Research on the Impact Mechanism of Top Management Team Characteristics on Earnings Management

Liping Lin\textsuperscript{1,a} and Mei Li\textsuperscript{2,b}

\textsuperscript{1}School of Management of Guangxi University of Science and Technology, China
\textsuperscript{2}School of Management of Guangxi University of Science and Technology, China
\textsuperscript{a}Lipinglin3@163.com, \textsuperscript{b}limei3025@163.com

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ABSTRACT: As the core human resource of the enterprise, the top management team plays an important role in the development of the enterprise. The choice of behavior of top management will be influenced by its characteristics, which will influence the decision-making of enterprises. As one of the behavioral decisions, earnings management can influence enterprises to make the right strategic choice. Therefore, it is necessary to study the impact of earnings management from the characteristics of top management team. Based on the literature review both at home and abroad, this dissertation studies the impact of top management team on earnings management from the perspective of demographic and psychological characteristics of senior management team in order to enrich the existing problems.

1. INTRODUCTION

In recent years, an endless stream of financial irregularities, to explore its internal causes, Scholars found that the reason for this phenomenon is inseparable from executives' manipulation of accounting earnings. The most prominent feature of modern company system is the separation of management rights and ownership. Top management as the core human resources of enterprises, their background characteristics will affect their strategic choices and behavior decisions, thus affecting the company's earnings management (Ruizhi Liu, 2017). Especially for listed companies, they need to publicly disclose accounting information to the public, and the quality of information disclosed will directly affect investors' investment decisions. Therefore, it is necessary to study the characteristics of top management team that influence earnings management.

By reading the domestic and foreign literature, we find that there are a lot of scholars studying earnings management nowadays, but there is not much literature on earnings management from the perspective of the characteristics of the senior management team. This paper attempts to study from this perspective, based on the theory of top-echelon, principal-agent and asymmetric information, study the mechanism of the top management team's impact on corporate earnings management. Hope to provide reference for executives of humanistic system construction suggestions, in order to effectively play the role of positive executives in corporate governance, improve the governance structure of listed companies, promote the effective operation of capital market in China.

2. TOP MANAGEMENT TEAM POPULATION BACKGROUND CHARACTERISTIC AND CORPORATE EARNINGS MANAGEMENT BEHAVIOR

2.1 The Impact of Top Management Team Age on Earnings Management

Relationship between top management team age and earnings management, the findings of foreign scholars are more consistent. Hirshleifer (1993) believed that younger CEOs tend to be more positive earnings management behavior and ignore the long-term development goal. Prendergast et al. (1996) believed that senior executives tend to choose conservative strategies in corporate decision-making, and the possibility of surplus manipulation was less; The younger managers, because of their youth,
make mistakes in decision-making and technical mistakes in making decisions. Huang et al. (2012) analyzed the relationship between age and earnings quality of CEO in detail. With the increase of CEO's age, the quality of decision-making will gradually improve, the probability of making a financial restatement significantly reduced, and the reliability of the earnings quality enhanced.

Domestic research on this characteristic is different. Chao Wang (2013), in the empirical study of listed companies, concluded that the level of earnings management was influenced by age and showed negative correlation between the age and earnings management. But some scholars disagree. Fusheng Wang et al. (2014) studied the influence of chief financial officer's characteristics on corporate accounting policy selection based on the perspective of management defense. The results showed that the management level of defense and the chief financial officer of the age and tenure in office is inseparable, the longer the age and tenure, chief financial officer, the degree of defense will be more strong, the proportion of provision for asset impairment is lower.

2.2 The Impact of Top Management Team Education Level on Earnings Management

Castle and Jane (1997) have found that managers with higher levels of education are more innovative and managerial skills than managers with lower levels of education, which has a positive effect on the level of firm performance. Yuxun Wan and Xiufen Xiao (2012) measured the earnings quality by using the earnings response coefficient, and analyzed the relationship between top management team identity characteristics and earnings quality. It was found that there was a significant positive correlation between the average qualifications of listed companies and the earnings quality. Jianming Ye (2014) conducted an empirical study on the four feature similarities of CEO, CFO in terms of gender, age, education and working time. The similarity of working time between CEO and CFO positively influenced the earnings management. The similarities of educational level negatively affect earnings management due to risk aversion.

