

Smooth Earning, Annual Compensation and CEO Characteristics

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Abstract

The systems of compensation remain the main mean to reduce the conflicts of interests between chief executives officers (CEOs) and the shareholders. The CEOs compensation is supposed to be positively correlated with the performance of the company. Consequently, the CEOs can manage profits to determine their level of compensation or to increase the part of cash and/or options in compensation. This paper investigates the relationship between the discretionary accruals and annual compensation, current performance, future performance, level of debts and total of assets by using a panel data analysis.

Empirical results show that the CEO smoothes results of the company in order to have an evolutionary compensation. Moreover, we showed that the tenure and the proportion of

property increase the opportunities of this smoothing and decreases the opportunism of the CEOs as soon as they are rooted.

Keywords: Smoothing, current performance, future performance, compensation, entrenchment.

JEL Classification : M41, M48, M49

1. Introduction

In recent years, there are many empirical studies which argue that compensation schemes are an important mechanism that shareholders employ to better align the interests of COE and shareholders, see for instance Jensen and Meckling (1976), Matalcy (2000) and Fung, Firth and Rui (2001). Jensen and Meckling (1976) consider performance-based bonuses, share options and share ownership schemes as an examples of incentive compensation. They suggest that compensation policy tying executive pay to corporate performance. Coughlan and Schmidt (1985), Mehran (1995), Fung, Firth and Rui (2001) maintain that CEO compensation is linked to firm performance. On the contrary, Jensen and Murphy (1990), Leonard (1990), Gregg, Machin and Szymanski (1993) and Matalcy (2000) show a weak relationship between performance and CEO compensation. In spite of this conflicting evidence, CEOs seek to manage total accruals in order to keep their interest. Burgstahler and Dichev (1997), Defond and Park (1997), Degeorge et al. (1999) suggest that managers adjust earning to meet various benchmarks. These studies conclude that managers try to avoid reporting losses, decreases in earnings from prior year. Job security, possible decline in the value of CEO's equity holdings, or compensation arrangements are incentives that lead CEOs managing earnings to meet or beat these benchmarks. Consequently, managers are supposed to manipulate earning upward, when a bonus linked to earnings is expected and the cap has not been reached, see Healy (1985) and Holthausen et al. (1995), and are supposed to manipulate earnings lower, when earning are too poor for a bonus to be awarded or when the cap in the bonus plan has already been achieved Healy (1985) and Holthausen et al.(1995), Gaver et al. (1995), Guidry et al. (1998). In order to monitor and control the actions of professional managers, firms have developed governance and reporting mechanisms. In the case of top management pay, CEOs and executive directors have incentives to award themselves high levels of compensation. In response to possible excessive pay, Hampel (1998) and Greenbury (1995) argue firms to adopt a set of recommended practices and decision making mechanisms.

This paper have two mains objects. The first is to investigate whether CEOs smooth income in anticipation of future earning in order to improve their annual compensation. The second is to examine whether the CEO's tenure, proportion of ownership and duality between the function of presidency of council and the company management increase opportunities of earning smooth in order to enhance annual compensation. We investigate these objectives in a panel of 271 largest publicly traded U.S. firms during the period 1994 to 2003. The financial and governance data are provided from the EDGARSCAN site web. We take an interest in some governance variables which are connected to the CEOs: CEO's ownership, tenure and duality. We define annual compensation as the sum of two components, see Gao and Shrieves

(2002) and calculated by Core, Guay and Verrecchia (2000). Our results show that CEOs smooth income to the detriment of current and future performance to enhance their compensation. These results align with those of Brick, Palmon and Wald (2002). In further, we find that CEO's tenure and ownership increase opportunities of earning smooth in order to enhance annual compensation.

The remainder of the paper is organised as follows: section 2 provides an overview of the literature and development of hypothesis. Section 3 explains the research design and describes the data. Section 4 reports descriptive statistics. Section 5 reports multivariate results. And finally, section 6 concludes.

