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The effect of corporate reputation by accounting transparency on earnings management in Brazil

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THE EFFECT OF CORPORATE REPUTATION BY ACCOUNTING TRANSPARENCY ON EARNINGS MANAGEMENT IN BRAZIL

1. INTRODUCTION

In order to gain competitiveness and to remain sustainable, companies resort to different attitudes, signals, which differentiate them from others. Spence (1973) asserts that signals work as discretionary mechanisms, in an environment of informational asymmetry, capable of altering beliefs and transmitting information to other individuals.

These signals are intended to reach the various stakeholders, since they are the ones that will attribute, through direct and/or indirect experiences, different characteristics to the companies, making them different from each other. Thus, the companies, over time, start to obtain a certain prestige given by the stakeholders, constituting in their corporate reputation.

Corporate reputation is a broad concept and it has several application approaches in scientific research due to its multidisciplinarity. Considering this diversity of approaches, there is no conclusive and universally accepted concept on the subject (Gotsi & Wilson, 2001).

Zabala et al. (2005) define reputation as the prestige or recognition of stakeholders that a company performs good practices in its management of resources. For Barnett, Jermier and Lafferty (2006), reputation is an asset that refers to the collective judgments of the observers about a company based on assessments of the financial, social and environmental impacts attributed to a company over time. In turn, Roberts and Dowling (2002) say that corporate reputation consists of the set of organizational attributes developed over time that influence how stakeholders perceive the company with good corporate behavior. Based on the Signaling Theory, corporate reputation for study is an asset that is perceived by stakeholders through the different signals that companies emit (Spence, 1973, Barnett et al., 2006; Bergh, Ketchen, Boyd & Bergh, 2010; Walker, 2010).

Roberts and Dowling (2002) and Bergh et al. (2010) asserted that reputable companies would perform better and persistently because of competitive advantage. In this way, companies with a better reputation would not have opportunistic earnings management practices for better business performance, since these companies have economic benefits.

According to Healy and Wahlen (1999, p. 368), earnings management occurs when managers "use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholder about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers".

Therefore, companies reputed for a better transparency of their accounting practices would engage less in earnings management, since the companies do not want to lose the competitive advantage obtained by means of the reputation, and because they are exposed in the media, so they tend to be careful about their accounting practices (Agarwal et al., 2011, Cao, Myers, & Omer, 2012, Dyck, Volchkova, & Zingales, 2008, Dai, Parwada, and Zhang, 2015 , Garrett, Hoitash, & Prawitt, 2014; Luchs, Stuebs, & Sun, 2009).

In the literature, there are several ways to measure corporate reputation, among them, ranking - which according to Davies, Chun, Silva and Roper (2003) is called relative reputation - as The Most Admired Companies, Best Companies to Work for, *Melhores e Maiores*. In order to observe the reputation effect obtained through accounting transparency, this study uses the companies indicated to the Transparency Trophy of the ANEFAC, FIPECAFI and Serasa Experian Initiative.

Based on the literature (Fombrun & Shanley, 1990, Brown & Perry, 1994, Roberts & Dowling, 2002, Agarwal et al., 2011, Cao et al., 2012; Garrett et al., 2014; Luchs et al., 2009), the present study aims to investigate the relationship between corporate reputation and earnings management in public companies listed in B3 – Brasil, Bolsa, Balção.

The sample of the study is made up of all the non-financial companies listed in B3, totaling 217 companies (1,361 observations). Data collection was done from the Capital IQ database and ANEFAC and B3 website.

The study is justified by addressing a topic of great relevance for companies, because, through a good corporate reputation, companies are able to excel in the market, obtaining new customers, suppliers and investors, and this list of interactions contributes to these competitive advantages over their competitors, thereby reducing opportunistic actions.

2. LITERATURE REVIEW

Yoon, Guffey and Kijewski (1993) argue that the use of reputation only makes sense in a scenario that contemplates informational asymmetry. In this context, the Signaling Theory, based on the problem of informational asymmetry, is inserted it, in which the managers have information about companies that investors do not know (Vieira & Novo, 2010). Spence (1973) assert that signals work as discretionary mechanisms in an environment of informational asymmetry, capable of altering beliefs and transmitting information to other individuals.

