Journal of Business Studies Quarterly
2012, Vol. 3, No. 4, pp. 43-57 ISSN 2152-1034

Journal of Business Studies Quarterly jbsq.org

The Determinants of Earnings Management by the Acquiring Firms

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Abstract
Previous studies have indicated that in the year prior to the merger, acquiring firms manage earnings upward. This result is consistent with the conclusion that acquiring firms use accounting choice in an attempt to increase their exchange ratio. Therefore, the aim of this research is study, theoretically and empirically the determinants of earnings managements for a sample of French companies during the period 1998-2008. Earnings management is measuring by discretionary accruals. This determinants are classified in two categories those relative to characteristics of the operation of mergers and acquisition, which are relative size of the operation, auditors quality of the mergers and the use of accounting criteria to determinate exchange ratio and those relative to characteristic of the acquiring firms which are ownership structure, financial structure and board independence of acquiring firms. The results show that the relative size of the operation and accounting criteria and earning management are positively related in the acquiring firms. Whereas the quality of the auditors of the merger and acquisition, board independence and discretionary accruals are negatively associated.

Keywords: Earning management, mergers and acquisition, acquiring firm, discretionary accruals, determinate of earning management.

Introduction

The preparation of financial statements of a company is governed by the accounting principles. These principles are designed to reduce information asymmetry information and agency conflicts. However in several contexts they are a choice in the accounting methods. This choice gives managers the opportunity to present earnings in a manner that is most suitable for them (Earning management). There is no common definition for earnings management in the literature. General definitions suggest that managers exercise judgment for the purpose of hiding true performance in order to either influence the stock performance, to benefit from the contractual terms between the firm and managers, or to influence regulatory decisions (Sun and Rath, 2008).

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Earnings management may be defined also as reasonable and legal management decision making and reporting intended to achieve stable and predictable financial results. Watts and Zimmerman (1986) use positive accounting theory to illustrate how managers choose accounting methods to achieve desired accounting numbers and thus influence one or more of the firm's contractual arrangements. To recapitulate, according to these authors, the earnings management literature suggests that capital markets, contractual arrangements and regulatory considerations induce firms to manage earnings. Several studies have attempted to analyze the earning management in specific contexts. These studies have examined the existence of earnings management. However, little attention has been paid to the study of contextual determinants of earnings management especially in the context of the merger and acquisition of French companies. In this work, we try to study, theoretically and empirically, the determinants of earnings managements in a merger-acquisition, especially in the acquiring firm.

Background and Hypothesis Development

Erickson and Wang (1999) show that managers of acquiring firms engage in earnings management prior to stock based acquisition due to their incentives to increase their firm's stock price prior to the acquisition and to influence exchange ratio. The authors argue that acquiring firm's have the time to prepare and to act on their earning, while those targets usually can not anticipate the operation of merger and acquisition. Another factor incentive to manage earning of the acquiring firms to minimize likelihood of earnings dilution and to reduce the dilution voting and control power of existing shareholders as shown by Albouy and Bonnet (2008).
Louis (2004) suggests that acquires manage earnings when the cost of earnings is lower than the target's cost of detecting the earning management.
Earning management by the acquiring firms can be influenced by several factors.
These factors are classified in this work into two categories:

- Factors relating to the characteristics of the operation. We are interested in this part of the quality of the Commissioner of the merger, the accounting criteria used in determining the exchange ratio and the relative size of the operation.
- Factors relating to the characteristics of the acquiring firm. We deal in this case, capital structure, financial structure and board independence.

2.1. Assumptions concerning the characteristics of the operation

A merger and acquisition is indicated by several elements such as the relative size of the operation, the criteria used to determinate the exchange ratio and the presence of a Commissioner of the merger.