2. Literature review

2.1. CEO's compensation and Performance

The relationship between compensation and firm performance has an important impact on the long run value of the company. In order to increase their compensations, the CEOs can use accounting manipulations, see for instance Laux and Laux (2007). Many theoretical and empirical works have been interested in the relation between the pay and the performance of the company. Remember that there are three main functions of the systems of payments, see Meulbroek, (2001) and Singh, (2005). The first one is to pay the CEOs for their work, the second is to reduce the costs of agency by aligning the interests of the CEOs with those of the shareholders and finally the third is to keep the CEOs. Empirical studies show that there is a strong and positive relation between the pay and the performance¹, see Lewellen and Huntsman (1970), Coughlan and Schmidt (1985), Conyon and Murphy (2000), Elayan, Lau and Meyer (2001), Fung, Firth and Rui (2001) and Daniel, Denis, and Naveen (2008). Lewellen, Loderer, Martin and Blum (1992) consider the pay of three senior managers, they find a positive relationship between their compensation and performance measures of the firms (share returns and operating profitability). Mehran (1995) and Main, Bruce and Buck (1996) document that there is a positive relationship between corporate performance and the percentage of equity-based compensation. Murphy (1999) documents that level of compensation and the relationship between compensation and performance in the US have raised over last decades, driven primarily by an increase in stock-option compensation. McKnight and Tomkins (1999) show also that performance and pay are linked during both the short and long term for their sample of 109 UK companies over the period 1991-1995. These empirical results are consistent with the prediction of a positive relation between measures of corporate performance and cash compensation during economic growth. On the other hand Mehran (1995), Hand, Bruce and Buck (1996), Conyon and Murphy (2000); Fung, Firth and Rui (2001) and Matsunaga and Parck (2001), although they are led in different contexts and counterparts of different periods, show that the introduction of options

¹ Coughlan and Schmidt (1985) lead their study on data concerning 597 CEOs of the American companies during 1977 until 1980. Elayan, Lau and Meyer (2001) work on 73 companies quoted on the scholarship of New Zealand. They measure the performance of the company by Q of Tobin, the Stock-exchange return and the return on assets.

in the structure of the pay increases the link between the pay structure and the performance of the company.

However, Jensen and Murphy (1990), Leonard (1990), Gregg, Machin and Szymanski (1993) and Matolcsy (1997) show that there is a weak relation between the performance and the compensation, even this relation is absent hanging some economic cycles. In deed, Leonard (1990) examines the effects of executive compensation policy and organisational structure on the performance of 439 large corporations in the US between 1981 and 1985. He finds no significant relationship between accountings of corporate success and the level of a degree of equity in executive pay or to the steepness of pay differentials across executive ranks. Gregg, Machin and Szymanski (1993) and Conyon and Gregg (1994) suggest a distinct relationship between performance and pay. Indeed, the two groups of authors use the same measure of returns to equity-holders and the same measure of company operating profit. Matolcsy (1997) do not find a significant relation between measures of corporate performance and cash compensation during periods of economic downturn. These results may also offer a different interpretation for the findings of Jensen and Murphy (1990), who argue that the relation is not “economically significant”, since they find a weak link between compensation and corporate performance. On a sample of 73 New Zealand listed companies during the period 1994-1998, Eleyan, Lau and Myer (2001), show that neither compensation level nor the adoption of an incentive compensation scheme are significantly related to corporate performance, more over the relationship is found to be insignificant when ROE and ROA are used as a proxy for corporate performance.

