

# Characteristics of Independent Directors and Earnings Management

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## ABSTRACT

This study investigates whether the characteristics of independent directors, especially their independence concentration and professional, would affect the behavior of earnings management. The research periods cover from year 2007 to 2011 and the listed firms in Taiwan electronics industry is selected as a sample. Our empirical results show that the proportions of independent directors and the appointment of audit committee are negatively related to the behavior of earnings management. However, the multiple directorships serving as directors of other firms by independent directors may weaken its effect on earnings management. This implies that the concentration of independent director is necessary. Finally, the interaction either from independence and concentration or from professional and concentration of independent directors is also insignificant. Thus, independence concentration and professional of independent directors should be taken into account simultaneously. Furthermore, the current Securities and Exchange Laws and regulations set the provisions, based on the consideration of executive quality, that multiple directorships serving as independent directors of other public companies should not exceed three in Taiwan. Our evidence indicates that the higher the average independent directorships, the lower the earnings management. These findings can be references for policy makers and imply that Taiwan listed companies in electronics industry may improve earnings management by the appointment of independent directors and audit committee. However, moderate restrictions on board seats for independent directors are essential in order to maintain their supervision quality.

Keywords : Independent director、Earnings management、Multiple directorships、Audit committee

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