Thus, signaling becomes essential in a world with information asymmetry, where participants look for signals that indicate the best decision to make (Matos, 2001). Therefore, informational asymmetry can be reduced if one company offers more information than others, so managers of high-quality companies want to differentiate themselves from low-quality companies by means of signals (Klann & Beuren, 2011). In this way, high quality companies would be perceived by the stakeholders, and thus, they would give these companies a better reputation based on the signals issued.

Corporate reputation is a subject that has been studied since the 1950s, but according to Chun (2005), it is still considered recent, and it is due to the several approaches of application on the scientific research, and because there is no concept conclusion on the theme (Gotsi & Wilson, 2001).

In this context, Berens and Riel (2004) classified research on corporate reputation into groups: social expectations, corporate personality and trust. Among these, the present study fits the third, which associates reputation with the concept of trust linked to a company (Berens & Riel, 2004).

Fombrun (1996) defines corporate reputation as a perceptual representation of a company's past actions and future prospects that describe the firm's attractiveness to all its key stakeholders compared to its major competitors. In the same perspective, for Roberts and Dowling (2002), corporate reputation consists of the set of organizational attributes developed over time that influence how stakeholders perceive the company with good corporate behavior.

In this way, corporate reputation is valuable, because when it is positive, it strengthens the attractiveness of an organization, attracts and retains employees, and attracts new sources of financial capital, and thus companies with a positive reputation are less likely to find at risk (Van Riel & Fombrun, 2007). Reputation is also considered important, as it is seen as a solution for informational asymmetry (Melo & Garrido-Morgado, 2012).

Van Riel and Fombrun (2007) still argue that reputation is important both for reputation owners and for subjects who have this reputation stored in their memory in the long term, because when a company has a favorable reputation, it is considered the transmission of its positive reputation as an essential prerequisite for establishing a business relationship with its stakeholders.

Due to the importance of corporate reputation, this is, according to Brito (2005,121), “seen as a potential source of competitive advantage, since it creates heterogeneity among companies, generates value to stakeholders, is difficult to be duplicated, purchased or transferred and may create a market reserve for the company”. In addition to the competitive advantage, Walker (2010) points out that corporate reputation is associated with numerous strategic benefits such as sustainable financial performance, higher margins and prices, perceived value, contracting firms and positive reactions from investors.

Several authors (Fombrun & Shanley, 1990; Roberts & Dowling, 2002) state that companies with a better reputation can obtain a competitive advantage, thus, companies with a higher reputation would not have the need to engage in earnings management, since earnings management, opportunistically, seeks to increase profit in the period.

According to Healy and Wahlen (1999, p. 368), earnings management occurs when managers "use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholder about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers".

On the other hand, Ball (2009) says that earnings management is used to express managers' manipulation in the reporting of their own financial performance, which encompasses a range of practices, including: (i) practices that are legal, violate no accounting rules or principles, and are generally viewed as ethical; (ii) practices that are legal, violate no accounting rules or principles, and are viewed by many as ethical; and (iii) practices that are legal, violate no accounting rules or principles, but might violate accepted standards of disclosure.

Thus, earnings management involves opportunistic manager behavior that changes the accounting numbers, affecting the quality of accounting information. Xie, Davidson III, and DaDalt (2003) say that this happens because accounting through accruals models gives managers discretion to determine the actual earnings that firms report in any given period. In turn, Scott (2012) states that managers will choose an accounting policy from among several in order to achieve their objectives.

Earnings management affects the quality of accounting information, however it has a positive aspect or good side and a negative aspect or bad side. The good side of earnings management is based on blocked communication, the information that can be prohibitively costly to communicate to the principal (Scott, 2012). In turn, earnings management reduces the blockage, resulting in credibility (Scott, 2012). On the other hand, the bad side of earnings management is related to opportunistic manager behavior (Scott, 2012). Therefore, accountants "must scrutinize manager motivations with great care if they are to defect opportunistic earnings management" (Scott, 2012, p. 445).

The most well-known type of earnings management is based on the accounting policy choice, so it is the accruals manipulation (Dechow, Ge, & Schrand, 2010; Gunny, 2010; Scott, 2012).

