

SUMMARY

This study aims to investigate whether Portuguese publicly traded firms engage in opportunistic or efficient earnings management in period 2010-2018. This study is motivated by the previous studies that indicate earnings management practices in Portugal tend to be opportunistic. Furthermore, this study also investigates whether auditors' size and dividend threshold influence the type of earnings management selected by Portuguese firms.

Using The sample of this study consists of 33 Portuguese firms for the years 2010 to 2018. This study uses the data from 2010 to avoid the bias resulting from the effect of financial crisis which hit financial markets around the world which greatly distorted firms' financial reporting from normal period.

The results suggest that the type of earnings management that is conducted by the Portuguese firms tends to be more efficient. However, we also find that the desire to meet dividend threshold can triggers the Portuguese firms to conduct opportunistic earnings management. Furthermore, in contrast with previous studies, we find that auditors' size fails to provide additional effect on monitoring mechanism that constrain opportunistic earnings management.

This study contributes to the literature in several ways. First, we provide evidence that Portuguese firms tend to engage efficient earnings management. Second, this study finds evidence that dividend threshold triggers firms to select opportunistic earnings management. The information content of dividend signals the economic condition of the firms; hence, the firms will do whatever is required to meet dividend threshold, including engaging opportunistic earnings management. Third, this study fails to document the auditors' size can constrain opportunistic earnings management practice in Portugal.

This study also offers some implications to the practice. First, the result shows that the Portuguese firms tend to engage efficient earnings management, which means that the investors can rely on the earnings figures reported by the Portuguese firms as they conduct earnings management to increase the informativeness of earnings to signal future profitability. Furthermore, Investors should realize that the big 4 auditors do not necessarily guarantee to restrict the Portuguese firms to engage opportunistic earnings management. Lastly, the investors should be aware that even though the firms distribute the dividend that may signal a good performance, there is still a potential that the firms engage opportunistic earnings management.