. (2000) indicated that the probability that managers will engage in abnormal accruals to avoid losses or smooth income is negatively related to the proportion of external directors. Marrakchi et al. (2001) stated that earnings management is significantly negatively related to certain corporate governance practices such as the existence of an audit committee and other board characteristics, such as the existence of at least one member with financial with financial expertise and a clear mandate tor oversee both the financial statements and external audit.

Good corporate government practices generally include the creation by the board of directors of committees devoted to specific duties to help the full board reach more informed decisions. According to Costa (2004), these committees help relieve the matters that need detailed consideration by the full board. The audit committee is one of these. As the name suggests, it is entrusted with the various matters involving the rendering of accounts and their disclosure and the relationship with the independent auditors.

Agrawal (2004) found evidence that having an independent audit committee with at least one member with specific expertise in finance made firms less likely to manage earnings. The same general result was found by Xie et al. (2001), and Marrakchi et al. (2001) found indications that effective directors and audit committees tend to confine earnings management. Klein (2002) also found a negative relationship between the independence of the audit committee and earnings management. However, Peasnell et al. (2000) mentioned there was little evidence that the presence of an audit committee influences the level of earnings management one way or the other.

With the enactment of the Sarbanes-Oxley Act, Brazilian companies with securities traded in the United States became subject to the rule requiring the establishment of an audit committee. However, companies with securities traded indirectly through American Depositary Receipts (ADRs) can establish the oversight board instead of an audit committee.

Barcellos (2005) mentioned that for the majority of Brazilian companies the establishment of an audit committee in the American mold implies alterations in the board of directors involving a change in the power structure. The main reason is the requirement under American law that the audit committee be formed of at least three independent directors – not only of management and the external auditors, but also of the controlling shareholders. In contrast, the oversight board only needs to be independent of management and the external auditors, not of the controlling shareholders. Indeed, the latter is not possible by definition, because it is composed of members elected by the controlling and minority shareholders.

This requirement by the Sarbanes-Oxley Act touched off debate over how close the functions of the oversight board and audit committee are and whether the formation of an audit committee is really necessary in Brazil. The Chart 1 compares the main features of the two bodies.

Oversight Board	**Audit Committee**
Has one or more representatives of minority shareholders	Chosen from among the board of directors
Not subordinated to the board of directors	Drawn from the board of directors
Issues opinions on the financial statements, among other matters at the behest of the general meeting	Supervises the audit and has authority to determine adjustments in the accounts
Oversees, analyzes and issues opinions or denunciations on failure by the directors and officers to comply with their legal and bylaw duties and any other practice that can harm the company	Is a management body

Chart 1 - Comparison between the oversight board and audit committee in Brazil

According to Chaves (2005), there is no risk of overlap between the functions of the two bodies. The oversight board is legally charged with denouncing any errors, fraudulent acts or crimes committed by the board of directors and executive board to the general meeting (art. 163 of Law 6,404/76). This is not the mission of the audit committee, both because of its composition (drawn from the board of directors) and the absence of legal prerogatives such as those of the oversight board.

Another important corporate governance practice is the existence of effective independent auditing. The main role of outside auditors is to examine the adequacy of the financial statements, to attest that they faithfully reflect the financial and economic situation reported to users. Because auditors attest to financial reports, they are probably the most important gatekeeper for blocking pernicious earnings management.

Corporate governance depends upon gatekeepers to protect the interests of investors and shareholders by monitoring the behavior of corporate insiders and by reporting the financial results of corporate performance in an accurate and unbiased fashion. Gatekeepers are independent professionals who are interposed between investors and managers in order to play a watchdog role that reduces the agency costs of corporate governance (COFFEE, 2001).

3 RESEARCH HYPOTHESES

The main objective of this study is to identify the factors that affect the practice of earnings management both by accounting choices and operational decisions. In Brazil, previous authors have employed discretionary accruals models – both general models (MARTINEZ, 2001; TUKAMOTO, 2005) and models of specific accounts (FUJI, 2004) – and frequency distribution analysis (CARDOSO, 2005).

In Brazil, Martinez and Cardoso (2009) provided evidences for the existence of earnings management through real activities manipulation in Brazilian publicly traded companies. With this study we hope to contribute to the understanding of earnings management so that in the near future it will be possible to develop a theory able to understand its incentives and counter-incentives, mechanisms and consequences.

In recent years the Brazilian and international academic literature has shown growing interest in corporate governance. A question that arises is whether listing in the Bovespa´s Corporate Governance Special Listing Segments, which requires meeting enhanced corporate governance standards, is a factor that minimizes both types of earnings management. Therefore, we formulated the following research hypothesis:

H_1: If a firm’s securities are traded in the Bovespa´s Corporate Governance Special Listing Segments, it has a lower propensity to manage its earnings by accounting choices and operational decisions.

In December 2000, Bovespa created three special listing segments designed for firms that voluntarily decide to commit themselves to higher corporate governance standards: Level 1, Level 2 and Novo Mercado (New Market – equivalent to a Level 3). The extent of a company´s commitment to the adoption of better corporate governance practices classifies it as Level 1, Level 2, or Novo Mercado, where Level 1 has the least stringent requirements and the Novo Mercado the most comprehensive set of governance provisions.

Another question is the effect of the oversight by external auditors on earnings management. The Brazilian Securities Commission (*Comissão de Valores Mobiliários – CVM*) describes the duties and responsibilities of independent auditors as: (i) verification of the financial statements and preparation of an opinion on them; (ii) preparation of internal control reports for the board of directors, executive board and oversight board (*Conselho Fiscal*), when applicable; (iii) safeguarding of all pertinent documentation for a period of five years; (iv) clear indication of any accounting procedures in conflict with generally accepted accounting principles; (v) allowing access to documents for oversight by the CVM; and (vi) in the event of substitution of the auditor, provision of the necessary information to serve as the basis for issuance of special revisions and audit reports.