Accruals manipulation or discretionary accruals are based on accounting choice within the Generally Accepted Accounting Principles (GAAP) that disguises the real economic performance of a company (Dechow & Skinner, 2000). Scott (2012) cites some accounting choices related to discretionary accruals, such as provisions for credit losses, warranty costs, inventory values, write-offs, and provisions for restructuring. Thus, accounting choice related to discretionary accruals is not easy to notice.

Total accruals (discretionary and non-discretionary accruals) are the changes in working capital that include accounts receivable, inventory, and accounts payable, which depend to some extent on changes in sales (Jones, 1991). Thus, to obtain discretionary accruals, it is necessary to understand non-discretionary accruals. According to Jones (1991), gross property, plant, and equipment (PPE), and changes in sales are used to control for changes in non-discretionary accruals caused by changing conditions. Sales are used "to control for the economic environment of the firm because they are an objective measure of the firms' operations before managers' manipulations, but they are not completely exogenous" (Jones, 1991, p. 211/2). In turn, PPE controls the portion of total accruals related to non-discretionary depreciation expenses (Jones, 1991). Therefore, what does not explain the non-discretionary accruals, through PPE and changes in sales, are the discretionary accruals.

Within the patterns of earnings management, the literature has categorized them into taking a bath, income minimization, income maximization, income smoothing, creative acquisition accounting, cooking jar reserves, abusing the materiality concept, and improper revenue recognition (Scott, 2012; Sevin & Schoroeder, 2005). These techniques are used to achieve analyst forecasts, maintain job and reputation, and create small positive results.

The literature about reputation (Chih, Shen, & Kang, 2008; Li, 2010; Choi & Pae, 2011; Cao et al., 2012; Kim, Park, & Wier, 2012; Scholtens & Kang, 2013; Garrett et al., 2014; Bozzolan, Fabrizi, Mallin, & Michelon, 2015; Wu, Gao, & Li, 2016), addressing the issues of corporate social responsibility, media exposure and business ethics, advocates that companies with better reputation, have a higher quality of accounting information.

Chih et al. (2008) explored whether the CSR-related, consequently reputable firms, features of 1,653 corporations in 46 countries had a positive or negative effect on the quality of their publicly released financial information during the 1993–2002 period. Findings show that a firm with CSR in mind tends not to smooth earnings, displays less interest in avoiding earnings losses and decreases. It is, however, prone to engage in more earnings aggressiveness, but this tendency can be mitigated in a country with strong legal enforcement.

Li (2010) investigated the relationship between accounting information and reputation, an informal institution, using the transaction cost economics framework. Empirical results show that in China, where the legal environment is far from perfect, the complementary relationship between reputation and accounting information is more pronounced than is the substitutional relationship. Thus, the aggregate effect is that a better reputation improves the usefulness of accounting information in debt contracts.

Choi and Pae (2011) studied the relationship between corporate commitment to business ethics, an attribute of reputation, and financial reporting quality. They find that companies with a higher level of ethical commitment are engaged in less earnings management, report earnings more conservatively, and predict future cash flows more accurately than those with a lower level of ethical commitment.

Cao et al. (2012) examined the association between company reputation and financial reporting quality, as proxied for by misstatements of annual financial statements. They find that companies with higher reputations are less likely to misstate their annual financial statements after controlling for chief executive officer (CEO) tenure, corporate governance, audit fees (to proxy for audit effort), and potential self-selection bias. They also use the absolute value of performance-matched discretionary accruals as an alternative measure of financial reporting quality, and they found that higher-reputation companies report less extreme discretionary accruals on average.

Kim et al. (2012) examined whether socially responsible firms, consequently reputable firms, behave differently from other firms in their financial reporting. They find that socially responsible firms are less likely (1) to manage earnings through discretionary accruals, (2) to manipulate real operating activities, and (3) to be the subject of SEC investigations, as evidenced by Accounting and Auditing Enforcement Releases against top executives.

Scholtens and Kang (2013) examined how earnings management is associated with corporate social responsibility (CSR), an attribute of reputation, and investor protection with 139 firms in ten Asian countries. They find that Asian firms with relatively good CSR are engaged significantly less with earnings management.

