

Article

Accounting Letters Volume 1, Issue 1

March 2024

pp. 13-25

# **Earnings Quality and Voting Shareholders' Reliance on Earnings Information: Evidence from the Top Executive Director Election in Japan**

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Submitted May 14, 2021; Revised April 25, 2022; Accepted: April 26, 2022;

Available online: September 9, 2022; Published: March 25, 2024

## **Abstract**

This study provides evidence of how earnings quality affects the relationship between a firm's earnings performance and the voting results in the top executive director (TED) election. The literature argues that earnings quality affects the decision usefulness of earnings information to shareholders in monitoring the management. Accordingly, this paper hypothesizes that the percentage of votes in favor of the TED election would be less (more) sensitive to earnings performance when the firm reports low- (high-) quality earnings. Using a large sample of TED elections of Japanese listed firms, this paper finds that the percentage of affirmative votes for the TED election is positively associated with earnings performance, but especially low earnings quality weakens this relationship. These findings imply that low accounting quality makes earnings information less useful for voting shareholders to evaluate the management. Also, this paper finds that the effect of earnings quality is more pronounced for firms with high institutional ownership.

**Keywords:** shareholder voting; earnings quality; director election; corporate governance

Published by

The Accounting and Economic Association of Japan 2024

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