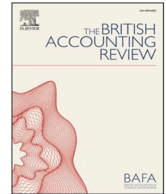
ARTICLE IN PRESS

The British Accounting Review xxx (xxxx) xxx

Contents lists available at ScienceDirect

The British Accounting Review

journal homepage: www.elsevier.com/locate/bar



Connecting earnings management to the real World:What happens in the black box of the boardroom?

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ARTICLE INFO

Keywords:
Earnings management
Boards of directors
Audit committees
Female directors

ABSTRACT

This British Accounting & Finance Association (BAFA) distinguished academic 2020 plenary address marries the researcher's two main research areas – financial reporting and corporate governance. Like Vivien Beattie (BAFA 2011 distinguished academic), the researcher commenced in the positivist tradition but was increasingly drawn to more qualitative, interdisciplinary perspectives, influencing the paper's positioning.

"Accounting choice", "income smoothing", "earnings management", and "earnings manipulation" are terms frequently used in the academic literature. This paper reviews these terms, highlighting the resonances and dissonances between them, and attempts to reconcile varied perspectives in the prior literature. The paper critiques taken-for-granted assumptions underlying this stream of research. The paper then examines prior earnings management research using alternative methodologies to deepen understanding of the four terms in praxis (best practice in practice). The paper reviews prior research on boards of directors using alternative methodologies to those adopted in mainstream corporate governance research, to provide a menu of opportunities to research earnings management inside the "black box" of the boardroom, including proposed research questions for future research. The paper concludes by considering the implications for policymakers and standard setters.

1. Introduction

I am very grateful to the British Accounting & Finance Association (BAFA) for awarding me the 2018 BAFA distinguished academic, the first academic outside the United Kingdom to receive the award. I delivered the associated distinguished academic plenary address online in September 2020, on which I base this paper.[1] My research career influences this address. I commenced as a researcher in the positivist tradition but increasingly moved towards more qualitative interdisciplinary perspectives, like Beattie (2014). This paper marries my two main research interests, financial reporting and corporate governance. The financial reporting topic I select is earnings management, as earnings management research is so pervasive. By July 2021, Google Scholar produces over 136,000 hits for the term "earnings management", indicating vast amounts of earnings management research. Young (2015, p. 4) characterises debates about earnings management and corporate governance as "prime time billing."

In terms of what actually happens on the ground, we know little about earnings management in the real world, a lacuna earnings management scholars regularly highlight. There have been repeated calls for integrating accounting research into practice (e.g.,

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[1] British Accounting and Finance Association (Online) Distinguished Academic Plenary, 23 September 2020.Available at: https://www.youtube.com/watch?v=9gbd0Fdu99A (accessed 12 July 2021).

https://doi.org/10.1016/j.bar.2021.101036
Received 6 April 2021; Received in revised form 14 July 2021; Accepted 15 July 2021
Available online 16 July 2021
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Please cite this article as: Niamh M. Brennan, *The British Accounting Review*, https://doi.org/10.1016/j.bar.2021.101036

Rajgopal, 2020). Almost all earnings management research is quantitative. Where are human beings in earnings management research? Dichev, Graham, Harvey, and Rajgopal (2016, p. 22) similarly observe when they say: "our approach focusses on the person who makes the key decisions."[2] In discussing the practice relevance of accounting research, Landsman (2020) observes: "It is important that the research have an ultimate end-user in mind." Academics rarely discuss the detailed day-to-day practice of earnings management. Probably, this is because it requires some researcher creativity to devise ways of discovering how companies execute earnings management in praxis. The academic literature assumes that earnings management is widespread. Why is there such a disconnect between this stream of academic research and boardroom praxis and regulation? Two solitudes – research and practice disconnected?

If we are to believe the research findings, they imply widespread corruption in accounting. Bazerman, Loewenstein, and Moore (2002, p. 97) capture the sentiment well: "But to attribute most errors to deliberate corruption would be to believe that the accounting profession is rife with crooks – a conclusion that anyone who has worked with accountants knows is untrue."

Parlett (1991, p. 74-75) captures my concerns, "with the growth of the scientific outlook, of mechanization, and the importance given to quantitative approaches, objectivity, and rationality, came a fundamental separation between the world as I naturally experience it and 'the world as it really is' (supposedly), i.e., as it is described by science." Parlett (1991) argues that it is hard to replace a dominant epistemology, especially in circles with a powerful investment in preserving the assumptions and outlooks of the epistemological *status quo*. Earnings management research rarely describes "the phenomenological nature of actual human experiencing" (Parlett, 1991, p. 75). In the absence of direct observation, scholars extrapolate preparers' intentions and behaviours in their financial reporting preparation based on basic assumptions.

Walker (2016) probes the multiple roles of accounting in society. A considerable gulf exists between academic accounting theory and empirics and the diverse worlds of accounting practice (Vollmer, 2019, p. 16). We need a broader understanding of how accounting happens in a wider variety of instances and forms. Unerman (2020) argues that there is a risk of peer-review echo chambers developing which do not identify or challenge confirmation biases.

The earnings management literature almost universally assumes self-serving managerial motives. McKiernan and Tsui (2019, p. 312) question whether humans have a capacity for other (than self-)interests? Macintosh (1995) uses a softer phrase: "self-beneficial choices." This paper attempts to move the focus away from economic, self-interest assumptions towards a broader consideration of accounting (earnings management) in its social context.

Ball (2013, p. 850, p. 848) adopts a similar perspective to my own when he challenges the suggestion in this "dismally unscientific" literature that "earnings management is rife" and describes prior earnings management research as "scandalous." He highlights several features of prior empirical findings raising scepticism. Notwithstanding the vast earnings management literature, it perhaps does not offer theoretical insights into why people manage earnings (or not). We need to ask more probing questions regarding which mechanisms potentially cause earnings management to occur and under what circumstances these mechanisms are consequential. Elias (2002, p. 34) observes that earnings management strategies are "well-kept secrets among corporate executives." The purpose of the paper is to consider prior earnings management research in a board-of-directors' context, in terms of what boards actually do, the processes and practices governing earnings management. I commence by considering the accounting context in which earnings management occurs and terminology used in earnings management research. I then review earnings management research and boards of directors and audit committees. I also review the limited prior qualitative earnings management research that attempts to discover what is going on in practice. This review leads to an agenda for future earnings management research adopting a more fine-grained analysis, taking context into consideration and boards of directors' research that attempts to get into the "black box" of the boardroom. I conclude the paper by discussing regulators' and standard setters' responses to earnings management, including perspectives on Arthur Levitt's (1998a, b) famous numbers-game speeches.