Garrett et al. (2014) investigated the association of intra-organizational trust, an attribute of reputation, with three aspects of financial reporting: accruals quality, misstatements, and internal control quality. They find that trust is associated with better accrual quality, lower likelihood of financial statement misstatements, and lower likelihood of internal control material weakness disclosures.

Bozzolan et al. (2015) investigated whether the corporate social responsibility (CSR) orientation, an attribute of reputation, of a firm affects its reporting incentives, in terms of the trade-off between real earnings management (REM) and accrual-based earnings management (AEM). They find that CSR-oriented firms are less likely to engage in REM than in AEM. Moreover, they document that in strong legal enforcement countries, incentives to use REM instead of AEM are significantly lower in companies with a high CSR orientation than in companies with a low CSR orientation.

Wu et al. (2016) analyzed the relationship between earnings management and media reports, an attribute of reputation, assess the roles played by the media in determining the reputation mechanism and examine whether the media has an influence on executives' behavior in the case of earnings management. Findings show that negative media reports result in even higher levels of earnings management activities, indicating that managers tend to use earnings management to achieve earnings goals to reduce or relieve the pressure they feel from the media and to remedy any reputation loss.

Considering the precepts of Signaling Theory and the recommendations of the literature about the relationship between corporate reputation and earnings management, this study proposes the following research hypothesis:

H_1: Corporate reputation negatively influences earnings management.

In view of the studies listed previously, in which there is few studies addressing the reputation and quality of the accounting information, thus, this indicates the need for continuity of research on this subject. Therefore, it reinforces the justification of the present research when investigating the relation between corporate reputation and earnings management.

3. METHOD

The study population is comprised of all non-financial companies listed in Brasil, Bolsa, Balcão (B3), totaling 325 companies. In turn, the sample is composed of all the companies that presented the variables to measure earnings management, firm size, return on assets, leverage and sales growth between 2010 and 2016. Thus, the sample is composed of 217 companies (1,361 observations). Table 1 shows the distribution of the sample by year and industry.

Table 1 - Distribution of firm-year observations by industry

Industry	2010	2011	2012	Year 2013	2014	2015	2016	Total
Industrials	36	37	36	36	34	31	30	240
Consumer Discretionary	55	56	57	58	58	54	49	387
Consumer Staples	16	18	17	18	18	15	16	118
Materials	26	27	27	27	25	24	21	177
Oil, Gas & Consumable Fuels	9	8	8	7	8	7	6	53
Health Care	7	9	10	11	12	13	13	75
Information Technology	6	6	6	7	7	6	6	44
Telecommunication	3	3	3	4	4	4	4	25
Utilities	36	35	36	35	35	34	31	242
Total	194	199	200	203	201	188	176	1,361

Based on Table 1, the number of companies per year varies, in which the smallest number of companies was in 2016 (176 companies) and the largest amount of companies was in 2013 (203 companies). The most heavily represented industry is Consumer Discretionary (387), followed by Utilities (242) and Industrials (240), while the least heavily represented industry is Telecommunication (25), followed by Information Technology (44) and Oil, Gas & Consumable Fuels (53).

The measure of earnings management relies on the discretionary accrual estimation approach developed by Jones (1991) and modified by Dechow et al. (1995), Larcker and Richardson (2004) and Kothari, Leone and Wasley (2005). This study calculates Discretionary Accruals (DACC) as the residual from the following regression (industry and firm subscripts omitted). In addition, this study uses the absolute value of discretionary accruals for analyses, as earnings management can involve either income-increasing or income-decreasing accruals (Warfield et al. 1995; Klein 2002). Equation 1 represents the Dechow et al. (1995) model.

$$TA_{it} = \beta_0 + \beta_1 1/A_{it-1} + \beta_2(\Delta REV - \Delta REC)_{it} + \beta_3 PPE_{it} + \varepsilon_{it} \quad (1)$$

Where:

TA_{it}: Total Accruals in year t for firm i, defined as the TA = [ΔCurrent Assets - ΔCash and Short Investment] - [ΔCurrent Liabilities] - Depreciation and Amortization Expense;

A_{it}: Total Assets in year t - 1 for firm i;

REV_{it}: Revenues in year t less Revenues in year t - 1 for firm i;

REC_{it}: Receivables in year t less Receivables in year t - 1 for firm i;

PPE_{it} = Gross Property, Plant, and Equipment in year t for firm i;

ε_{it} = error term in year t for firm i.