2.1.1. Size of the operation: Erickson and Wang (1999), have examined the earning management of acquiring firms and use the size of operation as a determinant of this earning management.
These authors suggest that if the target firm size is relatively small compared to the one of the acquiring firm, the relative size from increasing stock price via manipulated earnings will also be relatively small.
Several studies suggest that size of operation and discretionary accruals are positively associated.
These developments lead us to put forward the following hypothesis:

> *H1.1: relative size of the operation and earning management upward are positively associated.*

2.1.2. *Accounting criteria influencing the exchange ratio*

The valuation of a company and the determination of the exchange ratio are two essential steps in the process of mergers and acquisitions. The exchange ratio may be the result of a compromise from the negotiations between the concerned companies. The use of several criteria for the evaluation is necessary. Several studies such as Thauvron (2000), argue the role of accounting information and accounting criteria in evaluating and determining the exchange ratio. The authors observed from a sample of 207 tender offers occurring between 1993 and 1996 the frequency of use of different assessment methods. It appears that the net asset value, net income and share price are the three assessment most frequently used. For Thauvron (2000), the relationship between the exchange ratio and earnings management is clearly apparent. Certainly accounting elements play a central role in the determination of the ratio exchange, although for many authors, this indicator (net income) may be subject to criticism. Particular, they may be influenced by the choice of accounting policy leaders. Watts and Zimmerman (1986).

H1.2: When the book values are crucial for setting the ratio exchange, the manager of the acquiring firms manipulate the earning upward.

2.1.3. *Quality of external auditors*

According to agency theory, an agency relationship is problematic in that the personal interests of principal and agent diverge. Therefore, the asymmetry in the distribution of the information associated with a divergence of interest gives rise to the agency problem. Thus we speak of external audit, which is one of the mechanisms of regulation of relations between shareholders and managers. Jensen and Meckling (1976) are the first to have analyzed the external audit. For these researchers, external audit, is a way to meet a need for justification or requirement, as defined bonding. The mission of the auditors is to ensure the correct application of accounting rules and issue a reasoned opinion on the accounts of the company. The audit aims to provide reasonable assurance to the company's partners on the reliability of documents sent by the managers. The request of the audited accounting information is a fundamental aspect of corporate governance because it reduces the information asymmetry between managers and shareholders. In the context of mergers and acquisitions, we are dealing with a second control that is to audit the financial statements used to set the exchange ratio. (Legal obligation). Pochet (2000) states that the merger auditors must be independent and different from the auditors of the companies participating in the operation. According to De Angelo (1981), Klein (2002), large auditors will be more independent and, therefore, will provide higher quality of audit. These authors use the auditor's size as a proxy for auditing quality. Large audit firms are known as the "big N". The "big N", have a reputation of providing quality audit differentiated. These firms are more conservative in formulating their opinions and able to contain discretionary accounting practices. Jensen and Meckling (1976) argue that the audit can reduce agency costs between the different stakeholders of the company by reducing the risk of errors in financial statements only if the auditors belong to a Big N. Becker et al (1998), Kim et al (2003), Asthana et al (2004), Chen et al (2002), Abbot et al (2004), Bradbury et al (2006) and Mc Meeking et al (2007), these researchers have shown through their theoretical and empirical studies that the "Big N" differ from other audit firms for their cautious approach toward the accounting choices consequently the discretionary accruals of companies audited by "Big N "are significantly lower than the discretionary accruals of other companies. This is explained by the fact that big auditors try to keep their reputation by practicing quality audits.

H1.3: when a commissioner to the merger belong to the Big N, the manager of the acquiring firm manage less earning upward.

2.2. ***Assumptions concerning the characteristics of the acquiring firms***

This section focuses the determinate of earning management which concern the characteristics of the acquiring firm which are financial structure, board independence and ownership structure.

2.2.2. **Financial structure**

The relationship between the level of debt and earning management has attracted the interest of several researchers but the results are contested. The agency theory states that the issuance of debt is one of the means of resolving agency conflicts between shareholders and managers. According to this theory a lot of debt is often regarded as a device to "govern" the opportunistic behavior of managers. Under this theory, debt seems to be an effective way to resolve conflicts of interest that may arise between shareholders and managers. Jensen and Meckling (1976), Jensen (1986), Stulz (1990) and Ahns et al (2009) show that debt plays a disciplinary role to bring the deviant behavior of managers. Since the regular payment of interest and repayment of debt implies that can limit aberrant practices of managers in the use of cash of the company. So for them, the debt is an incentive for the leader to adopt earning management of the company. Kim (2001) shows that the contract is an issue of debt to reduce information asymmetry and reduce the discretionary behavior of managers toward shareholders. According to the theory of signals, Ross (1977) considers the debt as a signal given by the managers of present and future flows of the company. It shows also that only efficient firms are willing to support a relatively high debt as they are able to meet their commitments without any problems. It is therefore considered a signal of financial health. This is the case in the context of mergers and acquisitions. Defond and Jiambelvo (1994) and Djama (2003) consider that in this context, managers can manage earning to their advantage to avoid the violation of the limitation clauses of debt contracts imposed by creditors who would be costly, benefit from a lower cost of financing that could result in additional debt and reduce the risk of bankruptcy.
We can formulate our hypothesis H2.1.
H2.1: financial structure of the acquiring firm and earning management are positively associated.