1.1. Context: the "true and fair view"

UK company law requires financial statements to give a "true and fair view" and requires auditors to report whether financial statements do just that. But what does the term "true and fair view" mean? It is not defined by legislation or by the accounting profession. Consequently, the true and fair view is subject to considerable uncertainty and is a judgemental and challenging aspect of auditors' responsibilities. Auditing standards refer to a range of acceptable results within true and fair. True and fair provides room to manoeuvre within the constraints of accounting standards. The auditing profession acknowledges the impact of this uncertainty on financial statements as follows.

"A degree of imprecision is inevitable in the preparation of all but the simplest of financial statements because of inherent uncertainties and the need to use judgment in making accounting estimates and selecting appropriate accounting policies. Accordingly, financial statements may be prepared in different ways and yet still present a true and fair view." (Paragraph 4, Auditing Practices Board (APB) 1995).

"*The nature of financial reporting*: The preparation of financial statements involves judgment by management in applying the requirements of the entity's applicable financial reporting framework to the facts and circumstances of the entity. In addition, many financial statement items involve subjective decisions or assessments or a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made. Consequently, some financial statement items are subject to an inherent level of

[2] Dichev et al. (2016) assume the key person/decision-maker is the Chief Financial Officer. This assumption is telling. Where is the board of directors in this assumption? The board is legally responsible for the financial statements, but in praxis, does the board have any role?.

variability which cannot be eliminated by the application of additional auditing procedures. For example, this is often the case with respect to certain accounting estimates. Nevertheless, the ISAs [International Auditing Standards] require the auditor to give specific consideration to whether accounting estimates are reasonable in the context of the applicable financial reporting framework and related disclosures, and to the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments." (Paragraph A46, International Auditing and Assurance Standard Board, 2016).

To conclude, "financial statements may be prepared in different ways and yet still present a true and fair view" and "there may be a range of acceptable interpretations or judgments that may be made." This context is what makes financial reporting ripe for earnings management.

1.2. Definitions

While no single accepted definition of earnings management exists, the accounting literature provides various practice descriptions. Beneish (2001, p. 4) states that academics have "no consensus" on what constitutes earnings management. Even the incentives assumed to motivate earnings management are inconsistent (Dichev, Graham, Harvey, & Rajgopal, 2013, p. 26). Beneish (2001) describes two perspectives on earnings management – the information perspective and the opportunistic perspective. The information perspective holds that earnings management signals expectations about company future cash flows to investors, consistent with Tucker and Zarowin's (2006) subsequent findings. In contrast, the opportunistic perspective maintains that managers adjust earnings to mislead investors. Beneish (2001, p. 5) observes: "Much prior work has predicated its conclusions on an opportunistic perspective for earnings management and has not tested the information perspective."

Table 1 assembles some common definitions of earnings management, which comprise a continuum from accounting choice, to income smoothing, to earnings management to earnings manipulation. The definitions assume accruals earnings management rather than real earnings management (i.e., taking investment decisions that impact earnings), which is beyond the paper's scope. Some definitions in Table 1 are relatively neutral (e.g., Fields, Lys, & Vincent's (2001) definition of accounting choice, Ronen and Sadan's (1975) definition of income smoothing and Davidson III, Jiraporn, Kim, & Nemec's (2004) and Walker's (2013) definitions of earnings management). Other definitions in Table 1 adopt the dominant managerial-opportunism perspective (Young, 2015), using terms such as "deliberate", "manipulating", "purposeful." Schipper's (1989, p. 92) definition includes the word "intent." However, since researchers cannot observe managers' intent, current definitions of earnings management are "… difficult to operationalize directly using attributes of reported accounting numbers …" (Dechow & Skinner, 2000, p. 238). Deduction from large datasets is a crude proxy for intent. Healy and Wahlen's (1999) definition allows for earnings management to deceive or mislead investors to disguise poor performance. The word "mislead" in Healy and Wahlen's (1999) definition seems to "… preclude the possibility that earnings management can occur for the purposes of enhancing the signal in reported earnings" (Beneish, 2001, p. 5). In other words, the general assumption is that earnings management is conducted to the detriment of investors.

Dechow and Skinner (2000, p. 239) differentiate between acceptable ways managers can exercise discretion versus fraudulent accounting choices. They classify variations in practice using four terms: "conservative accounting", "neutral earnings", "aggressive accounting" (earnings management) and "fraudulent accounting" (fraud). Dechow and Skinner (2000, p. 237) acknowledge that "Before defining earnings management, we consider the role of accrual accounting since we believe that certain forms of earnings

Table 1
Definitions of terms.

Term	Definition (keywords underlined)
1. Accounting choice	• "... any decision whose primary purpose is to influence (either in form or substance) the output of the accounting system in a particular way, including not only financial statements published in accordance with GAAP [Generally Accepted Accounting Principles], but also tax returns and regulatory filings." (Fields, Lys, & Vincent, 2001, p. 256)
2. Income smoothing	• "By smoothing, we mean the dampening of the variations in income over time." (Ronen & Sadan, 1975, p. 62) • "… a deliberate attempt by management to signal information to financial users" (Ronen & Sadan, 1981, p. 2) • "Income smoothing is the process of manipulating the time profile of earnings or earnings reports to make the reported income stream less variable, while not increasing reported earnings over the long run." (Fudenberg & Tirole, 1995, p. 75)
3. Earnings management	• "… purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain" (Schipper, 1989, p. 92) • "Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers" (Healy & Wahlen, 1999, p. 368) • We define earnings management as the use of flexible accounting principles that allow managers to influence reported earnings, thereby causing reported income to be larger or smaller than it would otherwise be (Davidson III et al., 2004, p. 267). • The use of managerial discretion over (within GAAP) accounting choices, earnings reporting choices, and real economic decisions to influence how underlying economic events are reflected in one or more measures of earnings (Walker, 2013, p. 446).
4. Earnings manipulation	• Earnings manipulation is defined as an instance in which a company's managers violate generally accepted accounting principles (GAAP) to favorably represent the company's financial performance. (Beneish, 1999, p. 24)

management (such as "income smoothing") are hard to distinguish from appropriate accrual accounting choices." Dechow and Skinner (2000, p. 238) observe: "... to characterize income smoothing as earnings management, we need to define the point at which managers' accrual decisions result in "too much" smoothing and so become earnings management." What is the right level of earnings management? Is there a right level? How is earnings management distinct from earnings manipulation? Where does earnings management begin and end? Earnings management is not the same as earnings manipulation, just as legal tax avoidance is not the same as illegal tax evasion. Few studies attempt to distinguish aggressive earnings management and financial reporting fraud. The ambiguity associated with where aggressive accounting ends, and fraud begins, makes the task of distinguishing between the two challenging. Therefore, it is not clear at what stage earnings management becomes earnings manipulation.