The oversight board is elected by the shareholders at the general meeting and acts as a watchdog over the firm’s affairs, independent of the board of directors and executive board. It is not mandatory to have an oversight board, except for public companies in certain situations, such as during liquidation or reorganization.

In the final analysis, the service of independent auditors is for the benefit of the shareholders, as an instrument to monitor managers. Although auditing is unquestionably important, it also must be recognized that in certain situations the relations between auditing firms and their clients’ shareholders can create an agency conflict. While audit firms should above all heed the interests of the shareholders, they are also concerned with maximizing their utility to management.

In this context, auditing firms worry about losing their clients and the respective revenue. This problem can be more serious for smaller auditing firms, since the importance of the revenue from a particular client will likely be greater. In cases of accounting problems it is much more likely that a large auditor will have greater independence to question the financial statements and accounting practices than will a small audit firm.

Boynton et al. (2002) mentioned that independence is the basis of the auditing profession, in the sense that the auditor must be disinterested, and hence objective, in relation to the company audited. This fairness is the very essence of auditing and the basis for public trust in the role of auditors.

Many studies have utilized the name of the auditing firm as a proxy for the quality of the auditing performed and have examined the association between this identity and the quality of the results (BECKER et al. 1998; ALMEIDA, 2007). Some researchers (BEASLEY; PETRONI, 2001) have raised hypotheses, besides the name of the auditing firm, of whether specialization in the auditing field has a positive effect on the credibility offered by the auditor.

Based on these considerations, we also formulated the following research hypothesis:

H_2: Companies audited by one of the Big Four are less likely to manage their earnings through accounting choices or operational decisions.

Does a qualified opinion from auditor signal earnings management? The answer to this question is that best a qualified opinion is a negative but noisy signal. A reasonable expectation is that when the auditors' opinion contains reservations, this indicates the company is managing its earnings, suggesting the following hypothesis.

H_3: Qualified opinion from the auditor is an indicator of earnings management through accounting choices or operational decisions.

4 RESEARCH METHODOLOGY

This section presents the econometric models used and the sample studied.

4.1 Econometric Models

We investigate hypothesis H1 by employing the model developed by Anderson, Banker and Janakiraman, as presented in Zang (2005) – equation (1):

$$Log\left(\frac{SG\&A_t}{SG\&A_{t-1}}\right)=\alpha_1+\alpha_2 Log\left(\frac{S_t}{S_{t-1}}\right)+\alpha_3 Log\left(\frac{S_t}{S_{t-1}}\right)xDS_t+\alpha_4 Log\left(\frac{S_{t-1}}{S_{t-2}}\right)+ \alpha_5 Log\left(\frac{S_{t-1}}{S_{t-2}}\right)xDS_{t-1}+\varepsilon_t \quad (1)$$

Where:
$SG\&A_t$ = selling, general and administrative expenses in year t;
S_t = net sales revenue in year t;
DS_t = a dummy variable indicating the behavior of net sales revenue, which is 1 when $S_t < S_{t-1}$, and 0 otherwise.

In this model, the coefficients α_2 and α_4 are expected to be positive because changes in SG&A normally accompany sales (S); the coefficient α_3 is expected to be negative because SG&A should tend to remain constant over the short run; and the coefficient α_5 is expected to be positive, reflecting reversion of SG&A over the long run.

The residual of equation (1) represents the abnormal level of the transaction (Ab_SGA), indicating companies that manipulate accounting figures through operational decisions related to selling, general and administrative expenses. The residual of equation (1) is in logarithmic form, so it is necessary to transform it, as suggested by Zang (2005, p. 9, footnote 8) – equation (2):

$$Ab\_SGA = \{Exp[Log(SGA_t/SGA_{t-1})] - Exp[Log(SGA_t/SGA_{t-1}) - \text{residual of } Log(SGA_t/SGA_{t-1})]\}\ SGA_{t-1} \quad (2)$$

This residual is then multiplied by -1 and divided by the value of the firm's total assets in the previous period (A_{t-1}).

From a technical standpoint, the greater the value of Ab_SGA, the higher the probability that the firm is reducing its selling, general and administrative overhead to increase its profit. In other words, companies with positive Ab_SGA are likelier to be making operational decisions to increase their income, while those with negative Ab_SGA are doing the same to decrease their income.

We investigate hypothesis (H1b) by using the model developed by Roychowdhury, again as presented in Zang (2005) – equation (3):

$$\frac{Prod_t}{A_{t-1}} = \alpha_1 \frac{1}{A_{t-1}} + \alpha_2 \frac{S_t}{A_{t-1}} + \alpha_3 \frac{\Delta S_t}{A_{t-1}} + \alpha_4 \frac{\Delta S_{t-1}}{A_{t-1}} + \varepsilon_t \quad (3)$$

Where:
$Prod_t = COGS_t + \Delta Inventories_t$;
$Prod_t$ = Production costs in year t;
$COGS_t$ = Cost of goods sold in year t;
S_t = net sales revenue in year t;
$\Delta S_t = S_t - S_{t-1}$.

All the coefficients are expected to be positive, because the higher a firm's sales are, the greater its production costs will be.

The residual of equation (3) represents the level of abnormal production costs (Ab_Prod), indicating that the firm is manipulating earnings through operational decisions related to the level of production. An abnormal increase in production should reduce unit production costs, given that fixed costs would be distributed over a greater number of units. As long as the reduction in fixed overhead per unit is not exceeded by the marginal cost per unit, the total cost per unit will fall. This situation would lead to a lower cost of goods sold, affecting the earnings in the period.

The model also serves to detect possible manipulation by increasing sales through abnormal discounts. This functionality allows applying the model to any type of firm, whether engaged in manufacturing, services or commerce, as argued by Roychowdhury (2005).

In this context, a positive Ab_Prod indicates a higher probability that the firm is managing its earnings to increase income, while a negative Ab_Prod indicates a higher probability that it is doing the same to decrease its income.

