IMPACT OF EARNINGS MANAGEMENT ON FIRM'S PERFORMANCE: A CASE STUDY OF MANUFACTURING COMPANIES LISTED AT THE DAR-ES-SALAAM STOCK EXCHANGE MARKET

IMPACT OF EARNINGS MANAGEMENT ON FIRM'S PERFORMANCE: A CASE STUDY OF MANUFACTURING COMPANIES LISTED AT THE DAR-ES-SALAAM STOCK EXCHANGE MARKET

By
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A Dissertation Submitted in Partial Fulfillment of the Requirements for the Award of Master of Science in Accounting and Finance of Mzumbe University
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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by Mzumbe University, a dissertation entitled "***Impact of Earnings Management on Firm's Performance: A Case Study of Manufacturing Companies Listed at the Dar-es-Salaam Stock Exchange Market***, in partial fulfillment of the requirements for award of Master of Science in Accounting and Finance of Mzumbe University.

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I, Jane Adam Moshi**,** declare that this thesis is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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DEDICATION

This work is dedicated to my children Catherine and Jonathan and my beloved husband for his prayers, encouragement and support in my studies.

May almight God bless you.

LIST OF ABBREVIATIONS AND ACRONYMS

DSE	-	Dar - es - Salaam Stock Exchange
TCC	-	Tanzania Cigarette Company
TPCC	-	Tanzania Portland Cement Company
TOL	-	Tanzania Oxygen Gas
TATEPA	-	Tanzania Tea Packers
TBL	-	Tanzania Breweries Limited
PPE	-	Property, Plant and Equipment
TCCL	-	Tanga cement company limited
GAAP	-	Generally Accepted Accounting Principles
FIFO	-	First In, First Out
ROA	-	Return on Asset
IPO	-	Initial Public Offer
IFRS	-	International Financial Reporting Standards

ABSTRACT

The aim of this study was to assess the impact of earnings management on firm's performance. The study was conducted in Tanzania in which manufacturing firms registered at Dar – es -Salaam stock exchange was used as study cases.

The study used Jones revised model for discretionary accrual to measure earnings management while firm's performance was measured using net profit margin as a measure for profitability, debt to equity and debt to asset as proxy measures for leverage, return on asset as a measure for asset management performance and current ratio as a measure for liquidity level of the firms.

The findings on the study show that manufacturing firms at DSE engage in earnings management. Most of the firms were found to manage earnings downwards. The results on the relationship between earnings management and performance shows that, earnings management has impact on firm's performance but the nature of the impact depends on the variables used for measuring earnings management. The study found out that earnings management did not have any significant relationship with return on asset, debt to equity and debt to asset on the one hand, while on the other hand it was found that earnings management has significant impact on current ratio and net profit margin.

Basing on the findings of the study, the study recommends that registered firms at DSE should present their statements fairly to enable investors to make correct decisions. The regulators of DSE should develop more mechanisms to detect earnings management among the listed firms and should ensure that all firms present financial statements that show true and fair view. Earnings management has impact on performance, therefore the study recommends the users of financial statements especially those who wish to make decision basing on them, should first evaluate whether the related firms engage in earnings management so that the decisions made can be correct ones

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CHAPTER ONE

INTRODUCTION

1.1background of the Study

Earnings Management refers to the practice of managers of the firm to undertake some managerial actions on company's performance variables, which are reflected in the company annual financial statements. The practice of earnings management in the firms aims at giving the impression of smooth annual earnings by showing high profit for the current accounting period at the expense of future earnings or to lower the current earnings in order to report high earnings in the future (Ronen & Yaari, 2008). It is therefore the deliberate altering of financial information reported in the annual financial report in order either to mislead the users on the underlying economic condition of the firm or to gain some contractual benefits, which depend on the reported accounting numbers in the financial statement (Healy and Wahlen, 1999, Bergstresser and Phillippon, 2003).

Earnings management is a problem, which has recently gained more importance among the users of financial information, shareholders and other stakeholders. Managers of company have been reported to use various accounting methods to mislead the users of financial statement and stakeholders about the true financial performance of the company hence gain at the expense of the owners and users of the financial statement. The magnitude of earnings management problem and its impact on the organisation performance is highly contributed or caused by lack of financial reporting transparency among the firms. This due to the fact that most organisations use accrual accounting methods which is the components of earnings, that are not reflected in the current cash flows and which the firm managers have discretion in reporting it (Bergstresser& Phillippon, 2003). Secondly, earnings management is motivated by the strong incentives among the managers to use judgment in financial reporting when preparing the financial

statements as well as in structuring of transactions to alter the financial statements so that they can achieve their personal goals such as increasing managerial compensation which is highly related to the earnings of the firm (Degeorge *et al*., 1999, Cornett *et al*, 2008).

