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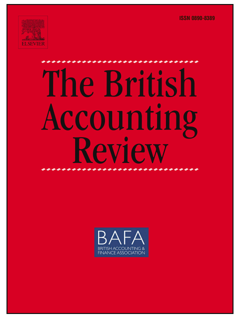


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# The Impact of Earnings Management on the Extent of Disclosure and True Financial Performance: Evidence from Listed Firms in Hong Kong

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## Abstract

This paper challenges the notion that seeking to increase disclosure may not necessarily improve firm performance. Using Hong Kong listed firms subject to increase the extent of disclosure, this paper shows that the net benefit of disclosure is contingent on conditions such as the quality and integrity of a firm's information. We demonstrate that a nonlinear relation exists between disclosure and firm performance when measured performance is adjusted for the impact of earnings management, over the period from 2006 to 2013. The results of our study show that corporate disclosure is likely to result in benefits, but after an optimum level, increasing disclosure reduces true firm performance. This optimum level also falls when differences between other firm's monitoring environments (e.g., independent boards) are in place. These results indicate that intense monitoring of CEOs offsets the advantage of additional corporate disclosure.

*Keywords:* Disclosure; Earnings Management; Intense Monitoring; True Firm performance

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