To analyze the hypothesis (H2) it is first necessary to identify discretionary accruals. We do this by applying the KS model, formulated by Kang and Sivaramakrishnan (1995) – equation (4).

$$AT_{it} = \varphi_0 + \varphi_1 \times [\delta_1 x \operatorname{Re} c_{it}] + \varphi_2 \times [\delta_2 x Exp_{it}] + \varphi_3 \times [\delta_3 x PPE_{it}] + \varepsilon_{it} \quad (4)$$

Where:
Ta_{it} = Total accruals = (ΔNWC – depreciation and amortization);
Rev_{it} = Net revenue;
Exp_{it} = Operational costs and expenses before depreciation and amortization;
NWC= Net working capital, excluding cash and cash equivalents and short-term loans;
FA_{it} = Fixed assets;
$\delta_1 = AR_{i,t-1}/Rev_{it}$, $\delta_2 = (CGL – CR_{i,t-1})/Exp_{i,t-1}$ e $\delta_3 = Depr_{i,t-1}/FA_{i,t-1}$;
$AR_{i,t-1}$ = Accounts receivable in period t-1;
$Depr_{it}$ = Depreciation and amortization expenses in period t;
TA_{it} ,ReV_{it} ,Exp_{it} and FA_{it} are computed in terms of Total Assets at t-1 (A_{t-1}).

The discretionary accruals (Ab_Acc) are computed as the residual of equation 4, as follows – equation (5):

$$Ab\_Acc_{it} = AT_{it} - \{ \varphi_0 + \varphi_1 \times [\delta_1 x \operatorname{Re} c_{it}] + \varphi_2 \times [\delta_2 x Exp_{it}] + \varphi_3 \times [\delta_3 x PPE_{it}] \} \quad (5)$$

Conceptually, a positive value of Ab_Acc means the firm is managing its earnings to increase them, while a negative value means it is doing so to reduce them.

4.2 Research Sample and Estimates of the Earnings Management Proxies

Our sample consists of Brazilian firms with shares traded on the São Paulo Stock Exchange (BOVESPA) – except financial institutions and insurance companies – with data available for 2004 and 2005 in the Economática database. However, to verify the effect of the empirical proxies of earnings management, we worked with data covering 1998 to 2004, also as available in the Economática database.

Because of the restrictive nature of the models (particularly the KS model), which require information covering at least three previous periods, our final sample was restricted to 315 firms, for an initial total of 1591 observations (firms/year). We performed all the statistical treatment of the data in Excel and SPSS. Table 1 presents the results of the regressions estimated for equations 1, 3 and 4.

The models to estimate “normal” levels of operating expenses and production costs were computed in cross-section by sector for the period from 1998 to 2005. The values reported represent the average coefficients between the industry-year and the t-statistics of the standard errors, according to the procedure developed by Fama and Macbeth (1973). The regressions by sector are an essential requirement for the quality of the estimates, given the specificities of each industry. Because of the need to work with sectors, it was necessary to exclude those without sufficient data for a robust regression. In this context, we excluded from the analysis firms engaged in the software development and data processing sectors. Our definition of sectors followed that established by Economática.

To calculate the empirical proxy for earnings management by accruals, we estimated the KS model using instrumental variables, with the independent variables lagged by one period as the instruments. Calculation of a regression in two stages with instruments is a requirement to deal with the problem of simultaneity: since in the estimation of traditional accruals models (Jones and modified Jones), both the explanatory and explained variables are determined together, this causes autocorrelation problems that bias the results.

Table 1 - Forecasting abnormal production, abnormal operational expenses and discretionary accruals

	$Log\left(\frac{SG\&A_t}{SG\&A_{t-1}}\right)$		$\frac{Prod_t}{A_{t-1}}$		TA_{it}
Intercept	0,019 (1,385)	$\frac{1}{A_{t-1}}$	948,545 (1,159)	Intercept	0,011 (0,337)
$Log\left(\frac{S_t}{S_{t-1}}\right)$	0,454 ** (4,332)	$\frac{S_t}{A_{t-1}}$	0,795 ** (65,681)	δ_1 x Rec_{it}	0,093 ** (2,144)
$Log\left(\frac{S_t}{S_{t-1}}\right)xDS_t$	-0,214 ** (3,080)	$\frac{\Delta S_t}{A_{t-1}}$	0,074 ** (2,458)	δ_2 x Exp_{it}	0,148 ** 8,475
$Log\left(\frac{S_{t-1}}{S_{t-2}}\right)$	0,075 * (1,553)	$\frac{\Delta S_{t-1}}{A_{t-1}}$	0,053 * (1,863)	δ_3 x PPE_{it}	-1,206 * (-1,923)
$Log\left(\frac{S_{t-1}}{S_{t-2}}\right)xDS_{t-1}$	0,271 * (2,064)				
R^2 Adjusted	45,40%		98,10%		9,80%
N. Observ.	18 sectors		18 sectors		1591 firm/year
F Test	N.A.		N.A.		40,671**
Procedure:	Fama&McBeth Sector		Fama&McBeth Sector		Instrumental Var Panel Data

** Sig 1% * Sig 5% N.A. - Not applied

The statistics from the regressions in general showed good results, comparable with those reported in the works of Gunny (2005) and Zang (2005). From the inferred coefficients it was possible to identify for each company-year the levels of abnormal selling, general and administrative expenses (Ab_SGA), abnormal production expenses (Ab_Prod) and abnormal discretionary accruals (Ab_Acc).

5 RESULTS OF THE ANALYSES

5.1 Analysis of the Differences of Means of the Companies in the Corporate Governance Special Listing Segments versus Other Firms

We first carried out tests to verify the difference between the empirical proxies of earnings management and of companies listed in the Bovespa´s Corporate Governance Special Listing Segments (CGSLS), on the one hand, and between earnings management and firms with shares traded in either Levels 1 or 2 or the Novo Mercado segments of the Bovespa on the other hand. Table 2 shows the main results.

Panel A indicates that the companies are different in average terms in all the empirical proxies for earnings management, both those based on accounting choices and operational decisions. Firms listed in the Bovespa´s Corporate Governance Special Listing Segments (CGSLS) manage earnings less both through accounting choices and operational decisions.

