

Financial transparency and earnings management: insights from the last decade leading journals published research

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ABSTRACT

Our paper offers a contemporary assemblage into the range and predominance of research methods and topics from financial transparency and earnings management areas (hereunder FRTEM). Also, the paper is focused on describing the characteristics and quantity of the papers reviewed and assessing their impact on the scholarly literature. In order to further advance research within financial transparency and its effects on earnings management practices and vice versa, an understanding of what research has already accomplished is necessary. In this respect we conducted a meta-analysis over FRTEM published research in leading journals during the period 2003 – 2013. Moreover our research was conducted particularly to guide researchers, practitioners, accounting regulators and setters in making decisions on how to better synthesize the two areas, in a structured form. Other outcome of this review is concerned with the highlighting areas for future research.

KEYWORDS

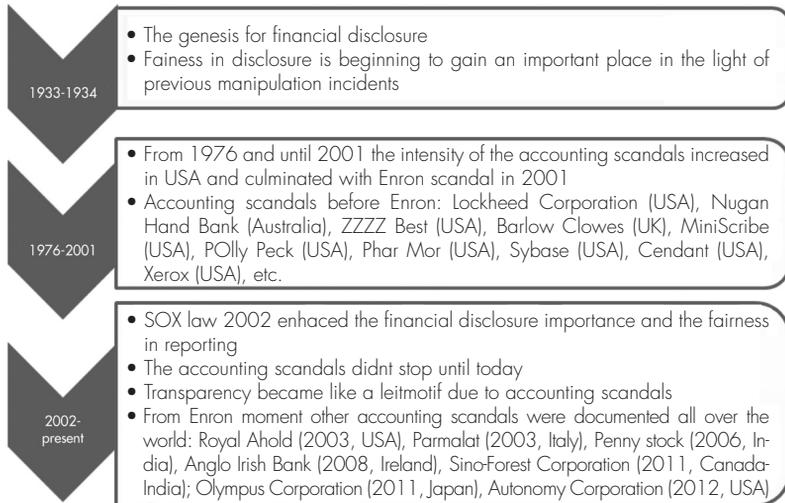
Financial reporting transparency, financial disclosure, earnings management, research methods.

1. Introduction

Both financial reporting transparency and earnings management are popular and appealing concepts in contemporary research. Despite their continuous assessment, the boundaries of the two concepts and also the relationship between them are unsettled. This review of the literature is aiming just for that.

On the scale of history, financial reporting transparency concept appeared as a consequence of the lack of confidence in financial markets. The roots of the financial disclosure system can be traced in the securities laws of 1933-1934 proposed by President Roosevelt for the USA financial markets (Lowenstein, 1996). The main argument at that moment was the lack of confidence in US financial markets brought by the Great Depression and was motivated by the accounting manipulation incidences.

Today we face the same problems. Facing a crisis of trust in the financial markets in the age of various accounting scandals related to fraud and manipulation, investors still fear that the information provided will not be fair. Is well known that 21st century corporate scandals (e.g. the case of Enron, Arthur Anderson, Worldcom, Ahold, Parmalat) have driven both financial reporting transparency and earnings management to a new level. In the light of those scandals many jurisdictions concluded that various liabilities exist in terms of governance and business ethics (Miller et al., 2005). Summarizing, both manipulation incidences and regulators responds are the roots for FRTEM research interest increasing. In figure 1 we have summarized the main moments that impacted FRTEM research, conducting to its augmentation as following:



Source: Authors' projection.

Figure 1. Events increasing FRTEM research.

Regarded mainly as positive of nature, financial reporting transparency, seems to be complex, almost paradoxical and in the same time difficult to objectify (Nielsen and Madsen, 2009). Being in the eyes of the beholder and not in the eyes of the sender (Van Riel, 2000) the financial reporting transparency has the opposite nature when compared with/to earnings management. Being shaped by expectations and strategies among central corporate actors (Christensen, 2002) sometimes appears one of the most important tools for detecting earnings management practices (Hirts et al., 2004; Lee et al., 2005; Hunton et al., 2006).

In the last decade, both financial transparency and opportunistic behaviors have become as necessary items to be assessed for both publicly listed companies and also by government institutions. The raising need for good investment decisions that have the potential to improve social welfare, were strongly connected with mandatory disclosure, resulting in higher transparency (Hirst et al., 2004). In this context one can only argue that the goal and moral duty of financial accounting is to achieve transparency (Nielsen and Madsen, 2009).

Prior research indicates that greater financial reporting transparency facilitates the detection of earnings management (Hunton et al., 2006) and contributes to the improvement of the quality of earnings (Lobo and Zhou,

2001). This would be one of the facets of the relationship that we intend to assess in this paper. Regarded from other point of view, greater financial transparency can be a tool used to hide earnings managements practice as well especially when managers believe that is a benefit to choosing less transparent disclosure (Maines and McDaniels, 2000; Fields et al., 2001).

Our subject is timely and relevant at least for two reasons.

First, the debate concerning financial reporting transparency was and still is an important topic of day-out impact of our accounting standards. Many scholars and regulators have written reams about the necessity of financial transparency promotion and its benefits when discussing implication for investors, financial markets and other categories affected by the accounting information (Levitt, 1998; Barth et al., 2001; Barth and Schipper, 2008; Laux and Leuz, 2010; Shaffer, 2010; Morris et al., 2011). Since the information disclosed may be not fair and efficient, the benefits of the good disclosure are becoming limited.