The impact of earnings management practices on the firm's performance and value is very high which has resulted in major accounting scandals in the history of accounting such as the Xerox 2000, Enron 2001 and the WorldCom in 2002. As a results of such scandals most of investors trust on accuracy of accounting statement and the information contained in has been reduced and has also led to increased attention of the regulators, the governments and other bodies (Ronen & Yaari, 2008). It has also resulted in increasing demand for financial information transparency since the earnings manipulation have impact even to the stock prices for companies registered in the capital markets.

Problems of earnings management are indicated to be very large in developing countries like Tanzania as a result of weak rules of law and corruption. Studies have shown that earnings management problem is more common in countries with weak rule of law as compared to countries with strong rule of law especially on financial matters (Dyreng *et al* 2011). It is clearly known that the financial reports prepared by an organisation are the mirror used by stakeholders to judge the performance of the company hence the quality of the reports is very important. Users of the statements make financial decision basing the information displayed, judge the management competence using the information and serve as the benchmark for forecasting future performance of the firm. The manipulation of earnings by either reason is therefore detrimental practice to the users of the financial statements who make decision depending on such statement, detrimental to the performance of the firm as well as to the wealth of the shareholders (Cornett *et al.*, 2008, Bergstresser & Phillippon, 2006).

1.2 Statement of the Problem

Although the problem of earnings management and its impact to the performance of the firms is indicated to be high in developing countries (Dyreng *et al.* 2011), the extent of the problem in Tanzania is not yet known. This is due to the fact that little empirical studies have been conducted in the area of earnings management and especially on the impact of the earnings management to the performance of the firm. Since the capital market in the country is at its growth stage and more firms want to register and acquire the public funding, there are possibilities of earnings management in order to attract the investors to buy the shares, but which have not yet been explored to know the extent of the problem and its impact to the performance of the companies.

Studies which have been conducted in the country and which relate to these areas have provided some insight into what is prevailing in the field. The study by Patrick *et al.* (2014) on corporate governance reported that more than half of the institutions reviewed do not comply with corporate governance requirements. Since corporate governance requires high disclosure especially on management and director's non-disclosure of financial information suggests the possibilities of earnings management. The study by Okiro (2014) on capital markets of Tanzania, Kenya and Uganda reports on the presence of significant relationship between the corporate governance and performance which also portray that financial disclosure is very important on performance as it one way of minimizing earnings management practices in firms.

Although some authors have presented findings on the studies relating to financial disclosure, governance and performance of the firms, studies on earning management practices in Tanzania could not be found, hence little is known about this problem regardless of the use of accrual accounting in most of the firm both registered and unregistered. Therefore, this study aimed at assessing the impact of earnings management of firm's performance for the manufacturing companies registered at Dar - es-Salaam stock exchange market. The study sought to generate knowledge on the

earnings management practices and their impact on the firm's performance and suggest the ways that can be used to manage the problem in Tanzanian context.

1.3 Objectives

The general objective of the study was to assess the impact of earnings management on the firm's performance for the manufacturing companies registered at Dar-es-Salaam stock exchange market. The specific objectives of the study were:

i. To assess the earnings management level of the manufacturing companies listed at DSE
ii. To examine the performance of manufacturing companies registered at DSE
iii. To assess the relationship between earnings management and firm's performance for the manufacturing companies registered at DSE

1.4 Research Questions

In order to the meet the above specific objectives; the following research questions were used:

i. What is the level earnings management in manufacturing companies at DSE?
ii. What is the performance level of manufacturing companies listed at DSE?
iii. What is the relationship between earnings management and the performance of manufacturing companies listed at DSE?

1.5 Scope

This study focused on the assessment of the impact of earnings management on firm's performance taking manufacturing companies listed at DSE as the case study. The study considered only manufacturing companies, which have been registered at DSE to enable the researcher to measure firm's performance using, market measures. The study did not focus on other issues related to the capital market rather on the earnings management issues and the performance of the selected firms.

1.6 Significance of the study

This study is of great value to different parts as follows

i. Since studies on earnings management and its impact on firm's performance are scarce in Tanzania, the study is of great use as it provides the empirical evidences on what is transpiring in the firms listed at DSE regarding the earnings management practices and the impact on the firm's performance.

ii. The study adds to the existing literature on earnings management and firm's performance, hence is of great use to other researchers especially on Tanzanian context.

iii. The findings of the study are valuable to the regulators of financial markets as they provides some evidences on earnings management hence enable them to take appropriate actions so as to ensure that the investors and shareholders are safeguarded.

iv. For the managers of the firms, the findings of the study provide them with some insights into the impact of earnings management on performance of their firms hence enabling them take relevant actions to minimise the problem.