In Panel B we performed parametric tests of differences of means to check whether these are consistent. These tests showed that the differences between companies in the Bovespa´s Corporate Governance Special Listing Segments (CGSLS) and other companies are significant only for earnings management through accounting choices. For the other metrics, the differences are not significant.

In Panel C we applied the Mann-Whitney nonparametric test of the difference of means. The results show there are significant differences between the samples only for earnings management by discretionary accruals (accounting choices).

Table 2 - Differences of means - Empirical proxies of earnings management Bovespa´s Corporate Governance Special Listing Segments (CGSLS) vs other firms

Panel A: Statistics

	Bovespa	N	Mean	Stand. Dev.	Mean Error
Abs_Acc	Other firms	189	,087	,211	,015
	CGSLS	81	,055	,055	,006
Abs_Prod	Other firms	189	,101	,160	,012
	CGSLS	80	,075	,119	,013
Abs_SGA	Other firms	189	,009	,015	,001
	CGSLS	80	,008	,021	,002

Panel B: Parametric Tests

		Levene´s Test		t-test for equal means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Stand. Dev, Difference
Abs_Acc	Equal σ^2	2,516	,114	1,353	268,000	,177	,032	,024
	Non Equalσ^2			1,950	238,423	,052	,032	,016
Abs_Prod	Equal σ^2	3,384	,067	1,297	267,000	,196	,026	,020
	Non Equalσ^2			1,455	196,485	,147	,026	,018
Abs_SGA	Equal σ^2	,073	,787	,508	267,000	,612	,001	,002
	Non Equalσ^2			,455	118,747	,650	,001	,003

Panel C: Non Parametric Tests

	Abs_Acc	Abs_Prod	Abs_SGA
Mann-Whitney U	6614,000	7162,000	6634,000
Wilcoxon W	9935,000	10402,000	9874,000
Z	-1,770	-,683	-1,589
Asymp. Sig. (2-tailed)	,077	,495	,112

Notes
Abs_Acc: Absolute value of Discretionay Accruals
Abs_Prod: Absolute value of Abnormal Production
Abs_SGA: Absolute value of Abnormal Selling, General and Administrative expenses

Therefore, the statistics indicate that being listed for trading in the Bovespa´s Corporate Governance Special Listing Segments (CGSLS) does reduce the propensity to manage earnings through accounting choices, but it does not discourage doing so through operational decisions.

5.2 Analysis of the Differences of Means Between Companies Audited by One of the Big Four and Those Audited by Other Firms

To check whether being audited by one of the Big Four reduces the propensity to manage earnings, we again tested the differences in means. The results are presented in Table 3. The results of Panel A show that companies audited by the non-Big Four firms have higher averages in all the empirical proxies for earnings management by accounting choices and by operational decisions as well. The results of Panel B show that companies audited by the Big Four are less likely to manage earnings only through accounting choices. And based on the same nonparametric tests, the results of Panel C confirm that only earnings management by accounting choices is discouraged by being audited by one of the Big Four.

Table 3 - Differences of means - Empirical proxies of earnings management Non Big4 vs. Big4

Panel A: Statistics

	Auditor	N	Mean	Stand. Dev.	Mean Error
Abs_Acc	Non Big4	52	,160	,386	,054
	Big4	207	,058	,053	,004
Abs_Prod	Non Big4	52	,102	,116	,016
	Big4	206	,086	,132	,009
Abs_SGA	Non Big4	52	,012	,021	,003
	Big4	206	,008	,016	,001

Panel B : Parametric Tests

		Levene´s Test		t-test for equal means				
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference	Stand.Dev, Difference
Abs_Acc	Equal σ^2	25,437	,000	3,658	257,000	,000	,101	,028
	Non Equalσ^2			1,887	51,489	,065	,101	,054
Abs_Prod	Equal σ^2	1,042	,308	,821	256,000	,412	,016	,020
	Non Equalσ^2			,884	87,031	,379	,016	,019
Abs_SGA	Equal σ^2	7,321	,007	1,699	256,000	,090	,005	,003
	Non Equalσ^2			1,490	68,420	,141	,005	,003

Panel C: Non Parametric Test

	Abs_Acc	Abs_Prod	Abs_SGA
Mann-Whitney U	4043,000	4852,000	5050,000
Wilcoxon	25571,000	26173,000	26371,000
	-2,774	-1,049	-,637
Asymp. Sig. (2-tailed)	,006	,294	,524

a. Grouping Variable: Auditing

Notes

Abs_Acc: Absolute value of Discretionay Accruals

Abs_Prod: Absolute value of Abnormal Production

Abs_SGA: Absolute value of Abnormal Selling, General and Administrative expenses

The statistics therefore indicate that auditing by the Big Four reduces the propensity to manage earnings by accounting choices but not by operational decisions.

5.3 Analysis of the Difference of Means of Companies Obtaining Qualified and Unqualified Auditor´s Opinions

The results of the analysis of whether a qualified auditors' opinion indicates a propensity to manage earnings either through accounting choices or operational decisions are shown in Table 4.

Panel A shows the averages of the empirical earnings management proxies for companies that received qualified an unqualified opinions from the auditor. According to the results, companies receiving an opinion with reservations (qualified) have higher average proxy values, indicating they manage earnings both through accounting choices and operational decisions more than do companies receiving a clean bill of health from their auditors.