Second, in the light of the accounting scandals as the ones above, earnings management and financial reporting transparency has become a pivotal international issue in the discussions surrounding the stability of financial markets (Hooper and Kearins, 2007; Billings and Capie, 2009). Looking for potential solutions for financial markets imperfections based on managerial opportunism, scholars all over the world mitigated for limiting managerial opportunism and took into account various items. In this demarche, a strong emphasis was put on financial reporting transparency and disclosure aspects. Masking sometimes poor performance and other times just willing to beat the analyst forecasts, accounting was used in some cases as a tool for mark-to-market purposes by certain managers.

The remainder of this paper is organized as follows. The first segment comprises prior FRTEM research while the second comprises the overview of our research questions and the research method used, followed by the meta-analysis and the discussion segment. The conclusion, limitation and scope for future research segment is the last one approached.

2. Revisiting prior FRTEM research

Transparency in modern financial reporting is considered as being crucial (Barth and Schipper, 2008) in helping users to reach their own conclusions about businesses (Billings and Capie, 2009) and understand how company works towards creating value for them (Mouritsen et al., 2003). Financial statements are considered transparent only when stakeholders

can access all relevant information to price financial institutions in a timely fashion (Vishwanath and Kaufmann 2001; Kane, 2004) and when they can establish a consensual system of meaning (Christensen, 2002:167).

Various studies conducted in the area of financial reporting transparency examined the possibility of detecting earnings management when dealing with increased financial transparency. The results documented generally fit into a predictable pattern (e.g. more transparent disclosures lead to easier detection of earnings management practices). On the other hand less transparent disclosure formats are related to managers' perceived benefits that comprise less ability to detect opportunistic behaviors (Fields et al., 2001).

In an attempt to settle the boundaries of the two concepts approached, we turn primarily to theoretical developments that can serve as basis for our demarche. In this respect below theoretical developments are assessed (e.g. Bloomfield, 2002 and Hirschleifer and Teoh, 2003).

Following Grossman and Stiglitz (1980), Bloomfield (2002) developed the *incomplete revelation hypothesis*, where all traders have the same amount of money and face the same level of risk aversion. The authors approached the noise trading that keeps prices from fully revealing information and just enough traders collect information to make their trading gains equal to their information collection costs. In an equilibrium state the authors assumes that is less costly to extract from public information that will further attract fewer traders' interest while being less revealed by market prices. Using theoretical developments from Bloomfield (2002), the conceptual study conducted by Hirschleifer and Teoh (2003) focuses on choices between seemingly equivalent presentations of information. In this respect the authors assumes for the information that is less easily extracted by investors. Further the authors assume that limited capacity of less attentive investors also causes the lack of availability to compensate for the consequences for their attention. The results documented that the market will differentially react to equivalent presentations of accounting information that differs in terms of resources necessary for extraction.

Taking into account the above theoretical developments by Bloomfield (2002) and Hirschleifer and Teoh (2003) we can argue that financial markets will react more intensively when dealing with managed earnings compared with earnings that are unmanaged (Lundholm, 1999, Hirst et al., 2003) in case when for extracting unmanaged earnings an additional effort is required. The main conclusion is that easier detection of earning management resulting from improved transparency should reduce the expected value of earnings management (Hunton et al., 2006).

3. Revisiting the research profile

Based on our knowledge this is the first empirical analysis of the profile of contemporary published FRTEM research. This study is aiming to augment the literature by analyzing and summarizing the findings of the papers approaching the financial reporting transparency on earnings management and vice versa. Our sample comprised papers published in 19 interdisciplinary accounting research journals and covers a period of 10 years (2003-2013).

3.1. Research questions

The purpose of this paper is to provide a meta-analysis of FRTEM research articles selected. In this regard, this particular analysis was used in order to evaluate, identify and address future research agendas. In doing so, our paper answers three related research questions similar to Guthrie et al., (2012):

1. *What is the scholarship field of FRTEM research?*
2. *What has happened in the field of FRTEM research over the past decade?*
3. *What is the future for FRTEM research field?*

3.2. Research method

This section explains our method for selecting and reviewing the papers used in our literature review study. We used a similar method to other published studies, such as Webster and Watson (2002) and Guthrie et al., (2012). Our review process comprised five different stages, similar to the ones used by the authors above, as following:

The first stage was used for formulating the core research objectives. Similar with Guthrie et al. (2012) we decided upon several classifications/ codes and boundaries in order to select the articles on FRTEM research area. The period under analysis was restricted to a ten year period from 2003 to 2013, as we asserted earlier.

The second stage comprised the selection of the journals. The journals consist in 19 generalist internationally recognized accounting journals. In this respect we have extended the list of journals comprised in Parker (2005) and Guthrie et al. (2012). We have decided to extend the list of the accounting journals comparing with previous studies in order to ensure as

complete a data set of FRTEM research as possible across the world. In selecting our journals we took into account the importance of the journal and also the prevalence to publish topics related to FRTEM research. The prevalence was assessed after examining the editorial policies of the main accounting journals. Figure 2 summarizes the journals selected.

The third stage comprised the selection of the articles. In order to do so, we have used the following keywords: financial reporting transparency, earnings management, smoothing, financial transparency, financial disclosure, discretionary accruals. A total of 63 full version articles were found. We downloaded the PDF versions of the papers and stored them in an Endnote database together with the referencing details similar to Guthrie et al., (2012).

