



Real Earnings Management in Organization and the Behavior of Cost Stickiness: Empirical Evidence from Iranian Companies

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Abstract

This study investigates on the association between real earnings management and the stickiness of selling, general and administrative (SG&A) costs. The cost stickiness phenomenon is a pattern of cost behavior which related to managerial deliberate resource commitment decisions. This paper speculates that, in a sales decline, firm with earning manipulate increased the degree of cost stickiness. This is because of manipulate non-discretionary costs leading to increasing the intensity of cost reduction. To estimate real earnings management consider three item including: sales manipulation, overproduction, and the abnormal reduction of discretionary expenditures. The data sample consists of 2,552 firm-year observations of Tehran Sock Exchange firms for the period 2003–2013.

Based on paper's result, the three level of REM variable increased degree of cost stickiness.

ROA, ROE, Leverage and EM consider as control variables. EM, like REM variables increase the degree of cost stickiness and Return on assets (ROA) show an anti-stickiness behavior.

Keywords: “Real Earnings Management”, “Costs Stickiness”, “ROA”, “ROE”, “Leverage”.