1.7 Organisation of the dissertation

This dissertation is organised as per Mzumbe University research guidelines. The dissertation has six chapters, chapter one provides the background of the study, statement of the study, objectives and scope as discussed above. Chapter two of the study includes literature review which is be divided into four parts, the theoretical review, empirical review, conceptual framework and hypothesis development. The third chapter includes research methodology which was used in this study. Chapter four of the study presents the results and findings of the study while chapter five is on the discussion of the findings of the study. The last chapter presents the summary of the findings, conclusion and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part aims at presenting the review of different literature related to the study. It is divided into four parts which are the theoretical review, empirical review, conceptual framework and hypothesis development.

2.2 Theoretical Review

2.2.1 Definition of Terms

Earnings Management concept - Earnings management is the practice of manipulating firm's earnings in order to ensure that financial statement look better than their original status. The definition of earnings management differs depending on how someone consider the practice of managing earnings, for those who accept the practice of earnings management indicating it is good for the firm, they define earnings management as the means used by managers to improve the financial position of the firm (Healy & Helen, 1999). For those who see earnings management into a negative way considers the practice as manipulation of earnings by management in order to gain out of it or to show that the company is performing while it is not at the expense of the shareholder's wealth as well as the investors (Ronen & Yaari, 2008, Bergstresser & Phillippon, 2003).

According to Scott (2000), earnings management refers to the power given to managers of the company to choose accounting methods and procedures in order to achieve some specific objectives. By this definition, it means managers select accounting procedures and methods that give them advantage as they help to show that the company is performing well. On the other hand, Fischer (1994) indicated that earnings management is all about managerial operations with aim of increasing or decreasing the reported earnings but which does not change long-term profitability of the economic entity.

Schipper (1989) also argues that earnings management is the intentional interference by the management of the firm to the process of preparation of financial statement in order to achieve a particular earning level to impress the outside users. In this study, earnings management is defined as the act of manipulating the earnings by either reducing or adding them in order to benefit out of it either by personal benefit or organisation benefits at the expense of either shareholders or investors.

Firm Value concept– Is an economic measure of market value of the business or organisation. Is a measure of the firm total value which can be calculate as the product of share price multiplied by number of shares of the company (Hull, 2012).

Listed firm's concept – Listed firms refers to the firms whose shares are traded at stock exchange market and which conforms to all requirement of a listed company (Hull, 2012).

Stock exchange market- Stock exchange market is the market where securities are being traded. Stock markets plays intermediation role by allowing the parts with surplus funds to efficiently and cheaply meet the part with deficit of funds and which need funds (Saunders & Cornett, 2006). Stock market can be divided into two, the primary market where the firms issue stock for the first time to allow them get financing and the secondary market where the existing stock are being traded the investors who own the stock.

2.2.2 Earnings Management Practices

Company earnings is a measure of performance of the company for the particular accounting period which is computed as the difference between revenue generated and the expenses incurred in earnings such revenue for the period. For various reasons, managers of the companies tend to intervene into the process of calculating the earnings by manipulating the figures to be reported for their own benefit or in order to ensure that

the report shows a better performance on earnings for the period. According to Healy and Whalen (1999), earnings management occurs when the managers of the company decide to use judgment in financial reporting by restructuring the accounting transactions in order to alter the financial report with the aim of either misleading the stakeholders about the actual economic performance of the firm or to influence contractual outcomes such as bonus which depends on the reported figures on financial reports.

2.2.2.1 Classification of Earnings Management

The manipulation of earnings in the organisation can be conducted in different ways which are categorised or classified into two, the accrual management by the use of accrual accounting and the actual manipulation of real activities in the company.

Accruals Management-Accrual concept is among the key accounting principle which require the entities to recognise revenue and costs items when the benefit is received and not when the cash is paid or received. This is among the generally accepted accounting principles which managers use to either to increase or decrease the economic performance of the firm (Dechow & Skinner, 2000). Accrual management does not involve the changing of underlying operation in the business firms rather it involves the choice of accounting methods to be used to represent different activities undertaken in the firm. Accrual accounting therefore gives managers of the firm a significant power to determine the profits of firm in different periods, managers have control on the recognition period of some cost items and have options in recognising revenues such as earlier recognition of revenue through credit sales which together can be used to manipulate the earnings to suit manager's purposes (Teoh *et al*, 1998).

Real activity Management – This refers to the practice of changing the entire or some business operations activities in the firm with aim of boosting the current period earnings. Real activity management can take different forms in the organisation such as increasing production/overproduction with the aim of decreasing cost of goods sold expenses or cutting some desirable costs such as research and development investment with aim of boosting the current earnings. According to Schipper (1989), real activity management occurs when the managers of the company intentionally undertake actions that results in changes the timing or structuring of operations, investment or financial transaction with the aim of influencing the reported figures in the financial statements.