Equation 2 represents the Larcker and Richardson (2004) model.

$$TA_{it} = \beta_0 + \beta_1 1/A_{it-1} + \beta_2(\Delta REV - \Delta REC)_{it} + \beta_3 PPE_{it} + \beta_4 MTB_{it} + \beta_5 CFO_{it} + \varepsilon_{it} \quad (2)$$

Where:

MTB_{it}: Market-to-book ratio in year t for firm i;

CFO_{it}: Operating Cash Flows in year t for firm i.

Equation 3 represents the Kothari et al. (2005) model.

$$TA_{it} = \beta_0 + \beta_1 1/A_{it-1} + \beta_2(\Delta REV - \Delta REC)_{it} + \beta_3 PPE_{it} + \beta_4 ROA_{it} + \varepsilon_{it} \quad (3)$$

Where:

ROA_{it}: Return on assets in year t for firm i, defined as the income before extraordinary items scaled by total assets;

The variables TA, REV, REC, PPE, and CFO are scaled by lagged total assets.

The variable of interest is corporate reputation (REP) which is based on the Transparency Trophy of the ANEFAC, FIPECAFI and Serasa Experian Initiative. In order to compete for the Transparency Trophy there are no entries, all public and private companies, headquartered in Brazil, that publish their financial statements, operating in the areas of commerce, industry and services - except financial services are candidates. The financial statements used for evaluation are those published, as determined by the Brazilian Corporate Law and must contain the following information: Balance Sheet; Income Statement; Statement of Comprehensive Income; Statement of Changes in Shareholders' Equity; Statement of Cash Flows; Notes; Comparative Statements; Management Report and Report of Independent Auditors.

The Transparency Trophy does not take into account the earnings and the economic and financial situation of the companies, which do not interfere in the selection process, but rather the transparency and clarity of the information provided by the companies to the market, which generate added value to the business. The Transparency Trophy does not evaluate the management of the companies, but the quality of the financial statements presented.

To be selected to receive the Transparency Trophy are analyzed: (i) Quality and degree of information contained in the financial statements and notes; (ii) Transparency of information provided; (iii) Clarity of the Management Report and its consistency with the information disclosed; (iv) Full adherence to Accounting Standards; (v) Do not present changes (qualifications) in the independent auditors' report; (vi) Presentation of the disclosure regarding layout, readability, conciseness, clarity, etc.; (vii) Disclosure of relevant aspects, even if not legally required, but important for the business as: EBITDA, economic value added, social and environmental balance, etc.

Thus, this study calculates REP as a lagged dummy variable in which is 1 if the company is listed in the rank Transparency Trophy of the ANEFAC, FIPECAFI and Serasa Experian Initiative in t-1 and 0 otherwise. The literature tends to investigate the effects of lagged reputation on business performance or other firm aspect (Roberts & Dowling, 2002), thus, this study uses the same approach.

To avoid the problem of correlated omitted variables, this study includes some control variables that could affect earnings management and corporate reputation. Dechow et al. (2010) suggests that firm-specific growth opportunity, profitability, leverage and the firm size can potentially explain significant variation in earnings management. Prior studies (e.g., Cao et al. 2012; Kim et al., 2012; Garrett et al. 2014; Bozzolan et al. 2015) show that those variables are correlated with corporate reputation and corporate social responsibility.

According to Bozzolan et al. (2015), larger firms (SIZE) are more likely to avoid negative earnings news and thus use earnings management to achieve this objective; leveraged firms (LEV) takes into account debt-contracting motivations for earnings management, besides that, the level of profitability (ROA) influences the reasons for managers engage in earnings management. Skinner and Sloan (2002) assert that managers of a high-growth firm (GROW) have greater incentives to engage in earnings management.

