

Abstract

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Corporate Governance in Egyptian SMEs and Its Relation with Earnings Management: In Terms of Board of Directors Composition

Several researches have been made on the relation between earnings management and corporate governance characteristics, which suggests that it is imperative to have corporate governance controls to mitigate firm's behavior. The study addresses the impact of Board of Directors composition on earnings management phenomenon for Egyptian firms, focusing on Small to Medium Enterprises, after controlling for firm age and leverage. One of the most important reasons for choosing SMEs as a sample is due to the immense size of small to medium enterprises that are established in Egypt, out of which are mostly family based. This encourages data manipulation to refine the image of the firm. Hence data have been collected from listed companies in Nile Stock Exchange due to data accessibility from the year 2011 to 2013. In this emerging market it examines whether independent that are not dominated by corporate boards are associated with less earnings management, in the form of percentage of non-executive board members and CEO duality. It examines the effect of presence of board diversity by measuring the percentage of female members and members of different ethnicities. Finally, the board size is chosen as a variable to measure board attributes. Based on the hypotheses developed in this research, the sample base was empirically tested. Results revealed that the variables chosen from Board of Directors composition insignificantly affected the manipulation of firm's earnings. Variables like Board Independence and CEO Duality showed insignificant negative relationship with earnings management which implies that the presence of CEO as a chairman of the firm, does not necessarily encourage manipulation, but increases the transparency. On the other hand, board diversity showed an insignificant positive relationship and board Size showed no correlation with earnings management.