2.2.2.2 Earnings Management Tool

There are several tools which are used in earnings management. According to Bruns Jr & Merchant, (2005) and Francis (2001), the tools can be classified into five categories, the accounting attitude of managers, selection and changing of accounting principles, accrual management, transfer pricing and real economic decisions.

Accounting attitude of managers- This involves the attitude of managers towards accounting transactions. It involves different decisions such as the timing of sales records, reduction of the value of inventories and equipment's by managers which cannot be understood or recognised by users as well as other decision which aim at managing earnings.

Selection and changing of accounting principles – There different general accepted accounting principles GAAP which are used in the recording and preparation of financial statements. Managers are allowed to choose different methods of their choice to record the transaction and advised to maintain the selected methods. Some example includes the formula for charging depreciation on assets, firm can use straight line, reducing balance or any other method, likewise firm can use FIFO or average method to

account for inventories. The switching from one methods to the other, though is not done frequently can have impact on earnings reported

Accruals Management- This is a traditional tools used by managers which is not observable by the users of financial statements.

Transfer Pricing- This is method is more applied by multinational companies which operate in more than one country with either subsidiaries or branches. The companies normally transfer earnings from countries with high tax rates to the countries with low tax rates. Apart from the earnings, the companies also transfer the incomes between the two countries by exchanging the goods and services.

Real Economic decisions- This involves decisions made by managers on the use of resources of the organisation such cash payments for pension's plans, advertisement expenses, paying bonus to managers and research and development investments.

2.2.2.3 Incentives to Earnings Management

Among the key questions which have been asked by different authors is on incentives that make managers to be involved in earnings management. Previous literature has documented some reasons for earnings management, starting from early studies Bhat (1996) gave earning management a positive face by indicating that it is linked to the attempts geared to enhance shareholders value and maximise executive compensation through income smoothing and earnings management. Contrary to Bhat (1996), Healy and Wahlen (1999) indicated that earning management is window dressing of financial statements which is done by managers of the firms with aim of increasing their managerial compensation and job security, avoiding debt covenants violation, decreasing regulatory costs or increasing the regulatory benefits.

According to Chang *et al*, (2008) managers involve themselves in earnings management as a results of three incentives, first is due to listing motives during the initial public offerings, seasonal equity offerings, mergers or management buoyant plans, second is due to desire to increase management compensation, debt agreement and/or job security and lastly is to take advantages of laws and regulations of the country. This view of the earning management incentives is also shared by Cornet *et al* (2008) and Shah *et al* (2009) who also indicate that managers seek to enhance their wealth and bonus through earnings management.

2.2.3 Managers Motivation for Earnings Management

Among the key question asked by different authors is why managers engage in earnings management. Previous studies have provided some of the motives which make managers to engage in the earnings management practices. Some of the motives include;

- **Capital Market Motivations-** Firms listed in capital market are required by the market authorities to issue quarterly financial statement which are used by investors for decision making. The use of the information contained in the financial statement by investors and other stakeholder has led some academicians and authors to assume that mangers manage earnings to influence the users of the financial statement in their decisions (Erickson & Wang, 1999).

- **Lending Contracts Motivations-** Lending contracts relates to the debt covenant hypothesis which indicate that often the creditors of the company impose restriction to the company regarding different decisions such as dividend payments, share buybacks and additional of debts as a means of ensuring that the company repay its debts and the interests due. According to this hypothesis, managers are motivated to manage earnings so that they do not breach their debt covenants, especially for firms with more debts in their capital structure (Watts &Zimmerman,1990)

- **Political Cost Motivations-** Most of the firms especially listed ones are regulated since they are public firm. The level of regulation is very high as compared to unlisted firm and extent to different aspect of the firm including the prices of the products, the quality etc. Sometimes during the operation of the firm, it might be forced by the authorities to reduce the price of the products or services offered. This is a political pressure to the firm which if not adhered to, the firm can be penalized, which can may result from investigation of the firms which did not adhere to anti-trust laws or those which have been taking advantage of the public. According to the political cost hypothesis, managers engage in earnings management in order to overcome such political pressure by ensuring that they report low earnings hence be seen as less profitable firm (Watts &Zimmerman, 1990, Healy & Wahlen, 1999)

- **Management Compensation Contract Motivations**- This follows from management compensation theory which proposes that managers are motivated to use earnings management to improve their compensation since most of the manager's bonus are linked to the earnings generated (Xiong, 2006).

- **Regulation Motivations-** Firms operating in some line of business such as banks, insurance and utility companies are subject to more regulations than other firms. Depending on the nature of regulations, some require companies to meet some standards such as level of assets, level of cash, earnings etc, and they are monitored for compliance with regulations. According to this hypothesis, companies which are monitored for compliance in variables which relates to earnings have the motive to manage earnings in order to satisfy the regulators (Healy & Wahlen, 1999)

2.2.4 Theories on Earnings management and firm's performance

The relationship between earnings management and firm's performance can be explain by different theories which are discussed below:

i. Agency Theory

Agency theory explains the relationship between the owners of the business who are the principal and the managers who are the agents of the owners. In modern firms, due to the size of the firm, the dispersion of ownership in which their huge number of shareholders and the nature of business which requires professionalism, the owners of the business cannot manage the operations, hence they hire managers to operate the business on their behalf. Manager though are required to operate for benefit of the owners, some time they operate at their own interest hence causing principal agent problem.