2.2.3. **Board independence of the acquiring firm**

Charreaux and Pitol-Belin (1990) and Ahmed and al (2007), consider that the role assigned to the board varies according to the theories. According to these authors, the role of the board can be classified into three categories:
- Board as a place of exercise of power (the theory of financial capitalism, coordination theory and theory of social cohesion);
- Board as locus of control (managerial theory, agency theory and transaction cost theory);
- Board as an organ mediator (theory of resource and institutional theory).

According to agency theory, the purpose of the board of directors is to minimize agency costs. In fact, the effectiveness of the control board is supposed to be based on the presence of outside directors. The analysis of the Board was also studied through the theory of transaction costs. Williamson (1985) defines the board as an organizational mechanism to ensure the security of transactions between the firm and shareholders, on the one hand, and between the firm and managers, on the other hand, and this by considering the shareholders as capital providers and managers as agents who rent their managerial capacity. The cognitive approach to governance considers the system of governance as a key player in trade and construction of knowledge. This should facilitate coordination and reduce the costs of separate cognitive conflicts of interest, such as studying the traditional approach to shareholder. Charreaux (2003). Osterloh and Frey (2004), consider that the cognitive approach of the Board is supported by the cognitive contribution of the individual members as well evidenced by the knowledge and skills of inside directors as those of outside directors in prediction and interpretation of results. The characteristics of the board may define the powers and influence the decisions of leaders. Among the characteristics of the board can be found: the size, composition and independence. In our study we focus on the independence of directors, to test the relationship between this feature and earning management for the case of the acquiring firm during an operation of the merger. The report Viénot (1995), defines an independent director as "a person who has no direct or indirect relationship with the company or its affiliates and may thus be deemed to participate objectively in the work of the board." For researchers mentioned above, the reliability of the council is improving with the introduction of independent directors. The outsiders sit on the board of directors to ratify the decisions that evoke serious agency problems such as manipulation of results and the violation of accounting standards. The report Viénot II (1999) of the French Association of Private Enterprise, "the presence of independent directors in sufficient numbers on the board of directors is an essential part of ensuring the inclusion of interests all shareholders in the company decisions." The attitude of administrators face in managing the earning depends on the institutional context. The Board is responsible for defending the corporate interest that is different from the interests of shareholders. Xie, Davidson (2002), also show that the presence of independent directors on the board reduces the flexibility of managers to manipulate the results. This is explained by several reasons:

- The first reason is that the recruitment of independent directors is their reputation in the market for directors and, therefore, they had better perform.
- The second reason is that independent directors can easily oppose the practices of accounting manipulations that affect the interests of society as they have no interests.

According to Dunn (1987), boards dominated by outsiders are rguably in a better position to monitor and control managers. Several studies such as Brickley et al (1994) and Subranmanyan et al (1997) find that, if outside directors on the board enhance monitoring they should also be associated with lower use of earnings management upward.

H 2.2: the presence of majority independent directors within the acquiring firm moderate earning management.

2.2.4. **Ownership structure of the acquiring firm.**

Several mechanisms of corporate governance are proposed to solve the problems of divergence of the interests of executives and shareholders and reduce by the same agency costs.