Table 4 – Difference of Means- Empirical Proxies of Earnings Manangement Qualified and Unqualified Auditor´s Opinions

Panel A: Statistics

	Opinions	N	Mean	Stand. Dev.	Error Mean
Abs_Acc	Unqualified	235	0,074	0,187	0,012
	Qualified	35	0,101	0,110	0,019
Abs_Prod	Unqualified	234	0,083	0,132	0,009
	Qualified	35	0,158	0,224	0,038
Abs_SGA	Unqualified	234	0,008	0,016	0,001
	Qualified	35	0,012	0,022	0,004

Panel B: Parametric Test

		Levene´s Test		t-test for equal means				
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Stand. Dev, Difference
Abs_Acc	Equal σ^2	,144	,705	-,824	268,000	,411	-,027	,032
	Non Equalσ^2			-1,200	67,598	,234	-,027	,022
Abs_Prod	Equal σ^2	9,689	,002	-2,782	267,000	,006	-,074	,027
	Non Equalσ^2			-1,910	37,621	,064	-,074	,039
Abs_SGA	Equal σ^2	6,747	,010	-1,437	267,000	,152	-,004	,003
	Non Equalσ^2			-1,127	39,397	,266	-,004	,004

Panel C: Non Parametric Test

	Abs_Acc	Abs_Prod	Abs_SGA
Mann-Whitney U	2996,000	3016,000	4038,500
Wilcoxon W	30726,000	30511,000	4668,500
Z	-2,592	-2,515	-,132
Asymp. Sig. (2-tailed)	,010	,012	,895

a. Grouping Variable: Opinion without and with reservations

Notes

Abs_Acc : Absolute value of Discretionay Accruals

Abs_Prod : Absolute value of Abnormal Production

Abs_SGA : Absolute value of Abnormal Selling, General and Administrative expenses

As for the other hypotheses, in Panel B we applied parametric tests of the difference of means. The results suggest that companies receiving reservations are not necessarily managing earnings through accounting choices more aggressively than those receiving a clean opinion. However, on the operational side of the coin, the results were significant for earnings management by altering production costs, but not significant for earnings management through choices on other operating costs.

Panel C presents the results of the nonparametric tests, suggesting that companies receiving a auditors' opinions without and with reservations differ in their propensity to manage earnings by both accounting choices and operational decisions.

5.4 Correlation Analysis

Table 5 shows the pairwise Spearman correlations between the variables and the statistical significance in each case.

Table 5 - Correlation Analysis

			CGSLS	Auditing	Qualified	Abs_Acc	Abs_Prod	Abs_SGA
Spearman's rho	CGSLS	Coeff Correl	1,000	,297**	-,036	-,108	-,042	-,097
		Sig. (2-tailed)		,000	,555	,077	,496	,112
	Auditing	Coeff Correl	,297**	1,000	-,253**	-,173**	-,065	-,040
		Sig. (2-tailed)	,000		,000	,005	,295	,525
	Qualified	Coeff Correl	-,036	-,253**	1,000	,158**	,154*	-,008
		Sig. (2-tailed)	,555	,000		,009	,012	,896
	Abs_Acc	Coeff Correl	-,108	-,173**	,158**	1,000	,092	,262**
		Sig. (2-tailed)	,077	,005	,009		,132	,000
	Abs_Prod	Coeff Correl	-,042	-,065	,154*	,092	1,000	,141*
		Sig. (2-tailed)	,496	,295	,012	,132		,021
	Abs_SGA	Coeff Correl	-,097	-,040	-,008	,262**	,141*	1,000
		Sig. (2-tailed)	,112	,525	,896	,000	,021	

**. Correlation is significant at level of 0.01 (2-tailed).
*. Correlation is significant at level of 0.05 (2-tailed).
Notes
Abs_Acc: Absolute value of Discretionay Accruals
Abs_Prod: Absolute value of Abnormal Production
Abs_SGA: Absolute value of Abnormal Selling, General and Administrative expenses

The analysis of the correlations between earnings management by operational decisions and accruals shows a positive and significant relation for Abs_SGA and Abs_Acc. This implies that in the general sample, when a company is managing its earnings through manipulation of selling, general and administrative expenses, it is doing so in the same direction through accruals. For the sample as a whole, there was not significant correlation between Abs_Prod and Abs_Acc.

For the Corporate Governance Special Listing Segments´ variable, there is a strong positive correlation with Auditing, indicating that companies listed in the Corporate Governance Special Listing Segments generally are audited by one of the Big Four firms. Both the Auditing and Corporate Governance Special Listing Segments´ variables have a strong negative correlation with Abs_Acc, suggesting that companies audited by one of the Big Four engage in less earnings management by accounting choices. There is also a strong negative correlation between the Auditing variable and receiving an opinion with reservations, indicating that companies audited by the Big Four tend to receive fewer reservations.

There is a positive and significant correlation between receiving an opinion with reservations and both Abs_Acc and Abs_Prod. These results indicate that companies receiving reservations tend to manage earnings through accounting choices more actively, as well as being more likely to manage earnings through operational decisions linked to the level of production.

5.5 Multivariate Analysis

To check the nature of the relations between the variables, we performed regressions seeking to observe the behavior of the earnings management proxies in function of the various explanatory variables. We developed a linear regression model, expressed in the following form:

$$Abs\_Acc_t = \beta_0 + \beta_1 CGSLS_t + \beta_2 Auditing_t + \beta_3 Qualified_t + \beta_4 Abs\_\Pr od_t + \beta_5 Abs\_SGA_t + \beta_6 Varroa_t + \beta_7 Debt/Assets_t + \beta_5 \Pr ice/Book_t + \varepsilon_t \quad (6)$$

$$Abs\_SGA_t = \beta_0 + \beta_1 CGSLS_t + \beta_2 Auditing_t + \beta_3 Qualified_t + \beta_4 Abs\_\Pr od_t + \beta_5 Abs\_Acc_t + \varepsilon_t \quad (7)$$

$$Abs\_\Pr od_t = \beta_0 + \beta_1 CGSLS_t + \beta_2 Auditing_t + \beta_3 Qualified_t + \beta_4 Abs\_Acc_t + \beta_5 Abs\_SGA_t + \varepsilon_t \quad (8)$$

Where:
Abs_Acc $_t$= absolute value of discretionary accruals in year *t;*
Abs_Prod $_{t-}$= absolute value of abnormal production in year *t;*
Abs_SGA $_t$ = absolute value of abnormal production in year *t*
CGSLS $_{t-}$= dummy variable Corporate Governance Special Listing Segments in year *t;*
Auditing $_t$ = dummy variable for “Big Four” Auditing firm in year *t;*
Qualified $_{t-}$= dummy variable for Qualified opinion in year *t;*
Varroa $_t$ = variation of return on assets in year *t;*
Debt/Asset $_t$ = Debt /Total Assets in year *t;*
Price/Book $_t$ = Price/ book value of shares in year *t.*

Interaction Variables were not added to the model, because when this was done it showed high multicollinearity. This fact can be explained by the strong relationship between some of the explanatory variables and some of the interactions.