According to Jansen and Meckling, (1976) the agency theory is very important in explaining the behaviour when one individual delegates work to another with expectation that the agent will make decision which are of the best interest to the principal. Agency theory explains the earnings management since managers are motivated to manage earnings in order to increase their bonus, compensations and commissions which are closely tied to the earnings of the firm (Booth and Schulz 2004, Shapiro, 2005).

ii. Efficiency Theory

According to information efficiency theory, the market is said to be efficient when all available information is contained in the price of the share. Hence, there is correlation between information and the stock prices in the market. Information efficiency theory provide three level of efficiency, the weak form which only past information is reflected in the stock price, the semi strong form where the past and present information is

reflected in the stock price and the strong form where all information, the past, present and future information are reflected in the stock price (Ross *et al*, 2006).

According to literature, only declared information is the one that is supposed to be reflected in the stock price and not the accounting value presented. Accounting value contains information, such information is very important than the figure itself hence, adjustment or modification in the figures (earnings management) has no impact on cash flows cannot provide and information to the market which should be reflected or affect the share prices (Foerster, 2009, Yang *et al*, 2011).

iii. Signal Theory

According to Signal theory, accounting figures are very important to the users especially the investors. In the capital market, investor use accounting figure to conduct financial analysis of the firm and hence make decision basing on the analysis conducted. Signal theory assumes that accounting figures need to be genuine and correct tool for signaling market trends as they enable investors to assess the firm real value.

Earnings management therefore, results in information asymmetry between investors and managers of the firm. Managers, using accrual or real activities make decision or actions, which are not known by the users of financial statements hence they possess information which is not known by the users of the financial statement (Xu, 2005).

2.3 Empirical Review

Earnings Management have attracted many researchers in different part of the world, hence several studies have been conducted in this area and have provided mixed findings regarding the practices, the motivation and the impact of earnings management to the firm and the stakeholders of the firms.

Several studies have reported on the relationship between earnings management and firm value, the study by Putri, (2013) on the relationship between earnings management and value relevance in Indonesian Stock Exchange, reported that, earnings management has negative impact on value relevance and the book value. Likewise, Eman (2010) also examined the impact of earnings management on the value relevance earnings and book value, the findings of the study indicated that earnings management have negative impact on firm value.

Study conducted by Llukani, (2013) on earnings management and firm size in Albanian Market, reported that, firms in Albanian market engage in earnings management activities and there were no significant differences between earnings management initiatives and practices among small and large size companies. This study used Jones modified model for discretionary accruals to measure the earning management level of the firms.

The study conducted by Gill *et al.* (2013) examined the relationship between earnings management and value of the firm of manufacturing firm in India. The study used accrual model by Jones and other to measure earnings management while firm's performance and firm value of Indian manufacturing firms were measured using total asset to measure market value, debt to asset to measure leverage, current ratio to measure liquidity and Tobin Q to measure market value. The results show that, the practice of earnings management is so greater and has diverse effect on corporate rate of return on assets. The study also found that, when the market recognises about the manager's behaviour on managing earnings or acting on their own motives, the market responds by lowering the price of the shares.

The study by Sayari *et al* (2013) on the impact of earnings management on stock return in Tunisia firms also reported similar findings to the above studies. The results of the study show that earnings management based on discretionary accruals have significant

impact on firm value. Study by Fattahi *et al* (2014) which examined the impact of earnings management on value relevance of accounting information of listed firms at Tehran Stock Exchange report different findings contrary to what was reported by the above studies. According to this study, earning management does not have any significant relations to the value relevance of accounting information.

In assessing the impact of Earning management to the users of financial statement, Chang and Shiva, (2010) examined the effect of earning management on the prediction ability of earnings. The findings of the study show that, when managers involve in earnings management, the users of financial statement lose their ability to predict the earnings of the firm in the future.

Apart from earning management, previous studies have also examined the relationship between the information contained in the financial statement and the market value of the firm. The study conducted by Stefano (2012), examined the relationship between accounting information and market value of the firms listed at Milan Stock Exchange. The findings of the study show that, discretionary accruals, non-discretionary accrual and operating cash flows have different value relevance. Other studies have examined the impact IFRS adoption the quality of the accounting figures in the financial statement. The findings of such studies have reported that IFRS adoption result into improved quality of financial statement of the firms (Iatridis, 2010, Suwardi, 2005, Wahlen and Namara, 2004). The study by Dimitropoulos and Asteriou, (2009) on the other hand examined the relationship between financial ratios calculate out of financial statement and the share price of the firms listed at Athens Stock Exchange for the period of ten years. The study also examined the effect of discretionary, non-discretionary accruals, earnings per share and other six financial ratios as the proxy measure of earnings manipulation on share price. The results of the study show that the changes in share price were highly affected by the ratios as were as the accrual both discretionary and non-discretionary.

