

Earnings Management and Firm Value Relevance: Evidence from Companies Listed on Euronext Lisbon

Abstract

Accounting plays a crucial role in ensuring the transparency and credibility of financial markets, with the quality of financial information being a key determinant in investors' decision-making. However, earnings management practices can compromise this quality, affecting firm value relevance.

The literature review is structured into six main sections: (1) Quality of financial information, emphasizing its role in financial decision-making; (2) Concept of earnings management, differentiating between opportunistic and informative approaches; (3) Typology and its implications, exploring the differences between earnings management based on accruals and real earnings manipulation; (4) Incentives, analyzing the factors that drive managers to engage in these practices; (5) Consequences, examining the impact on investor confidence and firm value; and (6) Detection models, with a particular focus on the Defond and Park (2001) model, which will be applied in this study.

This dissertation aims to investigate the extent to which earnings management influences firm value relevance in the portuguese capital market. To achieve this, financial data from companies listed on Euronext Lisbon will be analyzed, following a quantitative approach within the positivist paradigm. The impact of earnings management on firm value relevance will be assessed using the following research model:

$$\text{Value Relevance} = f(\text{EM}) + \xi$$

where EM represents the earnings management measure, calculated based on the Defond and Park (2001) model, and ξ includes the control variables.

The expected contributions of this research include providing empirical evidence on the relationship between earnings management and firm value relevance in the portuguese context, addressing an existing gap in the literature.

Keywords: Accounting, Earnings Management, Firm Value Relevance, Financial Information Quality, Capital Market, Portugal.

Submitted by: Sara Soares Loureiro, PG53442

Supervisor: Prof. Dr. Tânia Micaela de Brito e Meneses Montenegro Barbosa