



AIC 2018: EMERGING ISSUES IN ECONOMICS & FINANCE

Effect of Corporate Governance Practices on the Earnings  
Management Practices:  
A Case of Pakistani Banking Sector

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*Peer-review under responsibility of 4<sup>th</sup> Asia International Conference 2018 editorial board  
(<http://www.utm.my/asia/our-team/>)*

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## Research Highlights

Banks are highly focusing on real Corporate Governance practices to provide accurate and unbiased information in their annual financial reports but still managers are encouraged to do earnings management to beat expectations. Further, concentrated ownership in banks, give more benefit to majority shareholder as compare to minority shareholders which ultimately resulting in exploitation of the of minority shareholder's interests, causing principal-principal(P-P) conflict. This study examines the effect of Corporate Governance practices and P-P conflicts on practices of Earning Management in banking Sector. This study uses regression analysis for estimation. The findings reveals that there is a inverse relationship between percentage of independent directors in Board and earning mangement Practices . Moreover ownership concentration is positively associated with the Earning Management Practices. This study has implications for management of the banks, regulatory bodies and for investors.

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## Research Highlights

Corporate Governance define as the rules and regulations through which all shareholders protect themselves from the exploitationof the insiders (La Porta et al., 2000). (Love, 2010) suggested that the minoity shareholders rights can be protacted after introducing Corporate Governence mechanism in the firms. Siregar and Utama (2008) claims that the structure of corporate ownership plays a dynamic role in reducing the earning management activitiesand agency cost through real monitoring system. Yousaf and Hasan(2016) find that majority of the firms are based on family ownership(highly concentrated). Javid and Iqbal (2008) also find that few big shareholders has high percentage of ownership and control (Highly concentrated) in Pakistan and this factor ultimately effects the Governance Sysytem in Pakistan. These concentrated ownership based firms can be easily involved in earning management practices.

## Research Objectives

This study examines the effect of Corporate Governance practices and P-P conflicts on practices of Earning Management in banking Sector.





## Methodology

This study uses regression analysis for estimation.

## Findings

The findings reveals that there is a inverse relationship between percentage of independent directors in Board and earning mangement Practices . Moreover ownership concentration is positively associated with the Earning Management Practices

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