Likewise, other previous studies have examined the relationship between earnings management and other variables of the firm. The study by Chiraz andAnis (2013) examined the relationship between earnings management and performance of French IPO companies. The findings of the study show that companies with aggressive earnings management in the IPO process, tend to suffer from subsequently poor returns and to delist for performance. The study also reported that, no evidence was found to suggest that the level of initial return is negatively related to discretionary current accruals. The study by Izadinia *et al*. (2014) examined the relationship between earnings management and social responsibility of the firms listed at Tehran Stock exchange. The findings of the study show presence of negative relationship between earnings management and corporate social responsibility but financial performance of the firm was found to have positive relationship with earnings management while organisation commitment was found to be negatively related with earnings management.

Other studies on earnings management include, the study conducted by Raoli, (2013) in Italy examined whether managers do engage in earnings management to support firm's market valuation in the country's financial market. The study used total accrual as the proxy measure of earnings management while the firm value was measured using the change in market to book ratio. The findings of the study show that, the firm's market value in Italy market is positively associated with earnings management. The study by Gong *et al* (2008) which assessed earning management and firm's performance after open market repurchases in USA. The study used abnormal accruals as a measure for earning management as per Jones modified model of 1991. The study used return on asset (ROA) as the measure of firm's performance. The findings of the study show that during the pre- repurchase, the abnormal accruals which are the measure of earnings management is negatively associated with future performance of the firm. Study conducted by Ardekan *et al* (2012) examined the acquisition, earnings management and firm's performance in Malaysia. The study focused on examining the relationship

between earnings management and performance of the acquiring firms in the country. The study used accumulated abnormal return as the measure of performance while earnings management was measured using discretionary accrual basing on Jones revised model of 1991. The findings of the study show those firms, which acquire shares, manipulate earnings as compared to firm, which acquire by cash especially preceding the acquisition announcement date. The findings of the study also show presence of negative relationship between earnings management and the performance of the firms. The study by Hassan and Ahmed (2012) which was conducted in Nigeria, examined the impact of corporate governance and earnings management of firm's financial performance of manufacturing firms in the country. The study employed Jones discretionary accrual model to measure earnings management and ordinary least square regression model to measure the relationship between earnings management and performance. The study reports presence of significance relationship between the firm's performance, corporate governance and earnings management.

Summary of key studies on earnings management

Author	*Title*	*Model used*	*Variables used*	*Results*
Llukani, 2013 in Albania	Earnings Management and Firm Size, an Empirical analyse in Albania market	Jonas Modified model 1991	Financial leverage, sales, earnings management	Firms engage in earnings management which has impact on performance
Gill *et al*, 2013	Earnings management, Firm's performance and the Value of Indian Manufacturing Firms	Jonas Model 1991, DeAngelo model of 1986, Tobin Q, Debt to asset ratio, current ratio	Earnings management, current ratio, financial leverage, return on market and market value	Earnings management has impact on firm's performance
Sayari *et al*,2013 in Tunisia	Impact of earnings management on stock returns, the case of Tunisia firms	Jonas model 1991	Earnings management, firm size, stock return	Earnings management has positive related to the firm value
Fattahi *et al*, 2014 in Tehran	Impact of Earnings management on value relevance of accounting information of the firms listed on the Tehran stock exchange	Dechow *et al* 1995 model	Earnings management and value relevance	No significant relationship between earnings management and value relevance of accounting information
Chiraz and Anis,2013	Earnings management and performance of French IPO Companies	Jonas model 1991	Earnings management, market value	No evidence to support that the level of initial return is negatively related to discretionary accruals
Izadinia *et al*,2014 in Tehran	The relationship between earnings management and social responsibility, emphasizing new Paradigms for Accounting-Profit Companies listed in Tehran Stock exchange	Modified Jonas Model 1991	Earnings management, book value to total asset, pure profit	Financial performance is positively related to earnings management
Ardekan *et al*,2012	Acquisition, earnings management and firm's performance, evidence from Malaysia	Jonas model 1991	Earnings management, firm's performance	Negative relationship between earnings management and performance
Hassan and Ahmed,2012 in Nigeria	Corporategovernance, earnings management and financial performance. A case of Nigerian Manufacturing firms	Jonas Model 1991	Earnings management, earnings before interest and tax over discretionary accruals	
Raoli,2013	Do managers engage in earnings management to support firm's market valuation?	Jonas model 191	Earnings management and return on asset	Earnings management has positive impact on firm value
Gong *et al*,2008	Earnings Management and Firm's performance following open market repurchases	Regression analysis, abnormal accruals	Revenue, cash, size and earnings management	Earnings management is positively related to performance

2.4 Conceptual Framework and Hypothesis Development

The relationship between earnings management and firm's performance is mixed as the different authors have reported contradicting findings. Some empirical studies have reported that earnings management have impact on financial performance and firm value, while other studies have reported presence of insignificant relationship between the two variables (Putri, 2013, Eman, 2010, Gill *et al*, 2013, Fattahi *et al*, 2014).