Earnings management research implicitly assumes that earnings management should be as low as possible. This assumption raises the question: Should managers have no choice? Healy and Wahlen (1999, p. 367, Footnote 4) acknowledge that while providing managers with an unlimited capacity to make judgements is not practical, eliminating managers' judgement could disadvantage investors.

I prefer the term "accounting choice" over the arguably more pejorative term "earnings management", as managers only make choices. Parfet (2000), a practitioner, observes similarly. He acknowledges that there are people who break the rules but that most people do not. He expresses concern about the excessive discussion that infers otherwise, which discussion he says uses phrases such as "earnings management", "hidden reserves" and "accounting abuses" (p. 481). Parfet (2000) distinguishes between "good" and "bad" earnings management. Parfet (2000, p. 485) describes good earnings management as "reasonable and proper practices that are part of operating a well-managed business and delivering value to shareholders." He views good earnings management as occurring "where management takes actions to try to create stable financial performance by acceptable, voluntary business decisions." In contrast, he says: "'Bad' earnings management, that is, improper earnings management, is intervening to hide real operating performance by creating artificial entries or stretching estimates beyond the point of reasonableness ... This is the realm of the hidden reserves, improper revenue recognition, and overly aggressive or overly conservative accounting judgments. At a minimum, such actions are unproductive and create no real value. At their worst, they constitute fraud."

Scott (1997, p. 52) criticises Hansen and Watts' (1997) assumption that earnings management is always "bad" when there may be "good" reasons for earnings management. Scott says earnings management gives managers "room to maneuver" and may convey inside information on sustainable earning power to overcome blocked communication, which Demski and Sappington (1987) model. A Bruns and Merchant (1990, p. 23) interviewee echoes this perspective: "Accounting is grey. Very little is absolute ... you can save your company by doing things with sales and expenses, and, if it's legal, then you are justified in doing it." I like this quote because it displays a manager's wish to do the best for the company rather than assuming managerial self-interest. Graham, Harvey, and Rajgopal (2005, p. 29) report similarly. Markets expect that well-run, stable firms should be able to meet earnings targets. When a firm does not deliver earnings, markets interpret that as indicating potentially serious problems. Thus, managers that use legal means to meet stock market expectations are arguably motivated to serve their firms well.

Earnings management can be classified into three categories, two good and one bad. First, company executives desire the time series of reported earnings of their firm to be (a) growing and (b) smooth. Consequently, most firms engage in a degree of accruals management to grow and smooth earnings, which the market rewards. Boards, auditors and the stock market well understand such behaviour. Second, when faced with large negative shocks to the business, a proportion of firms try to delay reporting the effect of the shock in reported earnings. It is not clear whether the market can spot this when it happens. Some evidence, e.g., the accruals anomaly literature, suggests the market may be fooled. Third, a small proportion of firms are managed by "chancers" who use earnings management (and other forms of false reporting) to manipulate earnings and share prices. The market may be fooled by these chancers for a while.[3] Parfet (2000, pp. 485–486) contends that earnings management "is expected and demanded, both inside and outside of business, by all stakeholders in the capital market." Parfet (2000) acknowledges that improper earnings management does not happen in a vacuum. Market participants, such as analysts and investors, are key players, along with company managers.

1.3. The truth

Implicit in earnings management research is that one correct earnings number encapsulates the truth – as McSweeney (1997, p. 692) puts it, "an unambiguous accounting truth." For example, Ronen, Tzur, and Yaari (2006, p. 361) state: "Earnings management is neutral when the stock price is unbiased, because the market can see through the bias in the report and value the firm correctly and the manager is paid in accordance with the truth." The word "correctly" and the phrase "in accordance with the truth" imply that there is one "truth." Davidson III et al. (2004, p. 268) use the term "an accurate economic picture", and their definition of earnings management (see Table 1) includes the phrase "larger or smaller than it would otherwise be", implicitly hinting that there is one truth. Klein (2002, p. 378) also talks about a "more accurate report", suggesting academics consider accuracy important in financial reporting. Practitioners would rarely use such a term. Former Arthur Andersen managing partner eloquently illustrated this during the Enron hearings when he testified: "Many people think accounting is a science, where one number, namely earnings per share, is *the* number, and it's such a precise number that it couldn't be two pennies higher or two pennies lower." (Bazerman et al., 2002, pp. 98–99 – emphasis in the original). This one-truth approach is at variance with a diagram developed by the American Accounting Association (AAA)/American Institute of Certified Public Accountants (AICPA) (2013) Pathways Commission. The diagram cautions against the

[3] I thank one of the reviewers for these observations.

perception that accounting is "black/white", "right/wrong", showing the reality as "shades of grey", "accounting judgments." Hines (1988, p. 253) captures what is at play here – "there is no such thing as the truth, but there is such a thing as stretching the truth too far."

2. Prior literature

There are implicit, taken-for-granted assumptions underlying earnings management research. In the following section, I discuss two of these assumptions. I then review prior earnings management research and boards of directors and audit committees. Then I consider research on accounting choice and earnings management adopting alternative research approaches.

2.1. *Taken-for-granted assumptions*

In the context of decision-making, Kaplan (2019) criticises researcher assumptions that are analytically convenient for mathematical models, recommending instead studying how people make decisions. Here, I discuss two such assumptions widely adopted in earnings management research.

2.1.1. *Managerial self-interest*

Earnings management research is primarily premised on the *mala fides* assumptions of agency theory. Managers are assumed to be self-interested or, as Heslin and Donaldson (1999, p. 81) say, managers will "steal the silver" unless incentivised to do otherwise. Brennan (1994, p. 38) objects to the cynicism of agency theory. He says (p. 36–37) that Jensen and Meckling's (1976) agency theory model "rests on the assumption that the manager will steal what he does not own, so that it is probably more efficient to give it to him at the outset rather than put him to the trouble of stealing it." Brennan wryly conjectures that managers with such a disposition probably need to be replaced rather than tolerated in organisations! These assumptions about human behaviour and what motivates people have become widely accepted in business, so much so that some authors conjecture that agency theory is auto-suggestive, is a self-fulfilling prophecy, thereby contributing to low moral standards in business. As Alvesson and Kärreman (2011, p. 1136) observe:

> *"… the issue of theories having truth effects, i.e., becoming self-fulfilling prophecies … with the problematic aspects of economic theories producing truth effects – like the assumption of individuals maximizing their self-interest leading to people doing that."*

Unerman (2020, p. 7) similarly cautions against taken-for-granted assumptions, whereby unrealistic and idealistic assumptions become embedded in research and are deified with evangelism. He argues:

> *"It has been argued that, in effect, this model characterises 'rational' people as being "utterly despicable … selfish, greedy and lazy" (Collier, 2019, p. 26)."*

Fforde (2017) notes that many economic theories and studies are based on this unquestioned assumption of 'rational economic behaviour' with this assumption leading to unconscious confirmation bias against data that does not conform to this assumption. However, this ideologically-driven characterisation of human nature, which implicitly underpins much capital markets research, has been repeatedly challenged by evidence and reasoned arguments showing that human nature is much more complicated and multi-faceted than allowed for by assumptions of economic rationality (Collier, 2019; Haidt, 2012; Mercier & Sperber, 2017; Scruton, 2017), and that the behaviours of most people are not driven solely (or largely) by self-interest."

