

Print ISSN: 2288-4637 / Online ISSN 2288-4645
doi:10.13106/jafeb.2020.vol7.no12.389

Corporate Governance and Earnings Management: A Study of Vietnamese Listed Banks*

Quoc Thinh TRAN¹, To Trang LAM², Chi Danh LUU³

Received: August 01, 2020 Revised: October 26, 2020 Accepted: November 05, 2020

Abstract

Earnings management is a matter of concern for organizations because it affects the interests of stakeholders. This reduces the quality of information on financial statements of the organizations when the organization performs earnings management behavior. The objective of the article is to examine the impact of corporate governance on earnings management of all Vietnamese listed banks from 2015 to 2019. The article uses time-series data and ordinary least square (OLS) with Eviews 10.0 software to test the regression model. The agency and asymmetry information theory is used to explain the relationship between corporate governance and earnings management. The study results show that two variables – the foreign members of the board of directors and audit committee – have an opposite effect on earnings management behavior of Vietnamese listed banks. Therefore, the managers of listed banks need to raise awareness to express responsibility for honest and reasonable information on the financial statements. This creates trust and credibility for stakeholders. Moreover, Central bank of Vietnam should monitor regularly and enforce strict sanctions to limit earnings management behavior of listed banks. This contributes to improving the quality of accounting information in the Vietnamese banking sector to meet the trend of international economic integration.

Keywords: Board Size, Corporate Governance, Earnings Management, Listed Banks, Vietnam

JEL Classification Code: G21, G34, G41, M42

1. Introduction

Gordon (1964) argued that earnings management behavior (EMB) is the act of adjusting earnings through flexibility in the choice of accounting policies and estimates, but ensuring compliance with current accounting regulations. EMB

affects the quality of information disclosed on the financial statements of organizations (Schipper, 1989). Whether this behavior is negative or positive will depend on the purpose of chief executive officers (CEOs) when the execution is to gain personal benefits or to avoid undue negative effects on corporate values. This will promote business performance in the future (Scott, 2009).

EMB affects the interests of stakeholders, which mainly include the board of directors (Board), CEOs and investors. This will affect the quality of information disclosed on the financial statements of organizations and it affects the interests of information users (Schipper, 1989). Board always controls these behaviors through regulations, while the CEOs apply accounting policies to adjust information appropriately. This leads to conflicts between related parties over economic interests (Li, et al., 2017). Board uses a number of tools including an audit committee to monitor information, but the CEOs can use profitability techniques to beautify the financial statements and conceal weaknesses in the business results of enterprises (Leuz et al., 2003).

In Vietnam, EMB has been of interest to government regulators to control the quality of information. Recently,

*Acknowledgements:

The authors would like to thank some experts of the Central bank of Vietnam and some leaders of Vietnamese commercial banks for their advice and support in this project.

¹First Author and Corresponding Author. Associate Professor, Faculty of Accounting and Auditing, Industrial University of Ho Chi Minh City, Vietnam [Postal Address: 86 Nguyen Hong Street, Ward 1, Go Vap District, Ho Chi Minh City, 70000, Vietnam]
Email: tranthinhkkt@gmail.com

²Lecturer, Faculty of Law, Ho Chi Minh City Open University, Vietnam.
Email: trang.lamt@ou.edu.vn

³Lecturer, Faculty of Accounting and Auditing, Van Lang University, Ho Chi Minh City, Vietnam. Email: tsluuchidanh@gmail.com

© Copyright: The Author(s)

This is an Open Access article distributed under the terms of the Creative Commons Attribution Non-Commercial License (<https://creativecommons.org/licenses/by-nc/4.0/>) which permits unrestricted non-commercial use, distribution, and reproduction in any medium, provided the original work is properly cited.