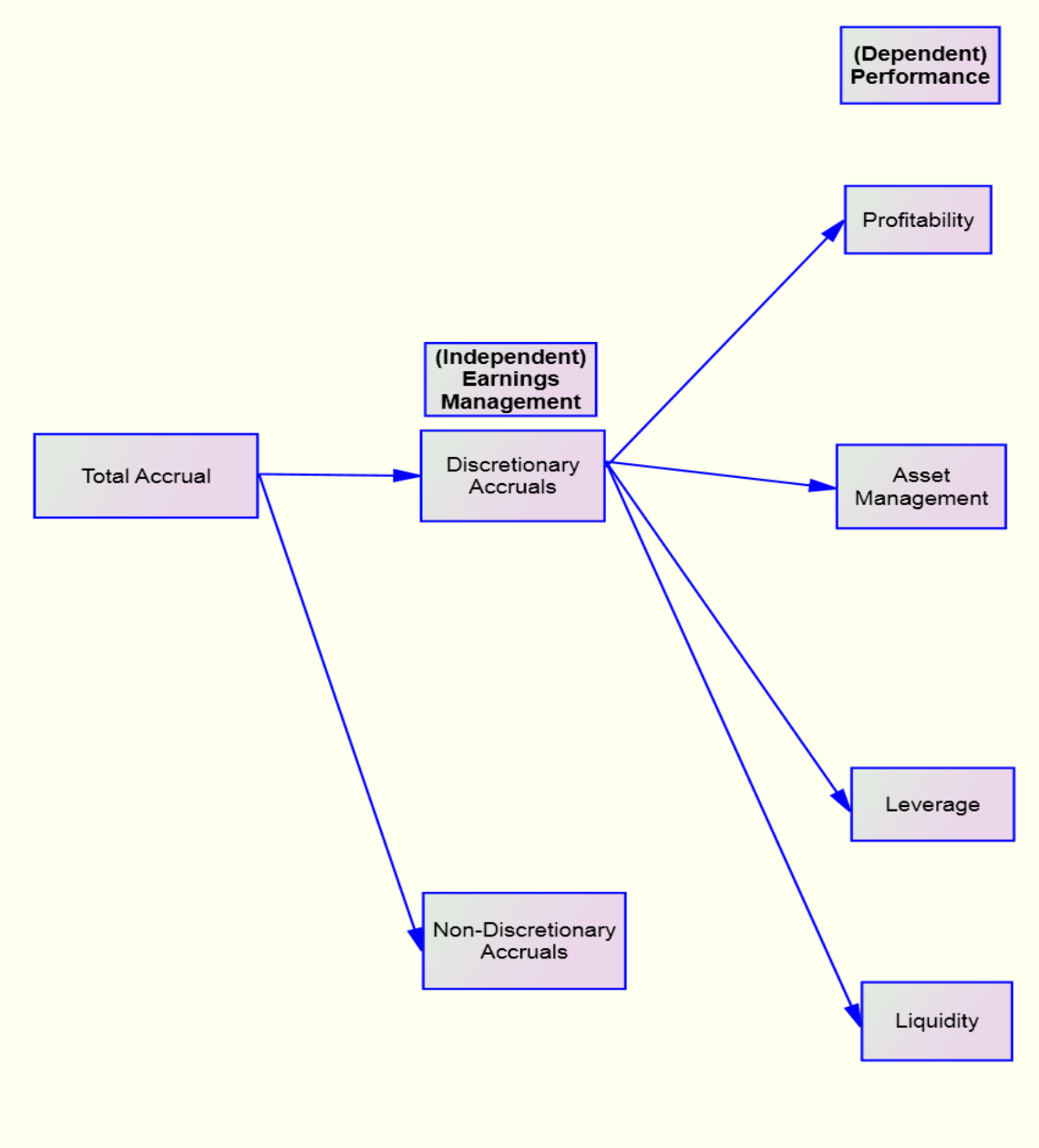
On the other hand, some literatures have reported the reversal relationship by indicating that firm's performance has impact on earnings management. That is when firm performs better or worse than the expectation it is when the manager thinks of earnings management to smooth the reported earnings.