I prefer to assume that managers make accounting choices within GAAP that best portray their company. Managers put their best foot forward. These managers are our former students. Should we portray our former students in this way? If we do, should we take some responsibility for their behaviour? How would we academics like it if our students characterised us as self-interested and, incentivised by university managers, concluded that many of us intentionally manipulate and mislead in the conduct of our research?

2.1.2. *Board of directors as the supreme corporate governance mechanism*

Fama and Jensen (1983, p. 323) view the board of directors as the apex of decision control that ratifies and monitors important decisions and chooses, dismisses, and rewards important decision agents. Research connecting earnings management and boards of directors adopts this taken-for-granted assumption. Gevurtz (2004, p. 92) counter-argues this assumption when he says:

> *"The puzzle arises because of a clash between the model of the corporate board as the supreme body elected by the shareholders to ensure governance of the company on the shareholders' behalf, and the reality of the minor role that corporate boards actually play in the governance of most companies."*

Gevurtz (2004) also questions the assumption that shareholders are too numerous and disengaged to monitor managers yet become sufficiently engaged and organised to select vigilant directors to perform a monitoring function on behalf of shareholders. Gevurtz (2004) adds that boards' effective control is marginal because of their limited time, their reliance on management for information, and the rare cases boards veto management action. He questions the effectiveness of governance structures through corporate boards organised as supreme bodies rather than an autocratic governance structure under the CEO. He surmises in favour of corporate boards on the basis that groups are better decision-makers than individuals. Gevurtz (2004) concludes his treatise by observing that the rationale favoured by modern scholars – that boards exist to monitor management – finds the least support in boards' historical origins.

2.2. Earnings management and boards of directors

Research views corporate governance mechanisms as factors that limit earnings management behaviour (Peasnell, Pope, & Young, 2000). This assumes an agency-theory perspective whereby monitoring mechanisms such as boards of directors and audit committees operate to constrain managerial self-interest. For example, Libby, Rennekamp, and Seybert (2015, p. 32) reflect this perspective with the comment that "audit committee members may be the last line of defense constraining earnings management." Similarly, Shepardson (2019, p. 58) states that audit committees' primary role in financial reporting oversight, as identified by regulators and stock exchanges, is constraining earnings management.

Table 2 summarises some prior research connecting corporate governance mechanisms and earnings management (See García-Meca and Sanchez-Ballesta (2009) for a comprehensive review of prior earnings management research). Earnings management research includes board-of-directors/audit committee variables, including the proportion of independent non-executive directors/females on the board/audit committee, chair-CEO duality, audit committee financial expertise, interlocking directors and board social ties. In their study of female directors' influence on earnings management, Gavious, Segev, and Yosef (2012) make an important distinction between independent directors and executive managers, observing that executive managers (especially CEOs and CFOs) most influence earnings. They include female CEO and female CFO as variables. They assume the role of independent directors is to detect and deter earnings management.

2.3. Alternative methodological approaches to researching earnings management

Libby et al. (2015) observe that most prior literature on earnings management and accounting choice uses archival methods from which researchers draw inferences. Similarly, Dichev et al. (2016, p. 22) note that most earnings management research uses archival published financial information, with the unavoidable limitation of interpreting unobservable management intent that drives earnings and earnings quality decisions. Libby et al. (2015) review behavioural survey and experimental research to study decision-makers and earnings management and accounting-choice studies. They also note that most prior research only includes managers and does not include other decision-makers, such as auditors and company directors. They characterise managers as self-interested, and auditors and directors as monitors of managers to constrain earnings management and accounting choice. They commend experiments and survey studies for their ability to tease out the unique contribution of each party. They highlight the emphasis on cognitive factors such methodological approaches permit.

To illustrate how scholars have used alternative methods to study earnings management, Table 3 summarises a selection of papers from the prior literature using more qualitative approaches in earnings management research, mainly survey research, with some interview-based research. Beattie, Fearnley, and Brandt (2000, 2014, 2015) capture the triad – management, board of directors and external auditors, who have especially relevant roles in earnings management decisions. The Graham et al. (2005), Dichev et al. (2013) and Dichev et al. (2016) papers have obtained notable traction. These papers focus on the person (the CFO) who makes the key decisions concerning accruals and real decisions, claiming that their survey research yields insights not otherwise available in the prior literature. Dichev et al. (2013, p. 1; 2016, p. 22) survey 169/375 CFOs and interview 12/12 of them. Dichev et al. (2013, p. 1) report respondents' average response that 20 percent of companies use discretion within GAAP to misrepresent earnings, a finding they confirm in Dichev et al. (2016, p. 24) by stating: "one in five companies intentionally misrepresents its earnings using discretion within generally accepted accounting principles (GAAP)."

While commending their approach for providing insights not possible from traditional archival research, Nelson and Skinner (2013) criticise methodological aspects of Dichev et al. (2013), largely replicated in Dichev et al. (2016). I concur with Nelson and Skinner's concerns on framing the survey questions, although for different reasons. Dichev et al. (2016) use the phrase "earnings misrepresentation" 16 times. What do they mean by this phrase? Why did they include the phrase in their survey/interview questions? Did the use of such a phrase bias their findings? Dichev et al. (2016, p. 27) ask respondents, "From your impressions of companies in general, in any given year, what percentage of companies use discretion within GAAP to report earnings that misrepresent the economic performance of the business?" Although 19 (like-minded?) academic researchers validated the survey instrument, and a specialist survey-design company checked the instrument for ambiguity and leading words, I question the use of the phrase "earnings that misrepresent." This wording seems to be a leading phrase. How can the phrase "intentionally misrepresent its earnings" be reconciled with within-GAAP accounting practices? They seem to imply that "earnings misrepresentation" is fraud when they describe their survey participants as "perpetrators", as in the following quote: "a remarkable 20% of public companies use discretion within GAAP to intentionally (emphasis added) misrepresent their earnings … fully one-third of perpetrators (emphasis added) lowball reported earnings." Why do Dichev et al. (2016, p. 34) call their survey respondents "perpetrators", a word more associated with fraud? Did the survey respondents know that the authors would interpret "earnings misrepresentation" as fraud? The taxation literature is more careful and rigorous in language use, distinguishing legal tax avoidance from illegal tax evasion.

