Are Unmanaged Earnings Always Better for Shareholders?

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SYNOPSIS: The push for increased transparency in financial reporting and corporate governance serves the shareholders only up to a limit. The problem of assessing the value of transparency to the shareholders is subtle because both the level and pattern of earnings can convey information. Even when earnings management conceals information, it can be beneficial to shareholders. Distinguishing between ex ante and ex post efficiency underscores the advantages of achieving a balance between transparency and privacy in corporations.