To capture the relation between earnings management and corporate reputation and in order to test the hypothesis H1, this study estimates the Equation 4.

$$DACC_{it} = \beta_0 + \beta_1 REP_{it-1} + \beta_2 SIZE_{it} + \beta_3 ROA_{it} + \beta_4 LEV_{it} + \beta_5 GROW_{it} + \varepsilon_{it} \tag{4}$$

The Equation 4 is estimated with multiple linear regression with panel data and robust standards error. Equation 4 is estimated three times, one for each metric of discretionary accruals (Dechow et al., 1995; Larcker and Richardson, 2004; Kothari et al., 2005). As Dechow et al. (2010) argues, discretionary accruals have noise in their calculations, so this study uses three models of discretionary accruals like robustness check.

All variable definitions are presented in the Table 2.

Table 2 - Variable definition

Variables	Metric	Operacionalization
DACC1	Discretionary Accruals by Dechow et al. (1995)	Absolute value of the residual from Equation 1.
DACC2	Discretionary Accruals by Larcker and Richardson (2004)	Absolute value of the residual from Equation 2.
DACC3	Discretionary Accruals by Kothari et al. (2005)	Absolute value of the residual from Equation 3.
REP	Corporate Reputation	Lagged dummy variable: 1 if the company is listed in the rank Transparency Trophy of the ANEFAC,

		FIPECAFI and Serasa Experian Initiative in t-1 and 0 otherwise.
SIZE	Firm Size	Natural logarithm of the Shareholders' Equity.
ROA	Return on Assets	Income before extraordinary items scaled by total assets.
LEV	Leverate	Total debts scaled by total assets.
GROW	Sales Growth	Sales in the t minus the sales in the t-1, divided by sales in the t-1.

All variables used to estimate the Equation 4 are winsorized at the 1st and 99th percentile for each year.

4. RESULTS AND DISCUSSION

Initially, a descriptive analysis was performed in order to verify data behavior. Table 3 shows the minimum and maximum values, as well as the mean and standard deviation of the variables analyzed in this study. Except for corporate reputation because it is a binary variable, so it is presented the frequency.

Table 3 – Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
DACC1	1,361	0.117	0.127	0.000	1.382
DACC2	1,361	0.118	0.128	0.000	1.385
DACC3	1,361	0.114	0.125	0.000	1.371
SIZE	1,361	20.614	1.871	14.494	25.600
ROA	1,361	0.069	0.127	-1.788	0.486
LEV	1,361	1.471	2.667	0.000	28.376
GROW	1,361	14.670	44.397	-84.588	519.449
Dummy Variable	**Obs**	**Category**	**Freq.**	**Percent.**	**Cum.**
REP	1,361	Yes	112	8.23	91.77
		No	1,249	91.77	100

Note: DACC1: Discretionary Accruals by Dechow et al. (1995); DACC2: Discretionary Accruals by Larcker and Richardson (2004); DACC3: Discretionary Accruals by Kothari et al. (2005); REP: Lagged Corporate Reputation; SIZE: Firm Size; ROA: Return on Assets; LEV: Leverage; GROW: Sales Growth.

The mean of absolute value of discretionary accruals (DACC1, DACC2 and DACC3) is 0.11 for companies headquartered in Brazil, Wu et al. (2016) found 0.065 for Chinese companies and Kim et al. (2012) found 0.20 for companies listed in USA. Thus, the earnings management in Brazil is consistent with other countries. Besides that, discretionary accruals have high dispersion, so the companies listed in B3 differ in the level of earnings management practices.

Only 8% of the sample have a good reputation (REP) through accounting transparency, this happens because the Transparency Trophy only selects 25 companies, only the best companies in Brazil.

In relation to control variables, only firm size (SIZE) has low dispersion, indicating that the firms have a homogeneous size, all big firms, which it is consistent with Wu et al. (2016) and Choi and Pae (2011) that found 22.115 and 19.225 for Chinese and Korean firms, respectively. The sample has a positive operating performance (ROA), similar result was found in Cao et al. (2012) and Wu et al. (2016). Based on Garrett et al. (2014), Wu et al. (2016), Cao et al. (2012), Choi and Pae (2011) and Kim et al. (2012), the level of leverage (LEV) is less than 50%, thus, the firms listed in B3 have a high level of leverage, since it is higher than 100%. About sales growth (GROW), the firms listed in B3 exhibit sound growth in sales revenue, since the mean is positive.