The ownership structure is only part of the governance system that may affect the value of the firm. Several studies have been conducted to demonstrate empirically the relationship between ownership structure and performance of firms. Three theories have been proposed regarding the link between performance and ownership structure: the theory of convergence of interests (Berle and Means 1932), the theory of entrenchment (Morck, Shleifer and Vishny (1990), Paquerot (1997) and Alexander and Paquerot 2000) and the theory of neutrality. Demsetz (1983).
Two dimensions can characterize the ownership structure. This is the managerial ownership and ownership concentration. In this study we focus on the concentration of capital as a determinant of earning management in the context of merger. Thus, to define the concept of "concentration of capital," we rely on the notion of "control blocks". Indeed, a control block represents the concentration of shares in the hands of one or a few shareholders. The block is when a person or group has a share of voting rights exceeding a threshold set arbitrarily. The concentration of capital encouraged major shareholders to exercise direct control of management. In a firm whose shareholders are widely dispersed, a single shareholder has no incentive to commit resources to control the leaders in their management, because it is only with the cost of investment, while the all the owners of the firm or partners benefit from this action. In the context of mergers and acquisitions, control of the acquiring company by a shareholder (manager, ruling family, institutional investor) could be used to obtain private benefits by pursuing higher growth targets on the size of the firm rather than maximizing shareholder wealth. This effect, negative performance may increase when the family holds the position of the leader. Whereas if the family control is associated with an officer external to the family, it has an incentive to minimize agency costs and exercise greater control on managers to maximize firm value. Anderson and Reeb (2003). Shareholders holding a significant stake may have an interest in ensuring the control of leaders in that they take a significant share of additional profits thus made.
According to Andrew and Ben Amar (2004), there is a positive relationship between family control and firm performance when acquiring a majority stake is owned by the family. The merger and acquisition has the immediate effect of changing the ownership structure of the acquiring company, involving loss of power and the dilution of the private benefits controlling shareholders immediately after the operation. To compensate ex post the negative effects of the merger control and private benefits, managers of the acquiring firm can exploit accounting. Accounting policy implemented before the merger is likely to increase earning and performance of the company. This accounting policy can allow the majority to pursue personal goals that may coincide with the objectives of all shareholders to reduce the cost of the merger and maximize ex post value of the company. The hypothesis H2.3 reads as follows.

H 2.3: ownership structure and earning management upward are positively associated

3. Research Methodology

3.1. Data requirement and variable measurement:

3.1.1. Sample selection

The sample includes French companies that have made a merger-acquisition from 1998 to 2008. This sample consists of all industrial, commercial and services firms. The initial sample includes 87 French merger and acquisition. We use two digit SIC classification code. We eliminated financial and banking firms given that have different financial operating and risk characteristics. Some companies were not available in the database Osiris, the final sample includes 50 companies. Accounting and financial data were collected from Thomson One Banker

Report Wizard which includes Datastream and World Scope, Osiris and Diane database. Other information were hand collected from annual reports and from the AMF website. Table 1 reports the distribution of the studied firms across industries and the year of the mergers and acquisition.

(Please see Table 1 in the Appendix)

3.2. Model for testing the hypothesis

The model used to test the determinants of earning management in the context of merger and acquisition is as follows:

$$\textbf{DIS ACC}_i = \alpha_1 + \alpha_2 \textbf{ SO}_i + \alpha_3 \textbf{BOARD I}_i + \alpha_4 \textbf{ Ownership S}_i + \alpha_5 \textbf{ Financial S}_i + \alpha_6 \textbf{ ACR}_i + \alpha_7 \textbf{AQ}_i$$

sWhere

DIS ACC: Discretionary accruals

SO : Size of Operation

Board I : Board independance

Ownership S: Ownership structure of the acquiring company equity, the year preceding the merger.

Financial S: Financial structure of the acquiring company equity, the year preceding the merger

A CR: Accounting criteria to determinate exchange ratio.

AQ : Existence of an auditors for the merger from a Big audit firm.

3.3. Variable measurement

3.3.1. Measuring earning management

We use discretionary accruals as a 'proxy' of earning management. To measure discretionary accruals, we have first to calculate total accruals. Then total accruals is composed of discretionary accruals. Finally to measure non discretionary accruals we used the model of Dechow et al (2003).

<u>Total accruals</u>

In the current study, we calculate total accruals by using the cash flow approach. According to Subramanyam (1996), this approach is more accurate than the balance sheet approach. So total accruals are calculated as follows:

$$\mathbf{TA_t = NI_t - OCF_t}$$

Where

TA_t : total accruals in year t (with t = t-1)

NI_t : Net income in year t

CFO : Operating cash flow in year t as reported in the state of flux.

