

BENFORD'S LAW AND EARNINGS MANAGEMENT OF KOREAN FIRMS

B. Brian Lee
Prairie View A&M University, Texas
e-mail: brlee@pvamu.edu
Tel: 936-261-9258

Dong Wuk Kim
Jeju National University, Korea
edwkim@jejunu.ac.kr

Michael Lacina
University of Houston-Clear Lake
Lacina@uhcl.edu

Abstract

We examine the change in the level of earnings management around the 1997 financial reform in Korea by utilizing a Benford distribution. We examine whether, reading from the left, firms listed on the Korean Stock Exchange converted high second digits of their positive net income more often in the post-financial reform period (2000-2009) than in the pre-financial reform period (1991-1996). High second digits are converted either to improve first digits or to add an additional first digit (i.e., 1). We find that firms converted high second digits more often in the post-reform period, possibly due to an increase in performance-based compensation plans.