2.2. CEO's compensation and earning management

Seen the relation which exists between the profit and the constituents of the compensation as indicated by Clinch and Magliolo, (1993) and Core, Guay and Verrichia, (2003), the CEOs of which the contracts of motivation taking into account the performance of the company, promise in a manipulation of earnings Laux and Laux, (2007). Koch and Wall, (2000) assert that the existence of accruals for the managers is similar to the existence of a combination between the variable bonus and a fine. On the empirical plan, the relation between the management of earnings and the compensations are widely treated. Healy (1985) advances that the managers manipulate earning downward, if this one is lower (a superior) in the (maximal) minimal limit to maximize their bonus next years. Austin, Gaver and Gaver (1995) as well as Holthausen, Larcker and Sloan (1995), Guidry, Léone and Rock (1999) resume these hypotheses by testing them on real data. Healy (1985) use the total of accruals, whereas Holthausen, Larcker and Sloan (1995) and Guidry, Léone and Rock (1999) use in more Jones's model and model of market. Their results are identical, because they show that the CEOs are more susceptible to operate a big bath; choose the accruals which decrease earnings in the neighbourhood of the maximal limit. Nevertheless, in the neighbourhood of the minimal limit their results diverge. Austin, Gaver and Gaver (1995) show an earning management to the rise; Holthausen, Larcker and Sloan (1995) do not notice a significant earning management. Lin and Shih (2002) notice that the CEOs manipulate earning downward during the periods of recessions, because they can not receive a bonus during the current period, so they delay the earning for future, that has no influence on the current

compensation, but can increase it later, see for example Healy (1985).

Matsunaga et Parck (2001) examine the empirical relation between the change in the CEO's bonus and dummy variables representing the frequency with which the firm missed quarterly earning benchmarks. Matsunaga and Parck (2001) focus on CEO compensation and seek if the CEO bonus is lower when the firm misses quarterly earning benchmarks. Their evidence indicates that the strength of this bonus depends on whether the firm has missed a quarterly benchmark earlier during the year. Ke (2003) shows that the use of equity –based compensation leads CEOs manipulating earnings for reporting longer strings of consecutive earnings increases so that they can cash out their equity holdings at a higher price in the future. Gao and Shrieves (2002) suppose that for an opportunist CEO, the structure of the payment remains the most important concern. It is for it, the choice of an earning management entails a conflict about the rhythm of realization of its wealth. In more such manipulation of earning, if it is aggressive, a discontinuity of the advantages can take the CEO to a loss of his reputation. Consequently, if the published earnings accounting are bound in a direct way in payment through annual bonus, or in an indirect way through stock-exchange prices and the allowance of options, then the CEOs can use this discretion to maximize their total payment. Gao and Shrieves (2002) offer five components for many current executive compensation packages: cash salary, an annual performance-based bonus, stock options, restricted stock grants and long term incentive plans. They measure earnings management intensity by the absolute value of discretionary current accruals scaled by asset size. Gao's results and Shrieves (2002) confirm the majority of their hypotheses. Thus, they show that the level of accruals discretionary varies directly with the values of options, in the sense where a strong instigation by options takes to a great use of accruals. Besides, as it was foreseen, the cost of the earning management takes to a weak use of accruals, when CEO's salaries are raised. When they divide their sample according to the type of accruals (positive and negative), they find that salaries are negatively bound to the accruals, but more to the negative accruals. Bonus and options are significant with the two types of accruals, while “restricted stock option” influence the positive accruals.

Our study does not directly look for relation between the pay and the performance, but we look on how the CEOs smooth earnings according to the performance to be well paid. In no more, literature did not confirm always the hypothesis of the smoothing on the compensation. In this study, we shall re-happen in the theory developed by Fudenberg and Tirole (1995) and in the model developed by Defond and Park (1997) to test the hypothesis of smoothing on the compensation. Indeed, Fudenberg and Tirole (1995) advance that the smoothing of earning increases by the conjunction of the following characteristics: first, the CEO enjoys an advantage further to his management of a centre of profit. Secondly, the company can not promise in a contract of long-term instigation. Thirdly, profits currents dress more importance than profits crossed in the estimate of the future performance. This implies that only by comparing the current performance with the one intended whom the leaders can smooth their earnings. We emit so the following hypothesis:

H1: The CEOs smooth earning according to the current and future performance to improve their annual compensation.

