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THE EXTENT TO WHICH EARNINGS ARE MANIPULATED IN THE CONSTRUCTION SECTOR OF THE STOCK EXCHANGE OF THAILAND AND ITS EXOGENOUS MACROECONOMIC FACTORS**Abstract:**

This study aims to investigate the earnings manipulation phenomena in the construction sector of the Stock Exchange of Thailand. Our examination is divided into two stages. In the first stage, we use the M-score model developed by Beneish (1999) to calculate the extent to which earnings are manipulated by Thai construction companies listed in the SET during the past ten years. This will allow us to ascertain the level of earnings management engaged by these firms during several critical periods, e.g., the period before the US subprime mortgage crisis arose, during the crisis period, and the post-crisis period, and in addition, the period before the political crisis leading to an establishment of the military government and the period after. The second stage of our examination deals with potential macroeconomic factors that affect the probability of earnings manipulation revealed by construction companies. These variables include cement materials price index, steel material price index, fixed capital formation, gross domestic product. Our control variables include total accruals to total assets ratio, debt to equity ratio, market capitalization, and return on assets.

Our preliminary results reveal that reveals that the level of earnings management in the construction sector of the SET exceeds the benchmark M-score value of -2.22 in the second and third quarters of 2009 (during the subprime crisis). This phenomenon is encouraging especially for the Securities and Exchange Commission (SEC) of Thailand. It implies that the SEC's strict reporting regulations have resulted in the level of earnings manipulation in the construction sector of Thailand being low recently. Nevertheless, Thai construction firms have shown an incentive to conduct earnings manipulation activities during the global financial crisis period. Further analysis shows that debt to equity ratio, market capitalization, and steel materials price index are negatively related to the manipulation index at the 95% confidence level. Only the total accruals to total assets ratio is positively related to the manipulation index at the 95% confidence level. On the other hand, return on assets, cement materials price index, gross domestic product, gross domestic fixed capital formation, and the SET index are found to exert no significant influence over the manipulation index.

Keywords:

earnings manipulation, M-score model, construction sector of the Stock Exchange of Thailand