We know that total accruals is:

TA = DIS ACC+ NDIS ACC

DIS ACC : Discretionary accruals

NDIS ACC: Non-discretionary accruals

To estimate discretionary accruals we use the forward looking model proposed by Dechow et al (2003) which is:

$$TA_{it} = a_0 + a_1 ((1+K)\Delta Sales_{it} - \Delta REC_{it}) + a_2 PPE_{it} + a_3 Lag\ TA_{it} + a_4 GR\_Sales_{it} + \varepsilon$$

where
ε: error term which represent the proxy of discretionary accruals

a_0; a_1; a_2; a_3 and a_4 are the estimated coefficient.

- ***Non discretionary accruals***

We use estimated coefficients of $\hat{a}_0$; $\hat{a}_1$; $\hat{a}_2$; $\hat{a}_3$ *et* $\hat{a}_4$ from the previous equations to calculate non discretionary accruals as follows: :

$$NDISACC = \hat{a}_0 + \hat{a}_1 ((1+K)\Delta Sales - \Delta REC) + \hat{a}_2 PPE + \hat{a}_3 Lag\ TA + \hat{a}_4 GR\_Sales$$

- ***Discretionary accruals***

For each firm of the sample used in this study, discretionary accruals are calculated as follows:

DISACC = TA – NDIS ACC

- ***Variable used in Dechow et al (2003) model***

$$TA_{it} = a + a_1 ((1+K)\Delta Sales_{it} - \Delta REC_{it}) + a_2 PPE_{it} + a_3 Lag\ TA_{it} + a_4 GR\_Sales_{it} + \varepsilon_{it}$$

Where

TA_{it}: fim's total accruals in the year t scaled by year t-1 total assets.

K: this variable is estimated by this regression:

$$\Delta REC_{it} = \alpha + k\,\Delta Sales_{it} + \varepsilon_{it}$$

$\Delta Sales_{it}$: the change in firm's sales from year t-1 to t, scaled by beginning of year assets.

ΔREC_{it}: the change in firm's accounts receivable from year t-1 to t, scaled by beginning of year assets.

ε_{it} : error term.

PPE_{it}: firm's year t gross property, plant and equipment

Lag TA_{it}: firm's total accruals in the year t-1 scaled by year t-2 total assets.

GR_Sales_{it}: the growth rate of firm's sales from year t to year t+1.

ε_{it} :error term which represent the proxy of discretionary accruals

(Please see Table 2 in the Appendix)

3.3.2. Measuring explanatory variable:

Explanatory variable are the determinants of earning management. This variable explains in which case the acquiring firms manage his earning the year before the operation of the merger and acquisition.

a) Size of the operation:

To measure size of the operation, we refer to the study of Erickson and Wang (1999). The authors argue that this ratio is an important variable and is measured as follows:

$$\text{Size of operation} = \frac{\text{Price paid for the target's equity}}{\text{Market value of the acquiring firm's equity}}$$

If this ratio is higher than the average of the sample it is given the value 1, otherwise the variable takes the value 0.

b) Accounting criteria used in determining of the parity exchange:

Previous study such as Erhel (1980); Trauvron (2000) and Treburq (2000), show that there are several criteria for determining the parity exchange (multi-criteria approach). These authors conclude that book values are the most important variable in determining the exchange ratio.

In our study this variable is a dummy variable equals 1 when accounting information used in the determination of parity exchange, 0 otherwise.

c) Quality of the merger auditors

According to the work of Fernandez and Arrondo (2005) and Jama (2002), the size and auditors quality is measured by using a binary variable that assumes a value 1, if the auditor is a member of the Big N and 0 otherwise.

d) Financial structure

According the work of Agrawal and Koneber (1996) and those of Jeanjean (2003), the debt ratio is measured as follows:

$$\text{Debt ratio} = \frac{\text{Total liabilities}}{\text{Stockholder's equity}}$$

e) Board independence

independent directors include those who have no material relationship with the listed company directly, or as a partner, shareholders, or officer of an organization that has a relationship with the company. Beasley and Petroni (2001), measure the independence of directors by the proportion of independent directors from the total number of directors on the board.

$$\text{Board Independence} = \frac{\text{Independant directors}}{\text{Total number of directors on the board}}$$

f) Ownership structure

Djama (2002), considers that the ownership is concentrated when a shareholder is able to block and to influence important decisions of the company.