2.3. CEO's compensation, CEO's ownership and duality

Jensen and Meckling (1976) argue that when CEOs hold a large fraction of their firm's equity, the demand for further stock based compensation is reduced since the interests of CEOs and shareholders are relatively aligned. Core, Holthausen, and Larcker (1999) find that a weak board governance structure is associated with high CEO compensation and low firm performance. Brick, Palmon and Wald (2002) find that excessive CEO compensation is associated with firm underperformance, they conclude that excessive compensation may be associated with an environment of ineffective monitoring. Holderness and Sheehan (1988) show that managers who are majority shareholders in publicly held corporations receive marginally higher salaries than other officers. Lambert et al. (1993) find that CEO compensation is lower when the CEO's ownership is higher. One advantage of CEO having high shareholdings and receiving low cash compensation is that he earns rewards based (stock price) performance and there is no controversy over excessive pay Fung, Firth and Rui, (2001).

Jensen (1993) maintains that the CEOs determine the agenda and information given the board, and that the CEO and the board chair is frequently the same person. Pay is affected by two chairman characteristics. These are chairman-CEO duality and whether the chairman receives pay from the company. When the chairman of the board is the CEO, he has the responsibility for making the decision and monitoring those decisions, having so, more power with which to pursue personal interests instead of shareholders' interests. Jensen (1993) adds that when the CEO is also the chairman of the board, internal control systems fail because the board cannot effectively perform its key control functions. Sridharan (1996), Brickley et al. (1997) and Core et al. (1999) report that duality leads to higher CEO pay. Of their part, Cyert, Kang and Kumar (2002) show that when the CEO reunites the two functions of management and of presidency of the council, his compensation is raised, that confirms Core's results and al. (1999). Conyon (1997), however, finds no evidence of higher pay for dual CEO/chairman positions in Britain.

Our study tries to show how the COE's tenure, the proportion of property and duality between the function of presidency of council and the management of the company, influence the smoothing of earning for the obtaining of a maximal compensation. We emit so the following hypothesis:

H2: Coe's tenure, his proportion of property and duality between the function of presidency of council and the management of the company increase the opportunities of smoothing in order to improve their payment.

The objective of our study is to test these two hypotheses and to add to the literature of the earning management the possibility that the smoothing increase compensation. We choose just governance variables which are connected to the CEOs.

3. Model, Variables and Data

The purpose of this section is to present the Jones modified (1991) model, variables and the data set used to estimate the discretionary accruals. In the following subsection, we present the Jones modified model of Dechow (1994) and Dechow et al. (1995), and we discuss the used variables. In subsection 3.2, we present the data set.

a. Model and variables

A variety of models have been proposed in the literature to measure discretionary accruals, see for example Healy (1985), Jones (1991), Dechow (1994), Dechow et al. (1995) (modified Jones model), Kothari and al. (2005), and Raman and Shahrur (2008). Most of these models are a modified version of the original Jones model (1991). In all models, the discretionary accruals is estimated as the residuals of the linear regression of the nondiscretionary accruals on the change in revenues and gross property, plant, and equipment. The modified model of Jones (1995) is considered as the more powerful at detecting sales-based manipulations than the others models, see for instance Teoh et al. (1998), Guidry et al. (1999), Peasnell et al. (2000) and Klein (2002).

The Jones modified model have the advantage of eliminating the conjectured tendency that the original Jones model does not takes into account on measuring the discretionary accruals. The modified model of Jones is as follows,

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \left[\frac{1}{A_{it-1}} \right] + \alpha_2 \left[\frac{(\Delta REV_{it} - \Delta AR_{it})}{A_{it-1}} \right] + \alpha_3 \left[\frac{PPE_{it}}{A_{it-1}} \right] + \varepsilon_{it} \quad (1)$$

Where i indicates sample firm and t the time. TA_{it} is the total accruals. The residuals (ε_{it}) is considered as the measures of the earnings management obtained from the previous linear regression. A_{it-1} is the logarithm of the total assets. REV_{it} is the total annual revenues.