In the fourth stage, both authors examined independently both abstracts and full text of the papers from the sample and decided upon classifications regarding the following: publication frequency by journal, the methodological mix, the topical menu, prolific scholars and location. Similarly with the study conducted by Guthrie et al. (2012) each author coded individually all papers. After the coding segment was completed, the results were discussed in terms of similarities and differences among the papers resulting in a number of emerging themes for review. Within these topics a particular taxonomy was developed which was useful in order to characterize and synthesize the literature (see Figure 4). In case of coding ambiguity, both authors discussed the contents of the papers until a final consensus.

In the last stage we comprised all the classifications in order to establish a range of descriptive statistics, with the scope of understand all patterns emerging from the review conducted. The answers to our research questions were formulated based on the data extracted from this segment.

As observation, the literature review conducted is concept-centric rather than author-centric similar to Webster and Watson (2002). It is out of the scope of this paper to develop a theoretical framework for FRTEM research area, so the literature review process was not conducted with reference to such theoretical framework.

4. Meta-analysis

Using a method previously employed to select and categorize academic papers (Parker, 2011; Guthrie et al., 2012) we have conducted our analysis. The following segment outlines the descriptive statistics comprised in the meta-analysis, while the latter segment comprises open discussions of our findings.

4.1. FRTEM publication frequency by journal

JOURNAL NAME	Journal Code	FRTEM articles	Percentage
European Accounting Review	EAR	1	1,6
Accounting, Organizations and Society	AOS	2	3,2
Accounting Forum	AF	1	1,6
British Accounting Review	BAR	2	3,2
Critical Perspectives of Accounting	CPA	3	4,7
Journal of Accounting and Public Policy	JACCPUBPOL	14	22,2
Journal of Accounting and Economics	JAE	13	20,7
The Journal of Finance	JOFINANCE	1	1,6
Journal of Corporate Finance	JCORPFIN	1	1,6
The International Journal of Accounting	INTACC	7	11,1
Advances in Accounting, incorporating Advances in International Accounting	ADIAC	5	7,9
Journal of Financial Economics	JFEC	3	4,7
Emerging Markets Review	EMR	1	1,6
The Accounting Review	ACCOUNT REV	3	4,7
Journal of International Accounting, Auditing and Taxation	JIAAT	2	3,2
Journal of Business Research	JBR	1	1,6
China Journal of Accounting Research	CJAR	1	1,6
Journal of Public Economics	JPUBLIC	1	1,6
Journal of Contemporary Accounting and Economics	JCAE	1	1,6
GRAND TOTAL		63	100.0

Source: Authors' projection.

Figure 2. FRTEM articles in generalist journals (2003-2013).

The number of papers identified in each of the 19 journals selected is presented in Figure 2. A total of 63 papers were assessed during the period 2003-2013 inclusive. As it can be noticed from above figure, two journals published more intensively papers from FRTEM research area (e.g. *Journal of Accounting and Public Policy* that had published 22,2% of the papers selected and the *Journal of Accounting and Economics* in which 20,7 % of the papers selected were published). Following, *The International Journal of Accounting* published 11,1% of the papers from FRTEM research area and *Advances in Accounting, incorporating Advances in International Accounting* that published 7,9% of the total papers. The rest of the journals published few papers from FRTEM research area, the interval being between 1,6 %-4,7%.

4.2. The methodological mix

Research methods employed in generalist journals reviewed	No. of studies including the methodology	Percentage	AUTHORS
1. Interviews	2	3,2	Lambert and Sponem, 2005; Solomon et. al., 2013
2. Descriptive survey	1	1,6	Graham et al., 2005
3. Descriptive case study	1	1,6	Benito et al., 2008
4. Archival/historical analysis/Discussions	2	3,2	Barlev and Haddad, 2003; Hutton, 2007
5. Literature review	1	1,6	Armstrong et al., 2010
6. Mathematical analysis/statistical analysis	54	85,6	Bhattacharya et al., 2003; Milesi-Ferretti, 2003; Nagar et al., 2003; Patten and Trompeter, 2003; Shaw, 2003; Xie et al., 2003; Leventis and Weetman, 2004; Cormier and Martinez, 2006; Athanasakou et al., 2007; Ferreira and Laux, 2007; Jo and Kim, 2007; Rahman et al., 2007; Zhang, 2007; Boone et al., 2009; Chang and Sun, 2009; Hutton et al., 2009; Machuga and Teitel, 2009; Zhang, 2009; Zhao and Chen 2009; Athanasakou et al., 2010; Canace et al.,

			2010; Ge et al., 2010; Iatridis and Rouvolis, 2010; Adut et al., 2011; Beaudoin et al., 2011; Blacconiere et al., 2011; Cho et al., 2011; Choi et al., 2011; Choudhary, 2011; Osma and Guillamon-Saorin, 2011; Kim and Shi, 2011; Kross et al., 2011; Lang and Maffett, 2011; Lo and Wong, 2011; Marra et al., 2011; Price et al., 2011; Rajgopal and Venkatachalam, 2011; Shelton et al., 2011; Wang et al., 2011; Wang and Wu, 2011; Bushman and Williams, 2012; Cheng, 2012; Chhaochharia et al., 2012; Fan et al., 2012; Han et al., 2012; Iatridis, 2012; Isidro and Raonic, 2012; Kim et al., 2012; Krishnan et al., 2012; Mouselli et al., 2012; Watrin and Ullmann, 2012; Cho et al., 2013; De-george et al., 2013
7. Experiment	1	1,6	Hunton et al., 2006
8. Other (Content analysis)	1	1,6	Aerts and Cheng, 2011
GRAND TOTAL	63	100.0	148

Source: Authors' projection.