Table 4 reports the Pearson correlation coefficients among the variables used in the regression analyses.

Table 4 – Pearson correlations

	DACC1	DACC2	DACC3	REP	SIZE	ROA	LEV	GROW
DACC1	1							
DACC2	0.97***	1						
DACC3	0.99***	0.96***	1					
REP	-0.11***	-0.11***	-0.12***	1				
SIZE	-0.20***	-0.21***	-0.20***	0.31***	1			
ROA	-0.05*	-0.05**	-0.08***	0.05*	0.10***	1		
LEV	0.01	0.04	0.01	-0.02	-0.28***	-0.13***	1	
GROW	0.28***	0.28***	0.28***	-0.04	0.05**	0.08***	-0.01	1

Note: *, **, *** Indicate statistical significance at the 0.10, 0.05 and 0.01 levels, respectively. DACC1: Discretionary Accruals by Dechow et al. (1995); DACC2: Discretionary Accruals by Larcker and Richardson (2004); DACC3: Discretionary Accruals by Kothari et al. (2005); REP: Lagged Corporate Reputation; SIZE: Firm Size; ROA: Return on Assets; LEV: Leverage; GROW: Sales Growth.

This study predicted a negative correlation between the corporate reputation (REP) and the measures of earnings management (DACC1, DACC2 e DACC3), and the prediction was not rejected for all measures of earnings management. In addition, firm size (SIZE) and operating performance (ROA) is negatively related to discretionary accruals, however, sales growth is positively related to discretionary accruals. Thus, big and profitable firms engage less in practices of earnings management, nevertheless, growing firms carry out earnings management.

Table 5 presents the results of multivariate regression analyses of discretionary accruals, thus, this study estimated three models for each measure of discretionary accrual based on Dechow et al. (1995), Larcker and Richardson (2004) and Kothari et al. (2005).

Table 5 – Multiple Regression of Accrual-Based Earnings Management on Corporate Reputation

		Discretionary Accruals		
		Model 1	Model 2	Model 3
Corporate Reputation	$REP_{(t-1)}$	-0.030***	-0.026***	-0.031***
		(0.01)	(0.01)	(0.01)
Firm Size	$SIZE_{(t)}$	-0.073***	-0.057***	-0.070***
		(0.02)	(0.02)	(0.02)
Return on Assets	$ROA_{(t)}$	0.104**	0.119**	0.097**
		(0.05)	(0.05)	(0.04)
Leverage	$LEV_{(t)}$	-0.012***	-0.009**	-0.011***
		(0.00)	(0.00)	(0.00)
Growth	$GROW_{(t)}$	0.001***	0.001***	0.001***
		(0.00)	(0.00)	(0.00)
Intercept		1.612***	1.288***	1.552***
		(0.38)	(0.40)	(0.35)
R^2		0.186	0.157	0.181
F test		8.867***	7.588***	9.774***
N		1,361	1,361	1,361

Note: *, **, *** Indicate statistical significance at the 0.10, 0.05 and 0.01 levels, respectively. Each cell contains a coefficient estimated and a robust standard error in parenthesis below. Model 1: Dechow et al. (1995); Model 2: Larcker and Richardson (2004); Model 3: Kothari et al. (2005). REP: Lagged Corporate Reputation; SIZE: Firm Size; ROA: Return on Assets; LEV: Leverage; GROW: Sales Growth.

Based on F test, all models are significant at the 1% level which means that at least one of the variables in the models is significant, wherein all variables are significant, and the results is consistent among the models.

Corporate reputation through accounting transparency has a negative relationship with accruals discretionary as predicted, so the hypothesis H_1 is not rejected. The Signaling Theory advocates that companies disclose information to the market in order to reduce informational asymmetry and create confidence vis-à-vis their stakeholders, so a reputation based on the quality of accounting information is well-liked by investors and creditors, as well as other stakeholders, because it is able to reduce opportunistic practices of earnings management that sometimes arise due to agency conflicts. In addition, when the firms seek to have quality and transparent financial reports, the managers reduce their practices of earnings management, perhaps using discretionary accruals only to demonstrate the real economic situation of the firm.