AR_{it} is the end of fiscal year accounts receivable. $\Delta REV_{it} - \Delta AR_{it}$ is the change in cash-basis revenue. PPE_{it} is the end of fiscal year gross property, plant, and equipment. Finally ε_{it} is the error term. The total accruals (TA) are computed, as in many others empirical works, see for example Jones (1991), Dechow et al. (1995), Kothari and al. (2005), and Raman and Shahrur (2008), by using the following expression,

$$TA_{it} = \Delta CA_{it} - \Delta CL_{it} - \Delta Cash_{it} + \Delta STD_{it} - Dep_{it}$$

Here as in the previous eq. (1), i indicates sample firm and t the time. The variables ΔCA_{it} , ΔCL_{it} , $\Delta Cash_{it}$, ΔSTD_{it} , Dep_{it} are respectively change in current assets, change in current liabilities, change in cash and cash equivalents, change in debt included in current liabilities and depreciation and amortization expense.

In order, to test the two hypothesis H1 and H2 of section 2, we use the following regression,

$$\text{Discretionary Accruals} = f(\text{Annual Compensation, Current Performance, Future Performance, Leverage, Size, Tenure, Ownerships COE})$$

Where All variables are as summarized in Table 1 below.

Table 1 : Description of variables

Variables	Predicted sign	Symbol	Measure
Financial Variables			
Current Performance	-	<i>Curr.Perf</i>	To judge the Current Performance of the company, we use the following formula2: Current pre-amenaged profit – net current average profit of the sample. Current pre-amenaged profit= net current profits - discretionary accruals.
Future	+	<i>Fut.Perf</i>	To judge the Current Performance of the company, we use the following difference3:

²This difference was used by Defond and Parck (1997)

³ We shall use as substitute real future pre-amenaged profit because of the not availability of the past forecasts, especially that these last ones can be slanted because we work on past data, see Defond and Parck (1997).

performance			Future pre-amenaged profit – net current average profit of the sample. Future pre-amenaged profit= net current profits - discretionary accruals.
	Governance Variables		
Annual compensation	+	<i>Annual.comp</i>	Log(Annual compensation)
Tenure	+	<i>Tenure</i>	Number of years occupied by the CEO
Duality	+	<i>Dual</i>	Takes value 1, if the two functions of the president of council and CEO are combined organized. And takes value 0 should the opposite occur.
Property of CEOs	-	<i>Own.CEO's</i>	The percentage of property of this last one
	Variables of control		
Firm size	+/-	<i>Size</i>	Log (total assets)
Leverage	+/-	<i>Lev</i>	Total debts / totals assets

To test the first hypothesis (H1), we estimate the following equation,

$$Disc.Accruals_{it} = \alpha_0 + \alpha_1 Annual.Comp_{it} + \alpha_2 Curr.Perf_{it} + \alpha_3 Fut.Perf_{it} + \alpha_4 Lev_{it} + \alpha_5 Size_{it} + \varepsilon_{it} \quad (2)$$

And to test the second hypothesis (H2) we add some others variables to the previous equation,

$$Disc.Accruals_{it} = \alpha_0 + \alpha_1 Annual.Comp_{it} + \alpha_2 Curr.Perf_{it} + \alpha_3 Fut.Perf_{it} + \alpha_4 Lev_{it} + \alpha_5 Size_{it} + \alpha_6 Tenure_{it} + \alpha_7 Own.CEO_{it} + \varepsilon_{it} \quad (3)$$

3.2 Data

Our data concerns 271 firms listed on the Fortune Global 500, covering the period 1994 to 2003. Our sample is divided into 12 subsamples based on relative industry performance. Each industry contains at least 20 firms, see Defond and Park (1997). To do that we have used the Standard Industrial Classification (SIC). Table 2 below reports the number of companies in each industry.