Three aspects of their research strike me. First, on what basis do respondents arrive at their response? How do CFOs know that 20% of public companies use discretion within GAAP to intentionally misrepresent their earnings? It does not appear that Dichev et al. (2013, 2016) offered respondents a response option of "I do not know." Second, Dichev et al. (2016, p. 27) did not ask respondents about practice in their own company. Had they done so, would they have got a different response to 20 percent of companies? Third, the phrase "misrepresent the economic performance of the business" seems very strong language to use in an unbiased questionnaire. Did respondents understand what was meant by this phrase? Dichev et al. (2013, p. 3) claim that this provides "point estimates of the economic magnitude of opportunistic earnings management" for the first time. While Dichev et al.'s (2013, p. 3) question includes the phrase "within GAAP", and they say that they "rule out outright fraud", they somewhat contradict that claim when they use the phrase

Table 2
Earnings management and board characteristics.

Corporate governance mechanism	Paper	Theory	Finding
Board of director independence	Peasnell et al. (2000); Klein (2002); Xie, Davidson III, & DaDalt (2003); Peasnell, Pope, and Young (2005); Lin and Hwang (2010);	Boards are viewed as monitors of management to resolve agency problems between managers and shareholders.	The proportion of outside directors is associated with less earnings management.
Audit committee independence	Klein (2002); Xie, Davidson, and DaDalt (2003); Ghosh, Marra, and Moon (2010);	Audit committees are arbiters between management's and external auditors' divergent views to produce "more accurate" financial reports (Klein, 2002, p. 378).	Audit committee independence is associated with less earnings management.
Female directors on the board/ audit committee	Sun, Liu, and Lan (2011); Thiruvadi and Huang (2011); Gavious et al. (2012); Arun, Almahrog, and Aribi (2015); Kyaw, Olugbode, and Petracci (2015); García Lara, García Osma, Mora, and Scapin (2017).	Female directors are assumed to constrain earnings management because of their conciliatory nature,[1] risk aversion, morality, ethics (more likely to report illegal acts – revealing the researchers' assumption that earnings management is illegal) (Gavious et al., 2012).	Evidence is mixed. Thiruvadi and Huang (2011); Gavious et al. (2012); Arun et al. (2015) find earnings management is constrained where female directors are on the audit committee. Sun et al. (2011) are unable to find such an association. Kyaw et al. (2015) find board gender diversity mitigates earnings management only in countries where gender equality is high. García Lara et al. (2017) find that for firms that do not discriminate in female access to board seats, earnings management does not differ substantially between male and female directors.
Chair-CEO duality	Davidson III et al. (2004)	Chair-CEO duality exacerbates agency problems due to greater power in one individual.	More earnings management occurs in firms with newly appointed dual chair-CEOs than firms without dual chair-CEOs.
Audit committee financial expertise	• Bédard, Chtourou, and Courteau (2004) • Badolato, Donelson, and Ege (2014)	• Audit committee members need the expertise to fulfil their internal-control and financial-reporting monitoring responsibilities. • Audit-committee financial expertise reduces managers' ability to engage in opportunistic financial reporting.	• At least one member with financial expertise on the audit committee is associated with a lower likelihood of aggressive earnings management. • Audit-committee financial expertise is associated with less earnings management, provided the audit committee has high status.
Board interlocks	Chiu, Teoh, and Tian (2013, p. 915)	Social interactions affect human behaviour, and "bad financial reporting" behaviour such as earnings management may spread (contagion) across board-of-director networks.	Firms are more likely to manage earnings when they share a common director with a firm that is managing earnings. Firms are less likely to manage earnings when they share a common director with a "non-manipulator."
Board social ties	Krishnan, Raman, Yang, and Yu (2011)	Directors' social ties with CEOs and CFOs undermines their independence and ability to monitor management.	Firms with more social ties between the CFO/CEO and the board are more likely to manage earnings.

[1] This assumption is puzzling. One would expect females of a conciliatory nature to be less effective monitors of management.

"earnings manipulation" (abstract) and "within-GAAP manipulation" (p. 2), revealing maybe their subconscious belief that "within-GAAP" is manipulation/fraud. In response to the same question, Dichev et al. (2016, p. 22) say that companies "intentionally misrepresent" their earnings, which seems to be a strong conclusion for a complex question that researchers need to unpack much more than is possible using a survey instrument.

Lambert and Sponem (2005) is a rare field study of earnings management.[4] They interview 32 French management controllers to discover the methods they use to manage earnings. They observe (p. 720) "Some of these techniques are the privilege of 'headquarters' level, i.e. boardrooms deciding to manipulate corporate results so that consolidated accounts provide the 'expected' figures." However, the evidence they provide to support this statement is weak.

Norman Macintosh draws on critical theory to help make sense of earnings management. Macintosh (1995) observes, that ethical issues, such as earnings management, are not examined in a socially or philosophically sophisticated way. Macintosh (1995) criticises earnings management research, arguing that it does not study ethics, rather it studies socially acceptable practices. Further, he argues that managers' ethical and moral choices do not exist independently from managers' life-world.

[4] Lambert and Sponem (2005, p. 719) do not differentiate earnings management and earnings manipulation well. They use the term "profit manipulation", by which they mean: "Profit manipulation can take two forms: earnings management and falsification."

Table 3
Earnings management qualitative research.

Paper	Method	Finding
Survey/survey & interviews		
Graham et al. (2005)	Survey 401 financial executives; 12 in-depth interviews	Managers will sacrifice economic value to meet financial reporting goals but are reluctant to employ accruals earnings management.
Dichev et al. (2013)	Survey 169 CFOs; 12 in-depth interviews	20 percent of firms manage earnings. 60/40 percent of earnings management is increasing/decreasing respectively.
Dichev et al. (2016)	Survey 375 CFOs; 12 in-depth interviews	One in five companies "intentionally misrepresent" earnings using discretion within GAAP, amounting to 10 cents per dollar. Two-thirds of misrepresentations overstate earnings; one-third lowball earnings.
Beattie et al. (2000)	Survey 153 finance directors and 244 audit partners	Earnings can still (notwithstanding the improvement in accounting standard on exceptional items) be managed to some degree.
Beattie, Fearnley, and Hines (2014)	Survey 498 CFOs, audit committee chairs and audit partners (the triad)	Find incomplete engagement between audit committees, audit committee chairs, CFOs and audit partners on 32 financial reporting items.
Beattie, Fearnley, and Hines (2015)	Survey 498 CFOs, audit committee chairs and audit partners (the triad)	Auditor-auditee discussion and negotiation issues (45 auditor–client interactions) in nine case companies. They find national enforcement to be most influential.
Ethics of earnings management		
Bruns and Merchant (1990)	Survey 649 managers	There was a lack of agreement amongst respondents on the ethics of 13 earnings-management situations.
Flory, Phillips, Reidenabach, and Robin (1992)	Survey 314 management accountants	Ethical perceptions of four scenarios are complex, involving at least three dimensions – moral equity, relativism and contractualism.
Rosenzweig and Fisher (1994)	Survey 265 professional accountants	Earnings management via accounting manipulation is viewed as unethical but not via operating decisions; More experienced accountants are more tolerant of real earnings management; More senior accountants are more tolerant of real and accruals earnings management.
Merchant and Rockness (1995)	Survey 308 general managers, staff managers, operating-unit controllers and internal auditors	Scenarios that do not violate GAAP are acceptable to respondents, while violation of GAAP is not acceptable.
Elias (2002)	Survey 763 accounting practitioners, faculty, students	Respondents do not consider operational earnings management unethical. They view accruals earnings management as unethical.
Field study		
Lambert and Sponem (2005)	Interviews with 32 French management controllers from 13 companies	Contrary to assumptions of opportunism in prior research, profit manipulation is a tool by management controllers to gain broader legitimacy in organisations and/or to adopt ethical behaviour.

