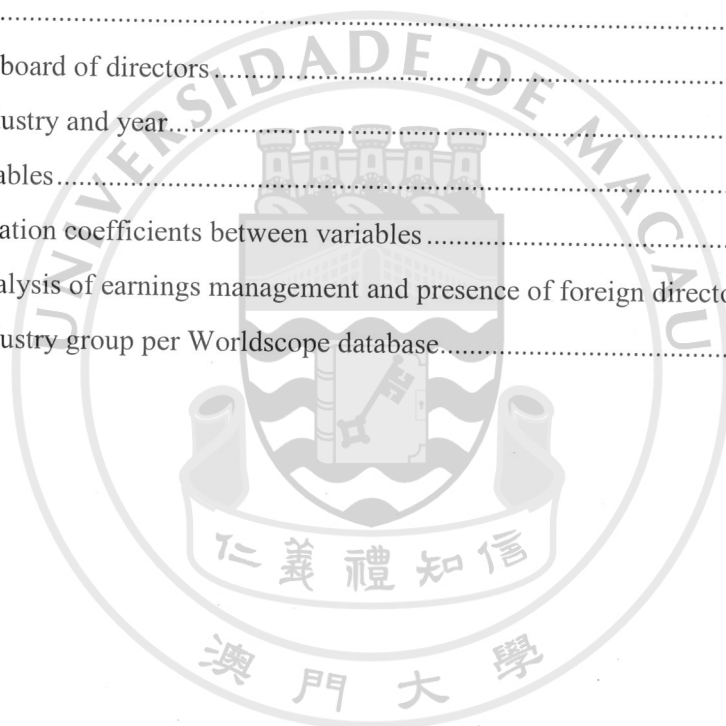


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Abstract

The board of directors have a responsibility of monitoring management and ensuring earnings quality (Park and Shin, 2004; Peasnell et al., 2005). Accordingly, the effectiveness of the board attracts much attention. Specifically, the relationship between the board characteristics and earnings management is worth investigation.

Nevertheless, the results of the relevant studies are mixed. This study aims at identifying the relationship between the presence of foreign directors and earnings management in Hong Kong stock market.

This paper documents that corporate boards with higher presence of foreign directors are more effective in monitoring earnings management in Hong Kong companies. The results suggest that foreign directors are effective in ensuring high-quality reported earnings.