Figure 3. Research methodologies employed in FRTEM research (2003-2013).

Figure 3 summarizes the findings on research methodologies employed in papers published in the leading interdisciplinary accounting research journals summarized above. The categories which formed the basis in this paper were the ones found in Goddard (2010) and Parker (2011). All the above categories employed are self explanatory. In this respect in the Research Methods mix used we included 8 categories: *interviews*; *descriptive survey*; *descriptive case study*; *archival/historical analysis/discussions*; *literature review*; *mathematical and statistical analysis*; *experiment* and *other* (e.g. this particular category comprised only content analysis).

Similar to Goddard (2010), when a paper included more than one research method, it was categorized according to the main research method used.

Over the whole 2003-2013 period, the dominant methodological category was *mathematical and statistical analysis* (85, 6%) followed by *interviews* (4,76%).

Only 3,2% of the papers assessed for FRTEM research area used as research methods *archival/historical analysis/discussions*. Few papers

used research methods as: descriptive survey, case study or experiment (e.g. in each case only 1,6% of the papers employed those particular research methods). We can assert based on the results summarized in Figure 2 that scholars prefer the mathematical and statistical analysis over other research methods conducting to an underused approach throughout accounting research. Comparing to Goddard (2010) and Parker (2011), significant differences are found. Even if those authors didn't assessed FRTEM research area but others, it seems that in their analysis the research methodological mix was not primarily focused on mathematical and statistical analysis but survey (e.g. Parker, 2011) and interviews and hypothesis testing survey (e.g. Goddard, 2010).

Since no previous study assessed FRTEM research area conducting a meta-analysis we further cannot assess the changes employed in the methodological mix over time.

4.3. The topical menu

FRTEM Topics approached	No. of studies that comprised the topic	Percentage	AUTHORS
1. External reporting and disclosure	18	28,6	Bhattacharya et al., 2003; Nagar et al., 2003; Shaw, 2003; Graham et al., 2005; Hutton et al., 2006; Hutton, 2007; Rahman et al., 2007; Hutton et al., 2009; Ge et al., 2010; Blacconiere et al., 2011; Fan et al., 2012; Kim and Shi, 2011; Lang and Maffett, 2011; Leventis and Weetman, 2011; Lo and Wong, 2011; Wang et al., 2011; Wang and Wu, 2011; Mouselli et al., 2012
2. Auditing	2	3,2	Krishnan et al., 2012; Han et al., 2012
3. Accountability, corporate governance, risk	9	14,3	Xie et al., 2003; Lambert and Sponem, 2005; Ferreira and Laux, 2007; Machuga and Teitel, 2009; Adut et al., 2011; Armstrong et al., 2011; Chhaochharia et al., 2012; Marra et al., 2011; Price et al., 2011
4. Management control, strategy and accounting policies	2	3,2	Barlev and Haddad, 2003; Zhang and Chen, 2009

5. Performance measurement and accounting discretion	7	11,1	Cormier and Martinez, 2006; Athanasakou et al., 2007; Jo and Kim, 2007; Cho et al., 2011; Choudhary, 2011; Bushman and Williams, 2012; Cheng, 2012
6. Information asymmetry, impression management, corporate social responsibility	5	7,9	Aerts and Cheng, 2011; Choi et al., 2011; Osma and Guillamon-Saorin, 2011; Cho et al., 2013; Solomon et al., 2013
7. Regulations/national and international practices	12	19,0	Ding et al., 2007; Zhang, 2007; Zhang, 2009; Boone et al., 2009; Chang and Sun, 2009; Athanasakou et al., 2010; Beaudoin et al., 2011; Canace et al., 2010; Iatridis and Rouvolis, 2010; Iatridis, 2012; Shelton et al., 2011; Watrin and Ullmann, 2012
8. Society and responsible investments, public sector	3	4,7	Benito et al., 2008; Milesi-Ferretti, 2003; Kim et al., 2012
9. Industry studies	1	1,6	Patten and Trompeter, 2003
10. Other (including general): analyst coverage, institutional factors, firm incentives, earnings volatility	4	6,4	Kross et al., 2011; Rajgopal and Venkatachalam, 2011; Isidro and Raonic, 2012; Degeorge et al., 2013
GRAND TOTAL	63	100.0	148

Source: Authors' projection.

Figure 4. Topics approached in FRTEM research (2003-2013).

Figure 4 summarizes the results of analyzing FRTEM topics addressed across the 2003-2013 period. As observation, when more than one topic was examined by a paper, the frequency count included the number of topics examined like in Parker (2011). All topics included in Figure 4 are approached in the *Discussion* segment of the paper and thoroughly assessed.

External reporting and disclosure topic comprised most of the papers (e.g. 18 papers) published in FRTEM research area (e.g. Bhattacharya et

al., 2003; Nagar et al., 2003; Shaw, 2003; Graham et al., 2005; etc). Other three topics that comprised more papers compared with the rest of the topics are: *regulations/national and international practices* (e.g. included 12 papers); *accountability/corporate governance and risk* (e.g. included 9 papers) and *performance measurement and accounting discretion* (e.g. included 7 papers). We can assert based on the above that scholars approaching FRTEM area are mainly interested in assessing the connection between financial transparency and earnings management under the aegis of items like: disclosure, regulations, corporate governance and accounting discretion. Assessing accounting practices in also of high interest in FRTEM area.