2.4. Prior research on boards of directors using alternative methods

Table 4 summarises research on boards of directors that uses alternative methods to collect data. This summary is not intended to be comprehensive. Instead, it illustrates the range of alternative methodologies to more traditional approaches available to researchers to obtain context-rich insights into how boards work. Boards of directors are difficult to research, given access challenges to the "black box of the boardroom" (Watson, Husband, & Ireland, 2021). Watson et al. (2021) review the sparse research penetrating the boardroom using observational methods. They refer to this research as "processual" in that it focuses on procedures relating to governance.

Interview-based research on boards is common (Cullen & Brennan, 2017; Gendron, Bédard, & Gosselin, 2004; Xiao, Dahya, & Lin, 2004). However, researchers can only obtain insights on boards of directors at a distance, through what interviewees tell them. Parker (2007a,b) opens the black box of the boardroom through his autoethnographic participant observation study. Samra-Fredericks' (2000a,b) ethnographic study is a game-changer in that she uses audio and video recordings to study directors' and managers' talk-based interpersonal routines. Bezemer, Nicholson and Pugliese (2014) videotape six board meetings and use the data collected to analyse various aspects of board processes, including patterns of director interactions (Pugliese, Nicholson, & Bezemer, 2015), habitual accountability routines (Nicholson, Pugliese, & Bezemer, 2017), the influence of board chairs (Bezemer, Nicholson, & Pugliese, 2018). Veltrop, Bezemer, Nicholson, and Pugliese (2021) videotape seven board meetings of five Australian companies to analyse CEO-board cognitive conflict and chair leadership. Adopting a similar method, Pernelet and Brennan (2021a, b, c) videotape nine board meetings to study non-executive directors' and managers' question-and-answer interactions. The three boards they study meet in public in front of stakeholders and in private, allowing director behaviours in the two settings to be observed and analysed.

3. Future research

Kaplan (2019), Rajgopal (2020), Schrand (2019) and Swieringa (2019) call for greater connections between accounting research and practice. Schrand (2019) favours more critical observation and documentation of problems practitioners face, acknowledging that observing practice can lead to new questions and theories about practitioners' issues. Rajgopal (2020, p. 22-23) quotes an anonymous US professor who says: "I often worry that in our quest for generalizable findings, we gloss over important context-dependent contingencies that affect the adoption or otherwise of a particular managerial practice or process." Han, Kang, Salter, and Yoo (2010) identify the need for accounting and finance research to tackle the softer dimension of human values (psychology, sociology, and

Table 4
Studies of boards of directors using alternative research approaches.

Method	Study	Methodology	Focus of study
Field study	• Gendron et al. (2004)	Field study of audit committee practices in three Canadian public corporations mainly using interviews to collect data.	Findings highlight key matters that audit committee members emphasise during meetings, such as accuracy of financial statements, appropriateness of the wording used in financial reports, the effectiveness of internal controls and the quality of the work performed by auditors. A key aspect of audit committee members' work comprises asking challenging questions and assessing managers' and auditors' responses.
Interview – grounded theory	• Xiao et al. (2004)	Face-to-face semi-structured interviews with board directors, supervisors, and senior executives in 21 Chinese listed companies.	Board members of a Chinese supervisory board adopt one of four roles: (1) an honoured guest; (2) a friendly advisor; (3) a censored watchdog; or (4) an independent watchdog.
	• Cullen and Brennan (2017)	Twenty-five in-depth interviews and a focus group session with investment fund directors	Due to power imbalances, mutual fund boards can only exercise oversight roles and cannot exercise control and monitoring roles.
Observation	• Machold and Farquhar (2013)	Longitudinal observation study of six UK boards	Traditional governance theories provide insights to board task content but do not explain how and why these tasks change. Combining traditional conceptualisations of board tasks with a process-based theoretical lens offers new insights into board tasks and how effectively boards perform them.
Participant observation	• Currall, Hammer, Baggett, and Doniger (1999)	Five-year participant observation study of a corporate board of directors. A participant-observer collected field notes of who said what to whom inside the boardroom.	Data provided a textured understanding of group processes within the board. Participant observation provided information to decipher board members' actions. Without an insider's knowledge of board members, the misconstrual of their actions would have been more likely.
	• Parker (2007)	Employs a longitudinal board member/ researcher, participant-observer methodology of two non-profit professional associations.	Studies boardroom strategic decision-making, including directors' strategic orientations, discourse and decisions, in their holistic context. Directors import private sector philosophies into the non-profit boardroom. Formal strategic plans have a ceremonial role. Directors enact an informally strategic discourse.
	• Parker (2008)	As above	Control processes and their dynamics at the board level to explore directors' control orientations, discourse and decisions in their holistic context. Three primary themes: control reporting, director's control orientation and the board's budgetary control approach. Directors' strategic orientation is the primary driver of their exercise of control. Reporting systems and routine monitoring emerge as adjuncts to their primary strategic control focus.
	• Huse and Zattoni (2008)	Participant observer study in three small firms	Studies processes outside and inside the boardroom and board behaviour using a firm life-cycle approach. Board behaviour changes along with the life-cycle phases.
	• Heemskerk, Heemskerk, and Wats (2017)	Comparative participant observation study of 11 supervisory boards.	Researches board task performance and relationship conflict. Low levels of relationship conflict are typically considered a sign of a well-functioning board. The avoidance of relationship conflict negatively impacts board task performance and may lead to 'cognitive blindness'. Boards of directors should manage—rather than avoid—relationship conflict.
Ethnographic	• Samra-Fredericks (2000a, b)	An ethnographic study using audio and videotape recordings of directors and senior managers (managerial elites) interacting with each other in a UK manufacturing company.	Talk-based interpersonal routines, the nature of their linguistic skills and factors such as knowledge, know-how and experience influence boardroom processes. Provides a basis for developing a systematic and rigorous approach for studying the behavioural dynamics of corporate governance.
	• Beech, Gold, Beech, and Auty (2020)	Ethnographic observations and conversation analysis of four 3-hour audio-recorded board meetings.	The established underlying assumptions and rationale ideologies of corporate governance are misplaced. Understanding the workings of corporate governance requires study of the power of everyday taken-for-granted talk in strategy shaping.
Video recording	• Pugliese et al. (2015)		