Table 2 : Number of companies in each industry

SIC	33	34	35	36	37	38	20	27	28	50	51	73
Companies	20	23	27	25	23	22	23	21	23	22	20	22

Two sources are used to collect our data: companies annual reports and Datastream database. Based on the annual reports, we manually collected data on top-executives and employees compensation. This data concern the fixed and variable compensations as well as options grants. Annual reports were used also to get data on turnover and number of stock-options' recipients. The price to book ratio, the debt level, the stock price return, the asset returns, the equity returns and the dividend distribution rate were collected from Datastream. However, six companies have been excluded from the CAC40 listed companies because of the lack of information on their executive compensation. The final sample is composed of 34 companies.

3.3 Descriptive statistics

Table 3 below reports descriptive statistics for all used variables in eq. (2) and (3). From this table, it appears that the mean and the median of the discretionary accruals are negative. The mean profit of the sample has an average and a median equals respectively to 0.136 and 0.071, which are strictly connected with the profit before extraordinary elements equal to 13.7 % with a median equal to 5.9 % (not reported here).

Table 3 : Descriptive Statistics

Variables	Mean	Std. Dev.	Lower quartile	Median	Upper quartile
<i>Annual.Comp</i>	1350450.956	1677149.215	529265.75	1018080.5	1672115.75
<i>Curr. Perf</i>	0.302	4.285	-0.102	0.016	0.127568
<i>Fut. Perf</i>	-1.198	54.570	-0.105	0.014	0.124920

<i>Assets*</i>	8153.7	39060	492.500	1460	4657.500
<i>Lev</i>	0.822	4.473	0.341	0.471	0.632541
<i>Disc.Accruals</i>	-0.300	4.101	-0.109	-0.029	0.036355
<i>Tenure</i>	9.45	9.041	3	6	12
<i>Own.CEO</i>	0.061	0.116	0	0.01	0.06
<i>Duality</i>	0.795	0.402	1	1	1

*The variable size= log(Assets).

Current and future performance have a means respectively equals to 0.302 and -1.198. The future performance corresponds to the real one of the next year. According to Defond and Park (1997) forecasts can be slanted and then the real values of the non discretionary profit of year can be an effective substitute.

4. Results of the multivariate analysis

Table 4 below presents the panel data estimation results of equation (2). On line, we report the variable and in column the coefficients and the t-statistics. According to this table, all variables are significant at the level of 5%. The coefficients of the two variables "current performance" and "future performance" are negative. The coefficient of the variable "annual compensation" is positive. These results can be interpreted in the following way : an increase of the discretionary accruals is accompanied with a decline of the current and future performance and an increase of the annual payment. This means that CEOs smooth results by decreasing current performance in order to increase their annual compensation. This result can be viewed as a confirmation of the first hypothesis (H1).

The coefficient of the variable "size" measured by the "log(assett)" is negative. This means that the increase of the discretionary accruals is accompanied with a decline of the size of companies. The more size increases, the less results are treated. In other words, the increase of the size of the company can limit the opportunism of the CEOs in smoothing the results to increase their annual compensation. The coefficient of the variable "debts/total asset", is positive. This can be interpreted as follows : an increase of the discretionary accruals is accompanied with an increase of debts. We also observe an increase of debts. This can help the CEOs to smooth results in order to increase their annual compensation. In summary, the variable of control "size" counters tendency of our H1, on the other hand, the variable of control "debts / total assets" confirms tendency of this hypothesis.

Table 4: OLS regression of discretionary on performance and control variables

$$Disc.Accruals_{it} = \alpha_0 + \alpha_1 Annual.Comp_{it} + \alpha_2 Curr.Perf_{it} + \alpha_3 Fut.Perf_{it} + \alpha_4 Lev_{it} + \alpha_5 Size_{it} + \varepsilon_{it}$$

	Dependent variable	
	<i>Disc.Accruals</i>	
Independent variables	Coefficient	T-stat
<i>Annual.comp</i>	0.0984	4,1310***
<i>Curr.perf</i>	-0.7418	-36,170***
<i>Fut. Perf</i>	-0.1773	-8,4658***
<i>Lev</i>	0.0445	6,9234***
<i>Size</i>	-0.0469	-3,5125***
Adjusted R^2 (%)	0.9022	
p-value of the Fischer test	0.000	
Number of firms	266	
Number of observations	2652	
Period of study	1994-2003	

***, **, * Indicates that the coefficient is significantly different from zero at the 0.01 and 0.05 and 0.1 levels, using a two-sided test.