Defond and Jiambalvo (1991), Dechow et al (1996), Sada (1995) and Djama (2002) state that ownership concentration is a dummy variable taking the value 1 if the largest shareholder owns at least 5% of shares and 0 otherwise.

(Please see Table 3 in the Appendix)

4. Analysis and discussion

4.1. Descriptive analysis

(Please see Table 3 in the Appendix)

According to the results found in Table 3, we can conclude that for the acquiring firms, the number of independent directors is 73% and the leverage ratio represent 22.4%. Table 3 shows also that 36.85% of acquiring firm's largest shareholder owns at least 5% of shares. Finally 82.09% of firm's studied using accounting criteria to determinate the exchange ratio and 63.3% of our sample audit the operation of mergers and acquisition by an auditor belong to the Big N.

4.2. Univariate results

4.2.1. Correlation between explanatory variables

(Please see Table 4 in the Appendix)

Table 4 provides Pearson correlations between independent variable, according to Kevin (1992), a serious problem of multicollinearity exists when correlation between explanatory variable exceed the value of 0.7. The results indicate that the remaining correlations among explanatory variables are statistically insignificant at usual levels. We calculate also the VIF to check the existence of multicolinearity problems. The tests are well below 2, a value clearly below 10, limits suggested by Myers (1990).

4.3. Multivariate analysis

After testing the multicollinearity between the variables in the model, we performed tests and checked all the prerequisites to apply the method of Ordinary Least Squares (OLS) (normality and homoscedasticity).

(Please see Table 5 in the Appendix)

Table 5 presents OLS regression estimates and shows the regression results of accruals on the explanatory variables. According to this table we can conclude that relative size of the operation and discretionary accruals are positively and significantly associated. This finding supports our hypothesis H1.2. The second variable is the accounting criteria used for determining the exchange ratio. This variable affects positively and significantly at the 5% level, earning management. This is explained by the previous studies, first, the relationship between the accounting criteria such as net asset value, the net income, EBITDA, net asset value and stock

prices and second, the presence of the flexibility of accounting standards in the treatment of transactions relating to mergers and acquisition materialized by accounting choices.
The third variable is the quality of the auditors firms of the merger and acquisition. Quality is measured by the belong or not of audit firm to the "Big N." Chung et al (2005) show that the 'Big N' auditors firms have a greater ability to cope with managerial pressures to maintain an independent assessment. That is to say that the presence of a Commissioner of the merger from a large audit firm moderates the earning management by the managers. According to table 5, the results are consistent with our expectations. The hypothesis H1.3 is checked. Our results provide also that the presence of independent outside directors on the board has a significant effect on earning management. This result confirms the idea that the presence of independent directors increases the effectiveness of control of managers. This confirms the hypothesis which states that the presence of independent directors on the board administration moderates earnings management. Table 5, provide strong evidence that ownership structure and discretionary accruals are positively and significantly at the 1% associated. Whereas financial structure and discretionary accruals are significantly affects negatively associated. These results are contrary to expectations derived from the theoretical literature. H2.1 is rejected. Indeed, some researchers argue that debt is an important mechanism to control opportunistic behavior of managers. In this context of merger on the sample of French companies, debt is a drag on performance management for companies in the year before initiating the operation of the merger. These results are consistent with those found by Piot and Janin (2005) and Boutant (2008) which state that the managers of indebted companies have a rather conservative.

(Please see Table 6 in the Appendix)

We exhibit in Table 6, the results of statistical significance for the global model.
These results show that:

- The significance tests performed on the total sample in our study the regression model of the determinants of earnings management show that the overall model is significant at 41.5%.
- According to the Fisher test, the coefficients are statistically significant at 1%
- The Kolmogorov-Smirnov, is not significant, indicating that the assumptions of normality and homoscedasticity of the error terms are met.