This finding is consistent with Li (2010), Choi and Pae (2011); Cao et al. (2012); Kim et al. (2012); Scholtens and Kang (2013); Garrett et al. (2014); Bozzolan et al. (2015) and Wu et al. (2016), which they address that corporate social responsibility, media exposure and business ethics, aspects of reputation, as well as, reputation itself increase the quality of accounting information, therefore it reduces the accruals discretionary.

The regression models also include several control variables. Return on assets (ROA) and sales growth (GROW) are significantly positively associated with the discretionary accruals for all models at the 5% and 1% level, respectively. Profitable and growing companies exhibit a higher level of accruals discretionary, maybe these companies have aggressive discretionary accrual exactly to increase their performance. On the other hand, firm size (SIZE) and leverage (LEV) are significantly negatively associated with the discretionary accruals for all models.

5. CONCLUSION

The present study aimed to investigate the relationship between corporate reputation through accounting transparency and the earnings management by discretionary accruals in public companies listed in Brasil, Bolsa, Balcão (B3), based on Signaling Theory. Therefore, multiple linear regression analysis with panel data and robust standards error was used in a sample of 217 companies (1,361 observations).

Corporate reputation through accounting transparency demonstrated negative relationship with earnings management by discretionary accruals, thus, the better is the corporate reputation of a firm, the lower is earnings management. Therefore, this study does not reject the hypothesis H_1.

The results showed that firms with higher market confidence and esteem, corporate and reputation from the accounting perspective, and holders of competitive advantage tended to engage less in opportunistic practices such as earnings management.

In this way, corporate reputation would be a valuable strategic resource with the ability to highlight within the others in the same industry, and from an accounting perspective, it reflects the quality of financial reporting. This quality of financial reporting that emerges from transparency reflects in the practice of management, since the companies do not want to lose the competitive advantage obtained by means of the reputation, and because they are exposed in the media, so they tend to be careful about their accounting practices. Davies et al. (2003) state reputation can be lost more easily than it can be created, since reputation is like an investment in credibility, but it is fragile, and therefore bad actions (fraud, corruption, misstatement, etc.) by companies erode reputation, since stakeholders lose trust in the company.

As reputation gives competitive advantage and, in general, reputable companies tend to have high performance and give great compensation to managers, those managers do not have motives to use discretionary choices (Chaney, Faccio, & Parsley, 2011).

Therefore, this study brings contributions both for the professional field, as well as for the academic field. For the professional, the study shows that companies should focus on the quality of their financial reports, to obtain corporate reputation. In addition, having a good reputation is a signal to shareholder, creditors and other stakeholders regarding the quality of accounting information, and confers a competitive advantage, thus, demonstrating that reputable companies are a good investment.

For academia, the study demonstrates that the ranking Transparency Trophy of the ANEFAC, FIPECAFI and Serasa Experian Initiative is a proxy for reputation and that it is a reducer of discretionary accruals. In addition, this study increases the literature that relates reputation and earnings management, since there are few studies, both national and international literature.

The main limitations of this study are the metric of earnings management, metric of corporate reputation and the sample. Dechow et al. (2010) say that metrics that measure discretionary accruals have noises, however there is no perfect metric yet for that, so for the first problem, this study adopted three different metrics and found the same result. For the second problem, Davies et al. (2003) say that reputation is a complex construct and difficult to measure, so this study chose to use a metric with a specific aspect, accounting transparency, which is related to the quality of the accounting information. And for the third problem, the study adopts only the companies listed in B3, it is a small sample, however, it is especially relevant for the Brazilian market, in addition, the Transparency Trophy ranking limited the study sample.

Lastly, the present study suggests as future research to expand the analysis for the Latin American market using the Merco Empresas ranking, for companies with better reputation, or Merco Responsabilidad y Gobierno Corporativo ranking, for companies with greater corporate social responsibility and corporate governance. It also suggests analyzing the effect of the leader reputation on earnings management, thus, it may use the Merco Líderes ranking.

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