Table 6 presents the results of the model seeking to explain the behavior of Abs_Acc. The regression has reasonable statistics, in which the only statistically significant variables are Auditing and Abs_Prod. The other variables, particularly the control variables utilized, are not statistically significant.

Table 6 - Regression Model for Abs_Acc

Model		Coefficients		Standards Coefficients	t	Sig.
		B	Std. Error	Beta		
6	(Constant)	,112	,021		5,443	,000
	CGSLS	-,009	,015	-,043	-,596	,552
	Auditing	-,059	,020	-,232	-3,014	,003
	Qualified	,019	,021	,068	,942	,347
	Abs_Prod	,087	,050	,124	1,752	,081
	Abs_SGA	,035	,380	,006	,093	,926
	Varroa	,009	,016	,040	,574	,566
	Debt/Assets	,000	,000	,027	,368	,713
	Price/Book	-,001	,001	-,040	-,586	,558

a. Dependent Variable: Abs_Acc

Statistics	R	R Square	Adjusted R Square	Forecast Error	F	Sig.
Model 6	,322	,104	,067	,095207	2,806	,006

These results suggest that companies audited by one of the Big Four have a lower propensity to manage earnings (t= -3.014). Likewise, Abs_Acc is positively correlated with Abs_Prod, which indicates that manage earnings through accounting choices also do this by operational decisions in the same direction.

The signs estimated for the Corporate Governance Special Listing Segments´ variable indicate that companies listed in this segment do not necessarily manage their earnings less. On the matter of receiving a qualified opinion from auditors, although the sign indicates a tendency to increased earnings management by accounting choices, this is not significant enough to permit claiming that it is an indicator of earnings management by accounting choices.

For the regression analysis to explain Abs_SGA, we formulated the model shown in Table 7, which through satisfactory statistics identifies a positive and significant relation between Abs_Prod and Abs_SGA. With respect to the control variables utilized, only the Corporate Governance Special Listing Segments reduces the propensity of manage earnings by operational decisions with a level of significance lower than 10%. The Auditing variable, although negative, does not reach the normal significance benchmark, at 10.6 %. The correlation between the Abs_SGA variable and receiving an auditors' opinion with reservations is in the expected direction, but only at 11.8% significance.

Table 7 - Regression Model for Abs_SGA

Model		Coefficients		Standards Coefficients	t	Sig.
		B	Std. Error	Beta		
7	(Constant)	,008	,002		4,280	,000
	CGSLS	-,003	,002	-,140	-1,743	,083
	Auditing	-,003	,002	-,140	-1,628	,106
	Qualified	,004	,002	,130	1,572	,118
	Abs_Prod	,020	,006	,268	3,366	,001
	Abs_Acc	-,001	,003	-,034	-,427	,670

a. Dependant Variable: Abs_SGA

Statistics	R	R Square	Adjusted R Square	Forecast Error	F	Sig.
Model 7	,426	,182	,153	,008570	6,219	,000

Finally, Table 8 presents the results of the regression to explain Abs_Prod. Only receiving an opinion with reservations is significant to detect earnings management by operational choices related to production. Listing in the Corporate Governance Special Segments, although having a correlation in the expected direction, is not sufficiently significant. This suggests that being listed for trading in the Corporate Governance Special Listing Segments and being audited by one of the Big Four firms is not a guarantee of lower propensity to manage earnings through operational decisions involving selling, general and administrative expenses.

Table 8 - Regression Model for Abs_Prod

Model		Coefficients		Standards Coefficients	t	Sig.
		B	Std. Error	Beta		
8	(Constant)	,079	,034		2,324	,022
	CGSLS	-,029	,023	-,105	-1,240	,217
	Auditing	-,001	,033	-,002	-,021	,983
	Qualified	,057	,034	,148	1,696	,092
	Abs_Acc	,163	,104	,129	1,573	,118
	Abs_SGA	,713	,863	,072	,826	,410

a. Dependent Variable: Abs_Prod

Statistics	R	R Square	Adjusted R Square	Forecast Error	F	Sig.
Model 8	,272	,074	,042	,128154	2,322	,046

Although not shown in the tables, to further check the robustness of the statistics of the models estimated (besides adjusted R^2), we performed the following additional statistical tests:i. Jarque-Bera (JB) normality test, which indicated that the residuals are normally distributed; ii. Breusch-Godfrey (BG) test, which showed no autocorrelation of the residuals; iii. Variance inflation factor (VIF) testes, which ruled out the presence of multicollinearity, that would biased the results.

6 CONCLUSIONS

In this work we investigated if listing in the Corporate Governance Special Listing Segments, being audited by one of the Big Four and the existence of a qualified auditors' opinion are indicators of earnings management by accounting choices and by operational decisions.

The results of the univariate analysis, subject to parametric and nonparametric tests of the difference of means, indicate that Corporate Governance Special Listing Segments and auditing by the Big Four assure a lower propensity to manage earnings through accounting choices and the presence of an opinion with reservations is an indicator of earnings management by accounting choices. With respect to earnings management through operational decisions, listing in the Corporate Governance Special Listing Segments, auditing by one of the Big Four and receiving an opinion with reservations are not statistically significant variables, so other instruments must be sought to minimize the practice of operational earnings management.

The multivariate analysis confirmed in part the results of the univariate analysis, indicating that the Big Four Auditor in general reduce the propensity to manage earnings through accounting choices, but do not have the same effect for operational earnings management. The results also showed that earnings management by operational decisions linked to expenses are influenced in the expected direction for companies listed in the Corporate Governance Special Listing Segments, but not by the existence of a qualified opinion from auditors. Finally, for operational decisions linked to production, the existence of a qualified opinion is a signal of earnings management.