Table 5, below, shows that all variables are significant at levels of 5 % and 1% except for the duality variable. As showed in previous model, coefficients of the two variables "current performance" and "future performance" are negative. The "log (annual compensation)" coefficient is positive. This result can be interpreted in the following way : while an increase of the discretionary accruals is accompanied with a decline of the current and future performance and an increase of the annual compensation. The CEOs smooth results by decreasing as well the current performance as intended to increase their annual compensation.

The coefficient of the variable "tenure" is positive. This shows that the CEOs smooth results to have the tenure the longest possible, by consequences the duration of this last one incites the CEOs to smooth results to increase their compensation to the detriment of the performance of the company. We confirm so our second hypothesis (H2). The coefficient of the variable "property of the CEOs" is negative. This proves that the more the property of the CEOs increases, the less this last one promises in a smoothing of results. In other words, the opportunist behaviour of the CEOs decreases as soon as he takes root, he will try then to increase his annual compensation. The next time our hypothesis (H2) is confirmed. The coefficient of the variable "log asset" is negative. This shows that the increase of the discretionary accruals is accompanied with a decline of the size of companies. The more size increases, the less results are treated. In other words, the increase of the size of the company can limit the opportunism of the CEOs in the smoothing of results to increase their annual compensation. The coefficient of the variable "debts / total asset", is positive. This proves that the increase of the discretionary accruals is accompanied with an increase of debts. We deduct that the increase of debts helps the CEOs to smooth results to increase their annual compensation. In summary, the variable of control "log assets" counters tendency of our (H2), on the other hand, the variable of control "debts / total asset" confirms tendency of this hypothesis.

Table 5 : OLS regression of discretionary on performance and control variables

$$Disc.Accruals_{it} = \alpha_0 + \alpha_1 Annual.Comp_{it} + \alpha_2 Curr.Perf_{it} + \alpha_3 Fut.Perf_{it} + \alpha_4 Lev_{it} + \alpha_5 Size_{it} + \alpha_6 Tenure_{it} + \alpha_7 Own.CEO_{it} + \varepsilon_{it}$$

	Dependent variable	
	Disc.Accruals	
Independent variables	Coefficient	t-stat
<i>Size</i>	-0.0458	-3,2778***
<i>Annual.comp</i>	0.0862	3,5889***
<i>Lev</i>	0.0466	7,2301***
<i>Curr.perf</i>	-0.7444	-36.332***
<i>Fut. Perf</i>	-0.1751	-8.379***
<i>Tenure</i>	0.0110	3.4650***

<i>Own.COE</i>	-0.7930	-3.7189***
<i>Duality</i>	0.02696	0.4117
Adjusted R^2 (%)	0.9028	
Stat-Fischer (p-value)	0.0000	
Number of firms	266	
Number of observations	2652	
Period of study	1994-2003	

***, **, * Indicates that the coefficient is significantly different from zero at the 0.01 and 0.05 and 0.1 levels, using a two-sided test.

5. Conclusion

In this study, we have investigated if the CEO smooth results in order to improve their annual compensation. Moreover, we have investigated if the tenure, the property of the CEOs and the duality between the two functions of president of council and of CEO, increase the opportunities of this smoothing. Seen the importance of the phenomenon, we thought of what the smoothing of results can be used by the CEOs to receive an evolutionary payment in the. To do it, we regress the discretionary accruals on the annual compensation, on the current performance, the future performance, on the level of debts and the size of the company. Results showed that the CEOs smooth results to the detriment of the current and future performance to have an evolutionary payment in the time. By deepening the analysis we showed that the tenure and the proportion of property increase the opportunities of smoothing. Our results show also that the opportunities of smoothing decreases as soon as the CEO is rooted. Nevertheless, we can blame our study for the not consideration of the part of the compensation represented by options.

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