5. Conclusion

The main objective of this research was to study and analyze the determinants of earning management in the context of merger and acquisition and especially in the acquiring firms for the sample of French companies. This study reveals two categories of determinants, those related to characteristics of the operation such as the relative size of the operation, the Commissioner of the merger and the accounting criteria used in determining the exchange ratio. And those relating to the characteristics of the acquiring firms which are the ownership structure, financial structure and board independence. The empirical results show that the relative size of the operation and accounting criteria positively influence the existence of earnings management in the acquiring firms. Whereas the quality of the auditors of the merger and acquisition, board independence and discretionary accruals are negatively associated. As for the financial structure variable, it is contrary to expectations derived from the theoretical literature including the positive theory.
Our line of research may lead to a number of developments would be the first opportunity to test this issue in other contexts such as the Tunisian context and make a comparative study between

the French context and the Tunisian context from two different socio-economic environments. Tunisia is a law countries due to its geographical position at the center of the Mediterranean dominated by the relationship between Tunisia and France. However, the Tunisian accounting system that preceded the reforms embodied in the law 96-112 of 31-12-1996 on the accounting system of Tunisian companies. This system has taken the Anglo-Saxon. It has developed a conceptual framework which aims to meet the needs of investors.

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Table 1 . *Sample distribution during the study period*

Years	2001	2002	2003	2004	2005	2006	2007	Total
Number of operations	**20**	**13**	**7**	**15**	**9**	**11**	**12**	**87**

Table 2. *Variables used in the model of Dechow et al (2003)*

Variables	Measures
TA	TA= $RN_t - CFO_t$
K	$\Delta REC = \alpha + k\,\Delta Rev + \varepsilon$
Δ Sales	the change in firm's sales from year t-1 to t, scaled by beginning of year assets.
Δ REC	the change in firm's accounts receivable from year t-1 to t, scaled by beginning of year assets
PPE	firm's year t gross property, plant and equipment
Lag TA	firm's total accruals in the year t-1 scaled by year t-2 total assets.
GR_Sales	the growth rate of firm's sales from year t to year t+1.

Table 3. *Measuring explanatory variable*

Variables	Abréviations	Measure
Size of operation	SO	Ratio of Price paid for the target's equity and market value of the acquiring firm's equity
Board independance	Board I	The independence of directors by the proportion of independent directors from the total number of directors on the board.
Ownership Structure	Ownership S	
Financial Structure	Financial S	Ratio of total liabilities and stockholders' equity
Accounting criteria using to determinate exchange ratio	A CR	A dummy variable equals 1 if accounting criteria using to determinate exchange ratio and 0 otherwise
Auditors of M&A quality	A Q	A dummy variable equals 1 if auditors of M&A belong to Big N and 0 otherwise.

Table 4. *Descriptive statistics*

Panel A : quantitative variable

Explanatory variables	**Total sample**	
	Fréquence	**Ecart type**
(Board I)	**0.73**	**0.66**
(Financial S)	**0.224**	**1.82**

Panel B : a dummy variable

Explanatory variables	**Total sample**	
	Modality	**Fréquence**
Ownership S	**1**	**36.85%**
	0	**61.3%**
A CR	**1**	**82.09%**
	0	**17.91%**
A Q	**1**	**63.3%**
	0	**36.3%**

Table 5. *Correlation matrix between explanatory variables*

	SO	**Board I**	**Ownership S**	**Financial S**	**A CR**	**A Q**
SO	1	-0.029	0.136	0.076	-0.042	-0.192*
Board I		1	-0.226**	0.042	-0.003	-0.103
Ownership S			1	0.034	0.084*	-0.093
Financial S				1	0.047	-0.078
A CR					1	-0.153*
A Q						1

Table 6. *Discretionary accruals*

Explanatory variables	**Beta st**	**t(sig)**
SO	0.228	1.795 (0.082)*
Board I	-0.399	-2.848 (0.008)***
Ownership S	0.391	2.981 (0.005)***
Financial S	-0.151	-1.204 (0.006)**
A CR	0.336	2.301 (0.028)**
A Q	-0.340	-2.495 (0.018)***

R^2 adjusted	0.415
Fisher **(sig)**	5.487 (0.001)***
Kolmogorov –Smirnov **(sig)**	0.564 (0.698)