

# Artificiell styrning av resultat

## Om ekonomi, politik och tjänstemän

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## **Artificial earnings management: On economic, politics, and civil servants**

The subject of this thesis is artificial earnings management in municipalities. Its occurrence is linked to the premise that politicians act in a political market and therefore have incentives to affect the picture of the municipality's finances presented to presumptive voters and other stakeholders. The regulation, including a balanced budget requirement, can also create incentives to engage in artificial earnings management. When surpluses or deficits are managed, resources are shifted between different accounting periods, which can help create scope for political action. Vote-maximizing politicians can exploit this scope to attract voters through promises of future reforms.

The occurrence of artificial earnings management in at least some municipalities and situations must, in light of political self-interest, be regarded as expected. But why artificial earnings management occurs in some municipalities but not in others, and why the extent of artificial earnings management varies is not as clear-cut. Earlier research either stops at pointing out individual cases and describing and problematizing the phenomenon, or at studying a very limited number of factors that may explain why the phenomenon occurs and varies in extent. In relation to the reforms in the field of municipal accounting, where Sweden and many other OECD countries have changed from cash-based accounting to accrual-based accounting in public sector, it is relevant to find out more about the artificial earnings management that occurs and thus add to the limited literature in the field. By finding out more about artificial earnings management that occurs when an accrual-based accounting model is applied, it can create understanding of the phenomenon and how it can be handled in future accounting reforms and thus, for example, improve conditions for attaining the goals of the reforms, such as better decision input and political accountability.

A case study and a quantitative study were performed within the framework of this thesis to explain why artificial earnings management occurs and varies in extent. The studies show that economic factors are the primary explanation for why artificial earnings management occurs but the factors of politics and civil servants also have some explanatory power. With regard to the extent of artificial earnings management, the economic factors are the only studied factors that have any explanatory power.

**Key words:** accrual accounting, artificial earnings management, big bath, income smoothing, public sector accounting