

Impact of Corporate Governance Characteristics on Earning Management of Listed Non-Financial Companies in Sri Lanka

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Abstract

Drawing on the observation that corporate failures over the past two decades have often been linked to ineffective internal controls and corporate governance, this study addresses the critical issue of earnings management. Particularly, it examines how corporate governance characteristics affect earnings management for listed non-financial firms in Sri Lanka. This study employed agency theory to investigate the impact of board independence, CEO duality, board meetings, board size, and board members with financial expertise on these practices. Several studies have been conducted to investigate the impact of corporate governance board characteristics on earnings management; however, the results appear to be contradictory. The research adopted a deductive research method and selected 140 listed non-financial firms from 2022 to 2024. The gathered data was then analysed using panel least squares regression. The study found that real earnings were significantly negatively impacted by board independence and the financial and accounting expertise of board members, indicating that tighter oversight results in less earnings management. On the other hand, real earnings were significantly positively impacted by board size, suggesting that larger boards may be linked to higher levels of earnings management. In this model, CEO duality and the frequency of board meetings were not found to be significant on their own. These findings will help to highlight how crucial certain corporate governance practices are for promoting high-quality financial reporting and preventing earnings manipulation. The study suggests giving preference to board members with strong financial expertise and maintaining a balanced board with a larger percentage of independent directors, making effective board size management a contribution to better financial reporting quality.

Keywords: board of directors, corporate governance characteristics, panel data, real earnings