

3. Objective

The first objective of this research project is to investigate earnings management behavior of Thai firms, taking into account the unique corporate governance characteristics of firms listed on SET. It is well-documented in the literature that ownership structure in Thai firms is concentrated, resulting in two distinct shareholders: majority and minority shareholders. Majority shareholders have a greater opportunity to maximize their benefits by expropriating the minority shareholders. The ownership concentration and control may discourage transparency and reliability of financial disclosure. This important ownership structure may impact the way in which earnings are reported differently.

Knowing the factors that affect earnings management is helpful for investors to predict variation in earnings figures. The second objective is to investigate whether firms with good corporate governance have less incentives to conduct earnings management. Encouraged by the Sarbanes-Oxley Act and OECD framework, SET intends to improve board independence and strengthen the audit committee to enhance transparency in corporate activities and the reliability of published accounting information.

Further, Information asymmetry between insiders and outsiders in a non-transparent corporate environment may increase the probability of informed insider trading. SET realized this possibility and issued regulations for good corporate governance covering insider trading in 2002. Directors are prohibited from trading in their own firm when they possess non-public and price-sensitive information, e.g. the period prior to an earnings announcement. The last objective is to examine earnings management in association with insider trading conditioned on corporate governance.

In sum, this research project aims to systematically examine earnings management to determine evidence of the reliability of reported earnings as well as the efficacy of corporate governance mechanisms and the regulation of insider trading in mitigating the activity. The underlying assumption is that better corporate governance should lead to higher reliability of financial statements.