One of the negative consequences of earnings management is increased information asymmetry, because this behavior masks the company's real financial situation. Users of accounting information (investors, regulators, shareholders and analysts) can make decisions based on financial statements that do no depict the real situation.

The problem of earnings management is that it changes the risk perception of investors. If a firm manages it earnings upward, investors will be led to believe the firms is doing better than it really is. Firms can also manage earnings downward, to soften the volatility of returns and perhaps "save for a rainy day" so to speak, making an upwards adjustment easier in the future. The upshot is that the earnings and other financial figures reported, while certainly having informational value, cannot be interpreted without a grain of salt. A case-by-case analysis is necessary to determine whether a firm is managing its earnings, and how and in what direction.

One of the difficulties of this type of research is the lack of available data to estimate discretionary accruals and the empirical proxies of earnings management through operational decisions. Another critical factor that influences analysis of earnings management is the heterogeneity of the sample, for instance if composed of commercial firms and financial institutions, which can cast doubt on the results.

While we believe the results demonstrate a statistically significant association between corporate governance practices on the one hand and earnings management on the other, we cannot rule out the possible endogeneity between corporate governance practices and earnings management or shortcomings of the metrics used as proxies for earnings management.

Still, the findings presented in this paper are important to clarify points still not conclusively resolved in the international and Brazilian literature. Good practices in corporate governance play a useful role in monitoring firms and enhancing transparency. In the final analysis, the conclusions of this paper are important to shed light on the role of corporate governance practices, by inhibiting pernicious earnings management.

REFERENCES

AGRAWAL, A.; CHADHA, S. **Corporate governance and accounting scandals**. Sep., 2004. AFA 2004, San Diego Meetings. Available at: <http://ssrn.com/abstract=595138>.

ALMEIDA, J.E.F.; COSTA, F.M.; LOPES, A.B.; TONIATO, J.B. Earnings management and industry classification in Brazil: An exploratory investigation. In: CONGRESSO USP DE CONTABILIDADE E CONTROLADORIA, 5, 2005, São Paulo. **Anais eletrônicos**. Available at: <www.eac.fea.usp/congressousp>.

ALMEIDA, J.E.F.; ALMEIDA, J.C.G. Auditoria e earnings management: estudo empírico nas empresas de capital aberto auditadas pelas Big Four e demais firmas de auditoria. In: CONGRESSO USP DE CONTABILIDADE E CONTROLADORIA, 7., 2007, São Paulo. **Anais...** São Paulo: FEA/USP, 2007.

BARCELLOS, M. Pelo caminho mais fácil – na última hora, companhias optam pela simplificação e adaptam o conselho fiscal para atender às exigências da Sarbanes-Oxley. **Revista Capital Aberto**, São Paulo, n. 21, p. 24-27, maio, 2005.

BEASLEY, M.S.; PETRONI, K. Board independence and audit firm type. **Auditing: A Journal of Practice & Theory**, v. 20, 97-114, Mar., 2001. http://dx.doi.org/10.2308/aud.2001.20.1.97

BEASLEY, M.S. An empirical analysis of the relation between the board of directors composition and financial statement accounting fraud. **The Accounting Review**, Sarasota, v. 71, n. 4, p. 443-465, 1996.

BERLE Jr, A.; MEANS, G.C. **The modern corporation and private property**. New York: Macmillan, 1932.

BECKER, C.L.; DEFOND, M.L.; JIAMBALVO, J.; SUBRAMANYAM, K. The effect of audit quality on earnings management. **Contemporary Accounting Research**, v. 15, p. 1-24, Spring, 1998. http://dx.doi.org/10.1111/j.1911-3846.1998.tb00547.x

BOWEN, R.M.; RAJGOPAL, S.; VENKATACHALAM, M. accounting discretion, corporate governance and firm performance. In: Annual Conference on Financial Economics and Accounting, 14., 2005, São Paulo. **Anais…** São Paulo: FEA/USP, 2005.

BOYNTON, W.C; JOHNSON, R.N.; KELL, W.G. **Auditoria**. 7. ed. São Paulo: Atlas, 2002.

CARDOSO, R.L. **Regulação econômica e escolhas de práticas contábeis: evidências no mercado de saúde suplementar brasileiro**. 2005. 155f. Tese (Doutorado em Ciências Contábeis) - Departamento de Contabilidade e Atuária, Universidade de São Paulo, São Paulo, 2005.

CHAVES, R.S.P. Não existem riscos de sobreposição entre as funções do conselho fiscal e do comitê de auditoria. **Revista Capital Aberto**, São Paulo, n. 17, p. 42-43, jan., 2005.

COSTA, R.T. As responsabilidades do Conselho de Administração, **Revista RI Relações com Investidores**, Rio de Janeiro, n. 81, p. 22-23, nov. 2004.

COFFEE, J, The acquiescent gatekeeper: reputational intermediaries, auditor independence and the governance of accounting. **Columbia Law and Economics Working Paper n. 191**, 2001. Available at: <SSRN.com/abstract=270944>.

DECHOW, P.M. Accounting earnings and cash flow as measures of firm performance: the role of accounting accruals. **Journal of Accounting & Economics**, n.18, p. 33-42, 1994.

DECHOW, P.M.; SLOAN, R.G.; SWEENEY, A.P. Detecting earnings management. **Accounting Review**, v. 70, n. 2, p. 193-225. Apr., 1995. http://dx.doi.org/10.2308/accr.2008.83.1.185

DEMSKI, J. Corporate conflicts of interest. **Journal of Economics Perspectives**, v. 17, n. 2, p. 51-72, Jun., 2003. http://dx.doi.org/10.1257/089533003765888421

FAMA, E.; MacBETH, J. Risk, return and equilibrium: empirical tests. **Journal of Political Economy**. v. 81, p. 607-636, 1973. http://dx.doi.org/10.1086/260061

FIELDS, T.D.; LYS, T.Z.; VINCENT, L. Empirical research on accounting choice. **Journal of Accounting and Economics**, v. 31, p. 255-307, 2001. http://dx.doi.org/10.1016/S0165-4101(01)00028-3

FONTES FILHO, J.R. Estruturas de propriedade, governança corporativa e estratégia empresarial. In: Encontro de Estudos em Estratégia, 1., 2003, Curitiba. **Anais...** Rio de Janeiro: ANPAD, 2003.