Information asymmetry/impression management/corporate social responsibility topic comprised 5 papers while *auditing and management control/strategy and accounting policies* included a similar number of studies. *Society and responsible investments/public sector* topic comprised fewer studies compared with the previous topics (e.g. studies: Benito et al., 2008; Milesi-Ferretti, 2003; Kim et al., 2012) the observation being available also for the *industry studies* topic that comprised only one paper (e.g. Patten and Trompeter, 2003). All the articles that could not be coded into the above classifications were coded as *other* (including general) studies (e.g. Kross et al., 2011; Rajgopal and Venkatachalam, 2011; Isidro and Raonic, 2012; Degeorge et al., 2013).

4.4. Prolific FRTEM researchers and location

COUNTRY	Number of authors	Percentage
United States of America	83*	56,1
China	11*	7,4
United Kingdom	11*	7,4
Canada	8	5,5
Australia	1	0,7
Spain	5	3,4
Japan	1	0,7
Belgium	1	0,7

Germany	3	2,0
Switzerland	1	0,7
Greece	2*	1,3
New Zealand	1	0,7
Singapore	3	2,0
Korea	4	2,7
Portugal	2	1,3
Israel	2	1,3
Syria	1	0,7
France	5*	3,4
Italy	3	2,0
Number of countries	19	–
Number of authors	148	100,0

* Authors comprised in those categories published more than one paper in FRTEM research area.

Source: Authors' projection.

Figure 5. Authorship and location in FRTEM research (2003-2013).

In reviewing the profile of the FRTEM research area comprised in the accounting discipline we conducted a meta-analysis of the authorship and location in order to identify the scholars who approached this particular area and the location. In this respect the identity of the scholars appearing most frequently in the period 2003-2013 was also examined. The FRTEM scholars most frequently publishing in the selected journals were (in alphabetical order): Vasiliki Athanasakou (UK); Yuan Ding (China); Amy O. Hutton (USA); George Iatridis (Greece); Thomas Jeanjean (France); Youngtae Kim (USA); Shiva Rajgopal (USA); Herve Stolowy (France). When assessing for the distribution of the most frequently scholars in FRTEM research area we can observe that USA and France comprised the majority of them.

Figure 5 summarized the location and frequency of the scholars publishing in FRTEM research area. In this respect a total of 19 countries co-

vered the FRTEM field and having a total of 148 authors. The area is covered most by the scholars from USA with a percentage of 56,1% of total authors, followed by China and United Kingdom with 7,4% of total authors. The authors contributing to FRTEM field from USA, China and UK are summarized in the **Appendix**. Similar to Parker (2011) results regarding social and environmental accountability research area, we can document USA and Canada among leading countries publishing accounting research.

From Canada we assessed the work of 8 scholars (in alphabetical order: Denis Cormier, Donald H. Drury, Steve Fortin, Wenxia Ge, Ole-Kristian Hope, Yaqi Shi, Aris Solomon, Desmond Tsang) while from France only 5 scholars published FRTEM papers (in alphabetical order: Thomas Jeanjean, Caroline Lambert, Isabelle Martinez, Samuel Sponem, Herve Stolowy) similar to Spain, were the same number of scholars approached this particular area (e.g. Francisco Bastida, Bernardino Benito, Encarna Guillamon-Saorin, Vicente Montesinos, Garcia Osma).

From Korea, 4 scholars contributed to FRTEM research area (in alphabetical order: Jong-Hag Choi, Sam Han, Inho Suk, Yong KeunYoo) followed by Germany with 3 scholars (e.g. Alexandra Niessen-Ruenzi, Robert Ullmann, Christoph Watrin), Singapore (e.g. Shiyun Cai, Beng Teck Ong, Teck Meng Tay) and Italy (e.g. Antonio Marra, Pietro Mazzola, Annalisa Prencipe). Fewer papers were published from countries like: Greece (e.g. George Iatridis, Sotiris Rouvolis), Portugal (e.g. Miguel Ferreira, Helena Isidro), Israel (e.g. Benzion Barlev, Joshua Rene Haddad), Australia (e.g. James Frederickson), Japan (e.g. Young Hah), Belgium (e.g. Walter Aerts), Switzerland (e.g. Francois Degeorge), New Zealand (e.g. Asheq Razaur Rahman) and Syria (e.g. Sulaiman Mouselli).

5. Discussion

After conducting our meta-analysis, we now turn to discussions comprising our observations regarding the research area assessed. By the information summarized above, our first two research questions found an answer regarding the scholarship field of FRTEM research area and also the assessment of the last decade research conducted in this particular field. One research question still to go: «What is the future of FRTEM research area?» Based on the fact that not many studies are comprised in this research area, we argue that this particular area still do not have the potential to develop as a specialist research field just like the public sector accounting research (Goddard, 2010) or social and environmental accounting (Par-

ker, 2011). In this respect, even if we can assert that in the last decade various scholars have been interested in assessing FRTEM field, still much is to do until the point where some journals can be specialized in publishing only topics related to this field. We can observe on the other hand an increased interest on approaching FRTEM field all around the world.

