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International Diversification, Ownership structure, Legal Origin, and Earnings Management: Evidence from Taiwan

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Abstract

The primary objective of this study is to investigate the impact of corporate internationalization on earnings management. We also explore the mitigating roles of corporate ownership structure, as measured by divergence of controlling owner's control and cash rights, and the proportion of firms that operate in common law countries on earnings management. Using a sample drawn from Taiwan, we find that greater corporate internationalization is associated with a higher level of earnings management, as proxied by discretionary accruals and the likelihood of exactly meeting or just beating analyst forecast. Corporate internationalization is measured by the ratio of foreign assets to total assets, foreign operational country scope, and the number of foreign investees, respectively. In addition, we find that companies can reduce the negative effects of internationalization on earnings management by improving their corporate ownership structures or investing in a higher proportion of common law countries where there is a better investor legal protection environment and higher information transparency.