(continued on next page)

Table 4 (*continued*)

Method	Study	Methodology	Focus of study
		Videotaped six board meetings and semi-structured interviews with directors at three not-for-profits	Director interactions are multidimensional and dynamic. Directors' contributions to the discussion change across meeting agenda items. Directors' participation is associated with higher perceptions of board effectiveness. Director interactions change with agenda items, board climate and board-meeting arrangements.
	• Nicholson et al. (2017)	As above	Boards engage in clear, recurrent accountability routines, with participants playing different roles. Directors and managers hold each other to account. Outside directors both challenge and support managers. Outside directors provide support and exercise scepticism which allows for simultaneous trust and verification, a necessary condition for accountability.
	• Bezemer et al. (2018)	As above	Board chairs shape the context for other directors to engage in their governance roles. The chair's role is a paradox, requiring both (i) strong leadership to counter managers' power and (ii) a more subtle orientation as peer to fellow directors that enables other board members to contribute to boardroom decision-making. The chair's contributions and directors' engagement during meetings are transitory.
	• Veltrop et al. (2021)	Videotaped board meetings and semi-structured interviews with directors at five Australian corporations; Survey of 164 Dutch directors	Importance of participative board chairs developing psychological safety as a key mechanism in dealing with board-CEO cognitive conflict.
	• Pernelet and Brennan (2021a, b, c)	Videotaped nine board meetings. The boards meet in public and in private. The dataset comprises 418 questions and 510 answers. Develops a typology of NEDs' 48 challenge/question subcategories and managers' 69 answer/response subcategories.	Mild challenge is the most frequent question category, followed by latent challenge and moderate challenge. NEDs appear reluctant to offer moderate or constructive challenge. The clear answer is the most frequent category of management response. Next in frequency is the selective partial response, then justification and legitimation. The behaviour of the boards in the presence of an audience of stakeholders leads them to employ impression management techniques and perform governance during question-and-answer interactions.

possibly anthropology) and their influence on capital markets.

Earnings management research focusses on inputs and outputs. Somewhat tentatively, Walker (2013, p. 476) calls for a modest shift away from archival research, better integration between different types of research, including surveys, interview studies, and better development of accounting choice theoretical foundations. Nelson and Skinner (2013) highlight the importance of learning what CFOs do in practice. They also acknowledge that we know little about the interactions between firms' internal decision-making processes and external financial statements.

We know little or nothing of the board processes and practices behind those inputs/outputs – as Watson et al. (2021, p. 190) observe: "what it is boards actually do." We need to study boards in action. The late corporate governance guru, Sir Adrian Cadbury (2000, p. 12), opines: "The more that research can concentrate on boards in action, on process rather than structure, the greater the chance that research findings will be operationally relevant and acted upon." There is a disconnect between earnings management research and the reality of the boardroom. Research lacks contextual realism. We have little understanding of the role financial reporting plays in governance arrangements in firms. Research on earnings management and boards of directors makes simplistic assumptions concerning the role of boards or their audit committees and earnings management. Papers are rarely explicit concerning how boards or audit committees are involved in oversight of earnings management. Many taken-for-granted assumptions underly financial reporting and corporate governance research. Shepardson (2019, p. 57) takes a more practical perspective observing that "identifying factors that affect oversight of complex estimates, which are highly susceptible to managerial bias, is key to understanding the ability of audit committees to effectively monitor complex financial reporting." Have academics interviewed non-executive directors about earnings management? Do NEDs discuss earnings management at board/audit committee meetings?

Given the predominant findings in prior research that female directors are associated with less earnings management, how do they achieve this? Researchers suggest a variety of female characteristics to explain these findings. But how do female directors exercise these characteristics in boardrooms? These characteristics are assumed of females in general, rather than female directors *per se*. Many assumed female characteristics (e.g., conciliatory nature, risk aversion, morality, ethics) are unlikely to be associated with the control-of-opportunistic-behaviour assumptions of that stream of the literature. The variable, proportion of females on the board, reflects the bias in this type of research – over-emphasis on individualism; underemphasis on the extent to which individuals depend on organisations/groups/systems, etc. (Parlett, 1991, p. 77). Individuals exist in intimate relations to the human systems of which they are part (which perspective resonates with Macintosh's (1997) observations earlier that accounting choices do not exist independently

from managers' life-world). Can individual board members and boards be considered separately? Considered to have independent existence? Are boards so interlinked that to separate them is an academic abstraction?

3.1. Future earnings management research on boards using alternative methods

This vast field of research is disconnected from practice. We need to find research approaches to complement existing earnings management research. Also, academics write earnings management research only for one audience, other academics. The research is not written for a range of audiences. Accounting is a professional discipline. As a professional discipline, we must write for a wide range of professionals and for academics. But earnings management researchers speak only to themselves. We need to re-balance that. Future research on boards could empirically examine earnings management by asking non-executive directors and managers questions using in-depth data collection methods, such as participant-observer studies, ethnographic research, tape recordings and video recordings of board meetings. How researchers express their research questions would depend on whether they intend to address testable propositions using quantitative survey-based data collection methods or use more qualitative approaches. I have chosen the latter approach in Table 5 to identify some research questions to be asked of directors and managers to examine earnings management, derived from Table 2 in Brennan, Kirwan, and Redmond (2016, pp. 154–155). I acknowledge that researching aggressive or fraudulent earnings management/manipulation requires creative approaches. Directors and executives engaging in such practices are unlikely to admit to them readily. Dellaportas' (2013) work with white-collar criminals comes to mind as a creative approach to discovering the darker accounting arts inside organisations.

4. Policy implications

McKiernan and Tsui (2019, p. 310) refer to scholarship lacking relevance. They highlight the "*responsibility turn*" in management research, requiring scholars to pay greater attention to producing useful research findings. Many journals encourage authors to conclude their papers by discussing the implications of their research for managers and practice (McKiernan & Tsui, 2019, p. 311). Some academics view their research as offering insights to policymakers interested in enhancing the monitoring role of corporate boards (e.g., García Osma, 2008, p. 116). Liang (2004, p. 685) considers that regulators may find enforcing a zero-tolerance policy — no earnings management allowed — economically undesirable, and that tolerating some earnings management is beneficial. Concerning the three categories of earnings management mentioned earlier, policy is likely best directed at the second and third categories, delaying bad news and earnings manipulation. Many earnings management papers are silent on the policy implications of the research. How have policymakers taken up the earnings management agenda? Do companies know we are doing all this research? Does all this research impact companies? Has all this research made a difference to financial reporting practices? Given the evidence on earnings management, how have the findings influenced boards of directors, audit committees, auditing? How has the research impacted policymakers, regulators and standard-setters?

