

Corporate Disclosure Policy and Earnings Management Behavior

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Abstract

This study examines the relationship between corporate disclosure policy and earnings management behavior. It hypothesizes that corporate disclosure policy and earnings management behavior are negatively related. It uses ratings published by the Association for Investment Management and Research to measure corporate disclosure, and discretionary accruals from the Modified Jones model to measure earnings management. The empirical analysis indicates that there is a statistically significant negative relationship between corporate disclosure and earnings management behavior. Firms that disclose less tend to engage more in earnings management. This result holds even after controlling for the effects of potentially confounding variables. This study provides a link between two strands of accounting research: disclosure policy and earnings management behavior.