According to Ying Wang (2005), analyzed the relationship between explicit and implicit characteristics of human capital and firm performance by the sample of enterprises in Xi'an high-tech development zone. Found no significant correlation between executive education and corporate performance. Chao Wang (2013) measured the degree of corporate earnings management in terms of maneuvering accrual profit, empirical research on the correlation between the size of top management team size, age, education degree and tenure earnings management. The influence of top management team size and age on earnings management were more significant than education and tenure.

2.3 The Impact of Top Management Team Tenure on Earnings Management

Geiger and North (2006) used the newly appointed CFO as the research object to explored the change of the manipulative accrual surplus in the initial stage of taking office. The study found that the level of manipulative accrued (earnings management level) decreased. According to the data of 2004-2008 listed companies, Chen et al. (2011) concluded that the quality of corporate earnings was positively correlated with the CEO's working time, and this conclusion was more prominent in private enterprises. Through domestic and foreign literature review, the relationship between top management team tenure and earnings management were generally the same. As the term grows, the probability of earnings management becomes smaller. However, some scholars have drawn inconsistent conclusions, which may be related to the inconsistency of the research object and method. Wei Cen and Naqiong Tong (2015) though the selection of A-share companies in Shanghai and Shenzhen stock markets from 2008 to 2012, the empirical study found that the tenure and the true earnings management of U-shaped relationship. In non-state-owned enterprises, companies with separate roles and managerial ownership and poor performing companies were even more conspicuous.
3. TOP MANAGEMENT TEAM PSYCHOLOGICAL CHARACTERISTIC AND CORPORATE EARNINGS MANAGEMENT BEHAVIOR

3.1 The Impact of Top Management Team Overconfidence on Earnings Management

Fischhoff et al. (1977) believed that managers of enterprises would make false judgments because they were overconfident in their knowledge and information when making decisions. The empirical study of Hriber and Yang (2010) also showed that overconfident CEOs were positively optimistic about the earnings forecast of enterprises. Schrand and Zechman (2010) suggested that if managers were too confident in their business performance, there was a high likelihood of fraud. Tate (2010) empirically confirmed that overconfident top management largely took the form of earnings management in order to evade the financial crisis that debt financing posed to the enterprise.

Weifeng He (2011) pointed out in his article that executives’ gender, educational level, and age difference would affect their degree of overconfidence. Based on an irrational perspective, overconfidence of senior executives can restrain or strengthen the emergence of corporate earnings management behavior. Zenan Zhang (2016) based on the data of Shanghai and Shenzhen A-share listed companies from 2009 to 2014, in-depth analysis of overconfident managers was more likely to induce earnings management behaviors. At the same time, according to the nature of property rights, women executives in state-owned enterprises and non-state-owned enterprises compare the effects of overconfidence on earnings management. The study found that the motivation of overconfident female executives in state-owned enterprises to implement earnings management will be significantly enhanced, while non-state-owned women overconfident female executives will inhibit the implementation of corporate earnings management.

By domestic and foreign literature review found that the overconfidence of top management will have different effects on corporate earnings management behavior, which cannot only play an inhibiting role but also enhance the earnings management behavior. Therefore, when studying the influencing factors of earnings management, we cannot neglect the role of top managers overconfidence.

3.2 The Impact of Top Management Team Narcissism on Earnings Management

Amernic and Craig (2010) think narcissistic chief executive narcotics will further enhance the degree of narcissism because of some of the characteristics of corporate finance, a conclusion that reminds us that we should pay attention to these narcissistic chief executive could take financial fraud. Olsen et al. (2013) measured the extent of narcissism based on the size of the annual report and photographs of the CEO's photos, and confirmed the positive correlation between CEO's narcissism and EPS disclosure.

At present, there are few studies on the relationship between narcissism and earnings management behavior. And the existing research did not explicitly indicate whether narcissism can affect the top managers to manipulate accounting earnings on the performance of the enterprise. In the future, the research on this issue can be strengthened.

4. SUMMARY

This study based on the existing domestic and foreign scholars study found that there were various factors that affect earnings management, studies of top management team characteristics variables also have a lot of kinds, so we cannot just study the population characteristic variables.

This article mainly around the concept of top management team, focus on the psychological characteristics of top management members variables and its impact on earnings management mechanism, respectively discusses the senior management team age, education level and term three demographics variables and top management overconfidence, narcissistic psychological characteristic variables impact on earnings management. Hope to provide some references for scholars to study the influence mechanism of top management team characteristics on earnings management.
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