FUJI, A.H. **Gerenciamento de resultados contábeis no âmbito das instituições financeiras atuantes no Brasil**. 2004. 133f. Dissertação (Mestrado em Controladoria e Contabilidade) - Departamento de Contabilidade e Atuária, Universidade de São Paulo, São Paulo, 2004.

GUNNY, K. What are the consequences of real earnings management? **Working paper**. Leeds School of Business, 2005. Available at: <www.ssrn.com>.

JENSEN, M.C.; MECKLING, W.H. Theory of the firm: managerial behavior, agency costs and ownership structure, **Journal of Financial Economics**, v. 3, n. 4, p. 305-360, Oct., 1976. http://dx.doi.org/10.1016/0304-405X(76)90026-X

JONES, J.J. Earnings management during import relief investigations. **Journal of Accounting Research**, v. 29, n. 2, p. 193-228, Autumn, 1991. http://dx.doi.org/10.2307/2491047

KANG, S.-H.; SIVARAMAKRISHNAN, K. Issues in testing earnings management and an instrumental variable approach. **Journal of Accounting Research**, v. 33, n. 2, p.353-367, 1995. http://dx.doi.org/10.2307/2491492

KLEIN, J. **Audit committee, board of director characteristics, and earnings management**. Oct., 2000. Available at: <http://ssrn.com/abstract=246674>.

MARRAKCHI, C.; SONDA, B.J.; COURTEAU, L. **Corporate governance and earnings management**. Apr., 2001. Available at: <http://ssrn.com/abstract=275053>.

MARTINEZ, A.L. **Gerenciamento de resultados contábeis: estudo empírico das companhias abertas brasileiras**. 2001. 154f. Tese (Doutorado em Controladoria e Contabilidade) - Departamento de Contabilidade e Atuária, Universidade de São Paulo, São Paulo, 2001.

MARTINEZ, A.L.; CARDOSO, R.L. Gerenciamento de resultados contábeis mediante decisões operacionais. **REAd. Revista Eletrônica de Administração**, v. 15, p. 1-27, 2009.

MCNICHOLS, M.F.; WILSON, G.P. Evidence of earnings management from the provision for bad debts. **Journal of Accounting Research**, v. 26, n. Studies on Management's Ability and Incentives to Affect the Timing and Magnitude of Accounting Accruals, p.1-31. 1988. http://dx.doi.org/10.2307/2491176

OKIMURA, R.T. **Estrutura de propriedade, governança corporativa, valor e desempenho das empresas no Brasil**. 2003. 120f. Dissertação (Mestrado em Administração) - Faculdade de Economia, Administração e Contabilidade, Universidade de São Paulo, São Paulo, 2003.

PEASNELL, K.V.; POPE, P.F.; YOUNG, S. **Board monitoring and earnings management: Do outside directors influence abnormal accruals?** Oct., 2000. Available at: <http://ssrn.com/abstract=249557>.

RAPOZO, F.; PAGLIARUSSI, M.; AQUINO, A. Estrutura de propriedade, custos de agência e desempenho: estudo de caso de um grupo empresarial familiar. In: EnEPQ, 2., 2007, Rio de Janeiro. **Anais...** Rio de Janeiro: ANPAD, 2007.

RIBEIRO, K.; DAMI, A.; ROGERS, P.; SILVA, W. Estrutura de propriedade no Brasil: evidências empíricas no grau de concentração acionária. In: CONGRESSO USP DE CONTABILIDADE E CONTROLADORIA, 6., 2006, São Paulo. **Anais…** São Paulo: FEA/USP, 2006.

ROYCHOWDHURY, S. Management of earnings through the manipulation of real activities that affect cash flow from operations. **Working paper**. Sloan School of Management, 2003. Available at: <www.ssrn.com>.

ROYCHOWDHURY, S. Earnings management through real activities manipulation. **Working paper**. Sloan School of Management, 2005. Available at: <www.ssrn.com>.

SILVEIRA, A. **Governança corporativa e estrutura de propriedade: determinantes e relação com o desempenho das empresas no Brasil**. 2004. Tese (Doutorado em Administração) - Universidade de São Paulo, São Paulo, 2004.

STLOWY, H.; BRETON, G. Accounts manipulation: a literature review and proposed conceptual framework. **Review of Accounting and Finance**, v. 3, n. 1, p. 5-66, 2004. http://dx.doi.org/10.1108/eb043395

TIROLE, J. **The theory of corporate finance**. New Jersey: Princeton University Press, 2006.

TUKAMOTO, Y.S. **Contribuição ao estudo do gerenciamento de resultados: uma comparação entre as companhias abertas brasileiras emissoras de ADRs e não emissoras de ADRs**. 2004. Dissertação (Mestrado em Controladoria e Contabilidade) - Departamento de Contabilidade e Atuária, Universidade de São Paulo, São Paulo, 2004.

WATTS, R.L.; ZIMMERMAN, J.L. **Positive Accounting Theory**. New Jersey: Prentice-Hall, 1986.

XIE, B.; DAVIDSON, W.N.; DADALT, P.J. **Earnings management and corporate governance: the roles of the board and the audit committee**. Jul., 2001. Available at: <http://ssrn.com/abstract=304195>.

YAMAMOTO, M.; PRADO, J.E.A. Governança e o valor das empresas. **Revista Bovespa**, São Paulo, n. 88, p. 42-43, out./dez. 2003.

ZANG, A.Y. Evidence on the tradeoff between real manipulation and accrual manipulation. **Working paper**. Fuqua School of Business, 2005.