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Earnings management in firms seeking to be acquired\*

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**Earnings management in firms seeking to be acquired\*****Seraina C. Anagnostopoulou<sup>†</sup>****Andrianos E. Tsekrekos**

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**Abstract**

Empirical evidence regarding accrual-based earnings management around mergers and acquisitions has been setting-specific as far as target firms are concerned. This might be due to the fact that target firms cannot always anticipate an acquisition proposal, and thus lack the motive and the time necessary to manage their earnings in order to facilitate or impede the deal. In this paper, we provide clear evidence of downward earnings management by a sample of target firms that have both time and motive to engage in such actions. These are firms that publicly announce their intention to be acquired. Publicly ‘seeking a buyer’ represents a rather unusual corporate event, and we find that these firms engage in downward earnings management in the years surrounding the ‘announcement year’. To some extent, this result is explained by overrepresentation of low performance and growth among these firms, and it can be interpreted under alternative explanations. Furthermore, we show that such downward earnings management negatively affects the probability for a ‘seeking buyer’ firm to secure an acquisition within a reasonable amount of time, a possible indication of efficient diligence by prospective buyers having a preference for firms ‘seeking buyer’ with no informationally obscure earnings.

JEL classification: M41, G34

Keywords: acquisition targets, takeovers, earnings management, income manipulation

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