

UNIVERSITY OF MACAU
FACULTY OF BUSINESS ADMINISTRATION

**CORPORATE GOVERNANCE AND
EARNINGS MANAGEMENT
AT CHINESE BANKS**

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Abstract

This study examines the effect of the corporate governance mechanisms on the earnings and earnings management for the Chinese banks. We study the interrelations of the determinants, including performance, earnings management and corporate governance in China over 1996 to 2010. We find that higher levels of reported earnings, capital and ownership concentration would lead to higher levels of earnings management. While the firm performance is positively related to earnings management and capital levels, is negatively related to ownership concentration. Also, ownership concentration, firm performance and earnings management are positively related to capital levels. We extend previous studies by providing evidences to show that the Chinese state-owned banks and privately-owned banks have different earnings management behavior. Our results support the bonus-maximization hypothesis for Chinese privately-owned banks, and also support the earnings smoothing hypothesis at Chinese state-owned banks.