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The Relationship between Accrual Earnings Management and Employee Tenure

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Abstract

This paper examines whether accrual-based earnings management activities are influenced by employee tenure. Employees, as key stakeholders, can play dual roles within a firm: a monitoring role that may help curb inappropriate accounting practices, or a compliance role that could facilitate earnings manipulation. Using a panel dataset of 11,381 firm-year observations collected from the Korean stock market between 2011 and 2019, the empirical results reveal a positive association between discretionary accruals and average employee tenure. This suggests that a conducive environment for earnings management may be created when employees have longer tenures. Moreover, this paper investigates the role of foreign investor ownership as a moderating factor in the relationship between discretionary accruals and employee tenure. The findings indicate that higher foreign investor ownership significantly weakens the positive relationship between earnings management and employee tenure. Finally, the results from various robustness tests confirm that the overall findings are robust and remain unaffected by potential confounding factors, such as firm characteristics or endogeneity issues.

Keywords: Earnings Management; Employee Tenure; Foreign Institutional Investors