As indicated above, our state of the art demarche covers 63 papers published in 19 generalist accounting journals, over a period of 10 years (2003-2013). All our papers were published in peer-reviewed journals. As can be observed in Figure 2, two journals have been publishing the great majority of FRTEM papers (e.g. *Journal of Accounting and Public Policy*, *Journal of Accounting and Economics*). Our Figure 3 summarized the methodological mix. The results document a great interest of using mathematical and statistical analysis in a significant level for FRTEM field (e.g. 85,6% used those particular methods). We also notice a lack of conceptually oriented papers, discussions or experiment. The large majority of papers is empirical and is concerned with hypothesis testing. Even if a case study approach can be suitable for FRTEM field based on its particularities, this approach is highly undocumented. Also, as we asserted above there is a large scarcity of literature review papers. In this respect only one paper was identified (e.g. Armstrong et al., 2010), but is not entirely focused on FRTEM field, but corporate governance.

When approaching the topics examined, our Figure 4 summarizes the main findings. From the topics presented, the studies assessed almost exclusively around *external reporting and disclosure* (28,6%) and *regulations/national and international practices* (19,0%) followed by *accountability and corporate governance* topic (14,3%).

Assessing the *external reporting and disclosure* topic we can find that earnings management affect financial transparency and vice versa. Consistent with Bhattacharya et al. (2003) strong investor protection regimes comprise greater financial transparency and less earnings management. An important point introduced by those authors is related to their indication concerning one of the most important limitations of extant studies on earnings attributes and investor pricing where earnings management is basically unobservable. Based on this argument the importance of disclosure and financial transparency is justified. Leventis and Weetman (2004) assessed the impression management and disclosure relationship and argued that since disclosures are related to information costs their extent can be affected by impression management. Similarly, Shaw (2003) documents that higher quality disclosures can be accompanied by increased earnings management while Nagar et al (2003) and Kim and Shi (2011) argue that management fore-

casts can fall victim to opportunistic discretionary disclosures. Blacconiere et al. (2011) also argue that managers may use disavowals opportunistically.

Graham et al. (2005) interviewed and surveyed more than 400 executives in order to determine what drives reported earnings and disclosure decisions. Their results documented that a surprising 78% of the sample admits to sacrificing long-term value to smooth earnings, but in the same time managers also work to maintain predictability in earnings and financial disclosures, make voluntary disclosures to reduce information risk in order to boost stock price and try to avoid setting disclosure precedents that will be difficult to maintain. Hunton et al. (2006) documented that greater financial transparency in comprehensive income reporting reduces the likelihood that managers will engage in earnings management practices. Concerned with earnings management practices developed by family firms, Hutton (2007) argue that financial transparency can be a good tool for limiting the increase of opportunistic behavior of managers.

Rahman et al. (2007) approaching the costs and benefits related to quarterly earnings, assesses them through disclosure and financial transparency and also earnings management, without making a connection between them. In a more recent study, Hutton et al. (2009) uses earnings management as a measure of opacity and document that opportunistic behavior has the potential to affect the relationship between the transparency of financial statements and the distribution of stock returns. Lang and Maffett (2011), Mouselli et al. (2011) and Fan et al. (2012) shared similar conceits with Hutton et al. (2009) and asserted that earnings management can be used to assess the quality of disclosure and financial transparency. Other study that examined the influences over the financial transparency is the one conducted by Lo and Wong (2011), study that documented that earnings management incentives, board composition and ownership structure significantly influence the voluntary disclosures decisions of managers.

Related to disclosure regulations, the study conducted by Ge et al. (2010) document that in China, the regulation concerning the related party transactions disclosure has the potential to misuse practices of earnings management that previously comprised those items. A similar view is found in Wang et al. (2011), where the adoption of FAS 131 increased the financial transparency and decreased abnormal accruals while Wang and Wu (2011) argue that poor quality disclosures causes market inefficiency in China and opportunistic behavior.

Regulation/national and international practices topic comprise the impact of regulations over the financial transparency and earnings management. The main idea of this topic is related to the increasing financial

transparency impact over the earnings management practices. 12 papers are comprised in this topic as we asserted earlier. In this respect various studies documented that regulation increasing financial transparency decrease earnings management as following: FRS 3 in UK decline income smoothing after its implementation (Athanasakou et al., 2010); SFAS 158 in USA decreased earnings management practices (Beaudoin et al., 2011); SFAS 133 in USA lead to less earnings volatility (Zhang, 2009); SOX and Fair Disclosure Regulation in USA limited opportunistic behavior (Zhang, 2007; Chang and Sun, 2009; Boone et al., 2009; Canaceet al., 2010); IFRS disclosures requirements decreased hedging earnings management practices (Iatridis, 2012). On the other hand even increased financial transparency that comes with accounting regulation like IFRS cannot decrease nor have an impact over earnings management practices in all cases. Studies like the ones conducted by Iatridis and Rouvolis (2010) argues just for that.

Ding et al. (2007) assessed the differences between domestic accounting standards and international accounting standards using two measures: absence (e.g. the extent to which rules regarding certain accounting issues are missing in domestic accounting standards but are covered in international accounting standards) and divergence (e.g. rules regarding the same accounting issues differ in domestic accounting standards and international accounting standards). The authors documented that absence creates opportunities for earnings management while divergence leads to increased financial transparency. Shelton et al. (2011) argue that differences in institutional and market forces lead to different quality disclosures under IFRS.

