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**THE IMPACT OF EQUITY-BASED COMPENSATION ON
A RELATIONSHIP BETWEEN EARNINGS MANAGEMENT AND
RESEARCH AND DEVELOPMENT EXPENDITURE**

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Title The Impact of Equity-Based Compensation on A Relationship between Earnings Management and Research and Development Expenditure			
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Abstract <p>This study examines the influence of equity-based remuneration on an association between earnings management and research and development (R&D) expenditures. Prior academic researchers argue that earnings manipulation is significant positive correlated with managers' decisions related to R&D spending. Besides, the higher amount spending on R&D activities has two sides. On one hand, it is a good signal to indicate the successful market expansion or growth of a firm in the future. On the other hand, it causes by financial constraints. Thus, it is raised a concern that whether the high level of R&D investment, that related to a high stage of earnings management, is optimal or not. Also, a high extent of earnings manipulation is a red warning of boards of directors of a firm. Based on agency theory, incentive related to equity instruments is one of useful tools for aligning the interests between shareholders and managers. Thus, we hypothesize that equity compensation will mitigate the degree of earnings management which is correlated to R&D expenditures.</p> <p>In the research design, Jones (1991) model is used to estimate the discretionary accruals, as the proxy for earnings management. We also build up the empirical models which includes the R&D expenditure, equity-based compensation and other financial control variables. As the results, by using a sample data of listed firms of The United State from 2006 to 2013, we do not find the significant effect of equity-based incentives on the correlation between R&D spending and earnings management. However, in the sensitive analysis, for sample firms with high level of R&D and firms belongs to a business equipment industry such as computer, software and electronic, we find the evidence that managers are less likely to manage earnings through R&D activities when they have granted a greater percentage of equity-based awards.</p>			
Keywords Earnings Management, Research and Development Expenditure, Equity-based Compensation			
Additional information			

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