4.1. Regulators

Why is there such a disparity between the amount of earnings management research in the academic literature versus in practice? Dechow and Skinner (2000, p. 235) suggest that regulators have given earnings management significant attention, whereas academics are "are more sanguine." Conversely, Sikka (2009, p. 871) questions why widespread academic evidence of earnings management receives so little attention from regulators: "Previous episodes have highlighted issues about earnings management … Yet regulators have paid little attention to these issues." I view earnings management the reverse of Dechow and Skinner's (2000) perspective – something on which academics are fixated but which is rarely discussed in practice.

Dechow and Skinner's (2000) support for their statement that regulators have given earnings management significant attention is the then Chairman of SEC, Arthur Levitt's (1998a), numbers-game speech in which he used the term "earnings management." That speech has the appearance of being heavily influenced by academics, with uniquely academic phrases appearing in the speech. The

Table 5
Research questions on the role of boards of directors in earnings management.

- To what extent do managers/executive directors bring data into boardrooms concerning earnings management?
- To what extent do non-executive directors challenge management concerning earnings management?
- How do managers respond to non-executive directors' challenge concerning earnings management?
- To what extent do signals from the boardroom versus from management (e.g., the CEO) influence earnings management?
- What linguistic devices, language games do managers/non-executive directors use to communicate concerning earnings management?
- To what extent do external auditors bring data into boardrooms concerning earnings management?
- To what extent do non-executive directors challenge auditors concerning earnings management?
- How do auditors respond to non-executive directors' challenge concerning earnings management?
- What linguistic devices, language games do external auditors use to communicate concerning earnings management?
- To what extent do non-executive directors spend time in the company talking to finance staff concerning earnings management?
- To what extent is intra-board, intra-company or extra-board communication between non-executive directors and finance staff controlled by the CEO facilitating/preventing knowledge transfer concerning earnings management?
- To what extent do non-executive directors actively participate in accounting choices concerning earnings management?

speech was delivered at New York University and may have been customised for an academic audience. He delivered a similar speech two months later (Levitt, 1998b). Shortly after these speeches, SEC chief accountant, Lynn Turner (1998, 1999), announced the establishment of an SEC Earnings Management Task Force. The report of this task force does not appear to have been published. However, Turner's successor, Robert Bayless (2000), reports that the SEC's Earnings Management Task Force examined filings in 1999 to find an indication of earnings management. The Task Force found limited evidence of earnings management that required restatement (90 companies) or enforcement (a "small fraction" of the 90 restatements). Thus, suggestions of widespread earnings management do not appear to have materialised. A question for future research is why do regulators not regulate earnings management, given the academic evidence of it being widespread?

4.2. Standard setters

Notwithstanding the quantum of research, standard setters rarely issue material on earnings management. In June 2001, the APB (2001) issued a consultation paper on "Aggressive earnings management" because it was concerned that the quality and reliability of financial reporting may be undermined by increasing commercial pressures on those preparing financial statements. The consultation paper, in part, followed APB's (1998) "Fraud and audit: Choices for society." Following Enron's collapse, in June 2002, the UK government established a Treasury Committee to enquire whether such an event could occur in the UK. The APB (2002) made a submission to the enquiry. Commenting on its 2001 consultation paper, the APB (2002) observed that earnings management is not new, that accounting is not a precise science, and there is a range of acceptability in companies presenting their results and financial positions. The APB's aggressive earnings management project appears then to go dead.

5. Concluding comments

Earnings management research is one of the biggest fields in the accounting discipline. Studies based on large quantified datasets and using advanced statistical methods dominate the research. However, the research is largely silent on the praxis of earnings management. Notwithstanding the inclusion of corporate governance variables in prior research, we know little about what happens in boardrooms concerning earnings management and little about the interactions (if any) between boards and managers in executing earnings management. Prior research is based on taken-for-granted assumptions, but it is not clear whether these assumptions are justified. The paper recommends complementary research approaches that would open up the black box of the boardroom to obtain more granular insights into earnings management to accompany the helicopter perspective of our quantitative cousins in the extended family of researchers of all types (Lodhia, 2019, 2020). The paper concludes by considering the very limited impact of earnings management research on policymakers. It would be useful to understand why the research has had so little impact.

Research needs to explore what is happening inside boardrooms. The paper reviews the relative paucity of prior research adopting alternative methods in studying earnings management and in efforts to access boardrooms. I suggest research questions to address using these methods. We do not know the extent to which non-executive directors are involved in management decision-making, including decisions to manage earnings. How much is such decision-making a reserved function of boards of directors? To what extent do boards collaborate with executives in executing earnings management versus hold them to account through monitoring?

Earnings management research treats boards of directors as largely homogenous. Yet, boards operate in different contexts. Researchers need to understand boards of directors within their context, including historical (e.g., Gevurtz, 2004), regulatory, political and societal context as these influence decision making inside and outside boardrooms. The prior literature on earnings management and boards of directors rarely factor context into research designs. The nature of the business also influences how boards operate, but most earnings management and boards of directors research is based on large listed companies. The nature of the business may constrain board authority. For example, Cullen and Brennan (2017) conclude that mutual fund boards can only exercise oversight and not control and monitoring roles because of power imbalances between the fund promotor and mutual fund boards. Most earnings management research and board of directors research assume boards have full authority, which often is not the case. Greater sensitivity to the context in which boards operate would contribute to our theoretical understanding of how boards work.

Notwithstanding the quantity of earnings management research, we know little about how it is practiced in praxis. Alternative approaches to researching earnings management and boards of directors offer opportunities to open the black box of the boardroom to enhance our understanding of these phenomena. Such approaches provide an opportunity to obtain novel insights into what is a complex and multifaceted issue.

Acknowledgements

I thank participants for their comments at the British Accounting & Finance Association (Online) Distinguished Academic plenary address and for seminar comments at Maynooth University, University College Dublin, Reading University, the University of Manchester, Waterford Institute of Technology and the National University of Ireland, Galway. I am grateful to Phelim Boyle for his suggestions. Finally, I am also grateful to two excellent reviewers for their constructive expert advice to improve the paper and to Editor, Alan Lowe, and the Associate Editor, Pamela Stapleton, for their handling of my paper.

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