Accountability/corporate governance and risk topic approached financial transparency and earnings management from another point of view. The study conducted by Patten and Trompeter (2003); Adut et al. (2011) and Osmá and Guillamon-Saorin, (2011) associates greater disclosure and financial transparency with high-quality financial information, considered as being an important element of corporate governance. The authors used as proxy for financial information quality the earnings persistence which was found positive related to consistently meet or beat earnings benchmarks. Similar results are obtained by Machuga and Teitel (2009).

Ferreira and Laux (2007) use as proxy for reporting transparency the abnormal accruals and conclude that larger accruals are considered inverse indicators of accounting transparency. Similarly Xie et al. (2003) assume that in the context of week corporate governance management uses earnings management to reduce the financial transparency.

The literature review conducted by Armstrong et al. (2010) on corporate governance field concluded related to financial transparency and earnings

management the following: when the proportion of the outside directors increase also financial transparency increase affecting negatively the earnings management practices; earnings management can be used as proxy for distortions in financial reporting transparency and financial transparency, information asymmetry has the potential to impact earning management and vice versa.

The study conducted by Chhaochharia et al. (2012) documents that the proximity of local investors limits earnings management and increase financial reporting transparency. Lambert and Sponem (2005) posit that Anglo-Saxon model of corporate governance fostered profit manipulation in France but controversially also created the environment for increased financial transparency. Marra et al. (2011) asserted that after the introduction of IFRS is easier for independent directors and audit committee to identify and monitor the accounting policies applied by firms, in terms of financial transparency and opportunistic behavior. Price et al. (2011) also argue that improving corporate governance features will increase firm performance and financial transparency and decrease opportunistic behavior.

The rest of the topics comprised few papers comparing with the previous topics and assessed items like the following: evidence on close alignment of a firm's earnings management propensity and its use of tactical causal disclosures (Aerts and Cheng, 2011; Cho et al., 2011); accounting regulation can foster greater flexibility in classificatory choices with rigorous transparency restrictions that lead to decreasing earnings management (Athanasakou et al., 2007) contrary to Isidro and Raonic (2012) that asserted that a single set of accounting cannot foster financial transparency nor decreasing earnings management without changing institutional conditions and firm specific reporting incentives; fair value accounting provides the necessary grounds for accounting transparency and in the same time makes more difficult for a firm to manage earnings (Barlev and Haddad, 2003); creative accounting can decrease financial transparency in the public sector (Benito et al., 2008); forward-looking provisioning designed to smooth earnings dampens discipline over risk-taking consistent with diminished transparency inhibiting outside monitoring (Bushman and Williams, 2012; Cheng, 2012); among the implications of implementing the corporate social responsibility system is that is able to enhance financial transparency in the detriment of earnings management (Kim et al., 2012; Cho et al., 2013); disclosure frequency is inversely related to earnings management practices (Milesi-Ferretti, 2003; Cormier and Martinez, 2006; Jo and Kim, 2007; Zhao and Chen, 2009; Choi et al., 2011; Rajgopal and Venkatachalam, 2011; Degeorge et al., 2013); opportunism increases with recognition

as compared with disclosure and that is associated with incentives to manage earnings (Choudhary, 2011; Kross et al., 2011); management forecast behavior can represent a great risk for the auditor via earnings management in the lack of financial transparency (Krishnan, 2012); aggressive impression management can lead to the necessity of greater financial transparency (Solomon et al., 2013); more disclosure doesn't imply necessarily representational faithfulness and less earnings management (Han et al., 2012).

To summarize, a significant number of papers are mainly concerned about the impact of financial transparency on earnings management and vice versa. Approaching this relationship in areas like: auditing, corporate governance, public sector, management accounting or accounting regulation field, scholars try to find measures to limit managers' opportunistic behavior or on the other hand to assess the quality of financial information through financial transparency where abnormal accruals are used as proxies.

6. Conclusion, limitations and scope for future research

It is well known that managers' incentives are based on their companies' financial performance so based on this, is also well understood that it will be in their self-interest to *construct* the appearance of improved or better performance by using earnings management practices (both based on accruals or real earnings management). Being compensate both directly (e.g. salary and bonuses) and indirectly (e.g. image of the firm, prestige) depending of firms performance, their discretion over reported earnings may lead to agency problems when achieving short terms goals replace the care for long term value of the company.

Being interested of the financial information disclosed by the companies, the capital markets rely in their decision making process on market efficiency (e.g. assessed based on the information flow to capital markets). If the quality of accounting information and disclosures is high the cost of equity finance will be lower. In this respect companies have the interest to increase the disclosures. Unfortunately, the information can be biased when managers engage in self serving disclosures using tools as impression management or simply on the other hand, don't disclosure enough information in order to hide the true performance of the company. Both cases above lead further to a domino effect on users' decision making process that in the end will lead to undesirable economic consequences.

The goal of our paper was to contribute to a fully understanding of how

financial reporting transparency interacts with earnings management practices and vice versa. It is well known that many regulators in Central and Eastern Europe have declared enforcement of transparency regulation as the number one priority of corporate-governance reform (Berglof and Pajuste, 2005). Since CEE countries have all adopted the EU Transparency Directive, most of them have taken additional commitments but time to time valuations are conducted in order to assess the viability of the projects. Many of the concerns were related to opportunistic behavior of managers and in this respect increasing financial transparency was regarded as being a useful tool. In this respect we can assert that increasing financial transparency did lead to a decreasing or limiting of earnings management practices based on the results documented by the empirical studies assessed above.

Also, earnings management can be used as a tool to decrease financial transparency. In this respect auditing and corporate governance scholars agreed that previous accounting scandals and financial crisis open the road to an increased interest for assessing opportunistic behavior. We can also assert that based on the financial scandals extensively approached and assessed in the literature, both earnings management and financial transparency become pivotal in the accounting research, examined together or individually.

The common rationale for regulators to expand financial reporting transparency for companies is justified. Since it is well known that managers dealing with poor quality corporate governance are more likely to engage in earnings management practices because they are isolated from external scrutiny, their decision is a clear cut one. Based on the studies assessed above, our results document that regulations like FRS 3, SFAS 158, SFAS 133, SOX or IFRS has the potential to lead to a decrease in earnings management based on the increasing financial reporting transparency.

Being useful in mitigating agency costs and in promoting the integrity of the securities markets, financial transparency is regarded in the literature as being a useful tool. In this respect, one can only think about financial statement transparency as encompassing the relevance and reliability dimensions of accounting information.

The main idea that can spring from our research is that financial reporting transparency is desirable when dealing with earnings management practices. On the other hand, earnings management tools have become more and more complex and sometimes, disclosures can serve as such tools.

The results documented based on the meta-analysis conducted show that scholars examining FRTEM field prefer as research method the mathe-

matical and statistical analysis, are concerned primarily by topics as: external disclosure/reporting/accounting regulations/corporate governance and a significant number of them are located in USA, China and UK. From the 19 journals selected only two of them published more papers compared with the others (e.g. Journal of Accounting and Public Policy and Journal of Accounting and Economics).

Our research has two limitations. First, we assessed only 19 leading accounting journals and we are aware of the fact that FRTEM topics addressed can be largely found in other journals also. Second, we assessed only published work, excluding working papers or conferences proceedings papers. By doing so, we limited very much our area of interest and the number of papers from FRTEM field.

Further research can examine all the effects of «almighty» desirable financial transparency related or not to earnings management. In the end, is indeed desirable to increase financial reporting transparency? Today, trust can be built only on excessive financial transparency? Studies like the ones conducted by Tadesse (2006) discuss about the transparency fragility, when disclosures created negative externalities with negative economic consequences. Canibano et al. (2002) also documented that extensive transparency and disclosures can have sometimes exact the opposite effect. Until what point financial reporting transparency can increase in order to limit earnings management but not to comprise negative effects? What also remain unknown is related to more transparent reporting and if it has the potential to reduce the likelihood that managers will engage in earnings management in the area of increased transparency.

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Appendix

COUNTRY	Number of authors from categorized location/ References for papers
United States of America	Bhattacharya, Daouk, Welker, 2003 Milesi-Ferretti, 2003 Nagar, Nanda, Wysocki, 2003 Patten and Trompeter, 2003 Shaw, 2003 Xie, Davidson and Dadalt, 2003 Graham, Harvey, Rajgopal, 2005 Hunton, Libby, Mazza, 2006 Ferreira and Laux, 2007 Hutton, 2007*** Jo and Kim, 2007 Zhang, 2007 Boone, Khurana, Raman, 2009 Chang and Sun, 2009 Hutton, Marcus, Tehranian, 2009*** Machuga and Teitel, 2009 Zhang, 2009 Zhao and Chen, 2009 Armstrong, Guay and Weber, 2010 Canace, Caylor, Johnson, Lopez, 2010 Adut, Duru and Galpin*, 2011 Beaudoin, Chadar, Werner, 2011 Blacconiere**, Frederickson, Johnson and Lewis, 2011 Cho, Hah, Kim, 2011 Choudhary, 2011 Kim and Shi, 2011 Kross, Ro, Suk, 2011 Lang and Maffett, 2011 Rajgopal and Venkatachalam, 2011 Shelton, Owens-Jackson, Robinson, 2011 Wang, Ettredge, Huang, Sun, 2011 Bushman and Williams, 2012 Cheng, 2012 Chhaochharia, Kumar, Niessen-Ruenzi, 2012 Fan, Gillan, Yu, 2012 Han, Kang and Yoo, 2012 Kim, Park, Wier, 2012 Krishnan, Pevzner and Sengupta, 2012 Cho, Lee, Pfeiffer Jr., 2013
China	Ding, Hope, Jeanjean, Stolowy, 2007 Ge, Drury, Fortin, Liu, Tsang, 2010 Aerts and Chang, 2011 Choi, Kim, Lee, 2011 Lo and Wong, 2011 Wang and Wu, 2011 Fan, Gillan, Yu, 2012 DeGeorge, Ding, Jeanjean, Stolowy, 2013

United Kingdom	Leventis and Weetman, 2004 Athanasakou et al, 2007 Athanasakou et al, 2010 Isidro and Raonic, 2012 Mouselli, Jaafer, Hussainey, 2012 Solomon, Solomon, Joseph, Norton, 2013
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- * When no italic style is used all the authors belong to the location (e.g. USA, China, and UK).
- ** Italic style identifies the authors belonging to the location (e.g. USA, China or UK) in case of different authorship and location found in the same paper.
- *** When a similar author was identified in the same location (e.g. USA, China or UK), we counted just one time, when calculated the number of authors contributing to FRTEM research area (e.g. the case of Amy P. Hutton from USA).