This study follows the first arguments that earnings management has impact on firm's performance, this study focus on manufacturing firms registered at Dar-es-Salaam stock exchange market, a capital market which is at its growth stage, with few number of firms listed and few products traded. DSE has a total of 17 firms listed in which 7 firms are manufacturing firms, six from Tanzania and one from outside Tanzania (DSE, 2016).

Since the DSE is still growing it is not perfect efficiency in terms of the information available to stakeholders hence information asymmetry exist which is loophole for earnings management. The number of investors in the Dar-es-es-salaam capital market is small as most of the Tanzanian does not have investment behaviour which is also contributed by the economic level, poverty level and culture of the people. As the results, market competition among the listed firms is high, each firm want to show good performance in order to raise its share price. As a result of the competition, firms may engage in earnings management so that to smooth the reported earnings. On the other hand, some firms wish to minimize tax payment by reporting low income so that they pay low tax, this also can be a motive among the listed firms to engage in earnings management.

Basing on the above, arguments the following conceptual framework was tested in this study.

Figure 1: Conceptual Framework



Source: Researcher Own Construction, (2016)

The above conceptual framework links between earnings management and firm's performance. The conceptual framework follows from the research topic which sought to examine the impact of earnings management on firm's performance. The dependent variable of the study is performance that is divided into four parts, the profitability of the firm, asset management level, the leverage and liquidity level. The independent variable of the study is earnings management which is measured using Jones revised model of 1991 of discretionary accrual. According to this model, managers manage earnings using accruals but accrual also can happen in the normal course of the business. Hence, the total accruals can be divided into non-discretionary and discretionary accruals. Since the discretionary accruals need to be reversed by managers, the presence of such discretionary accrual in the financial statement indicates that managers decided to manage earnings, hence discretionary accruals were used as the measure for earnings management.

2.5 Hypothesis Development

Basing on the above conceptual framework, the researcher developed one hypothesis which was in line with previous studies which indicate that earnings management has impact on the firm's performance.

The following hypothesis was developed and tested in this study

Ho: Earnings management has positive impact on performance of the firm

The above hypothesis was formulated with view that management of the firm, manage earnings in order to show firm is performing better hence satisfy the investor, the market which in results increases the displayed performance and market share price.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Chapter three provides a detailed analysis of the methodologies which were used by a researcher to collect data, analyse and present them. It is very important section as it gives the design of the study, area of study where the research was based, assessment of population and sample size, Types of data collected and their source, methods of data collection, data analysis methods and ethical issues.

3.2 Study Design

The study used survey research design. The researcher surveyed manufacturing firms listed at Dar-es-Salaam stock exchange market. The survey design was the appropriate study design for the study due to small number of listed companies hence survey of each firm provided in-depth understanding of the problem as well as it allowed generalization of the findings to other capital markets especially in east Africa. The survey was conducted on collecting the financial statement and other financial data, which were not available from website of Dar-es-Salaam stock exchange market.

3.3 Area of the Study

This study will be conducted in Dar-es-Salaam Region where the DSE is located as well as the head offices for most of the firms, which are listed at the DSE.

3.4 Study Population and Sample

The study covered the firms registered at DSE; hence, the population of the study included the entire manufacturing firms listed at the market. Since the number of manufacturing firms listed is small the study covered all the manufacturing listed firms, hence the purposive sampling was used to select manufacturing firms out of total firms listed at DSE.

3.5 Types of Data Collection and Data Source

The study involved secondary data only which were collected from DSE office and website as well as from each of the listed firm head office. The selection of secondary data was based the nature of the specific objectives which all required secondary data.

3.6 Data Collection Methods

The study involved secondary data that were collected by documentary review. The documents involved financial statements, capital market reports and other reports and documents relating to the selected companies.

Data Collection Tools and Techniques

Data collection was done by documentary review in which financial statements and reports were examined. These reports were found from Dar-es-Salaam Stock Exchange Market as well as from individual firms listed at the market. The study collected data for the period of ten years from 2005 to 2014.

3.7 Data analysis Methods

Data analysis was related to the need of each specific objectives of the study as follows:

Specific objective 1: Measuring Earning Management

The measurement of earnings management mostly uses two approaches which are single accrual and total accrual. Single accrual measures earnings management by considering single accounting items in the financial statement whereas the total accrual approach focuses on multiple accounting items of the firms.

There several models which have been used by previous study to measure earnings management such as model by Healy, (1985); DeAngelo, (1986); McNichols, (1988), Jones (1991), Beneish (1997), Dechow *et al*. (1998, 2003), McNichols (2002) which are all based on using accruals to detect earnings management. Among them Jones (1991) has become more famous as it has been applied in most of studies on earnings

management. The revised Jones model which used discretionary accrual to measure earnings management, breaks total accruals into non-discretionary and discretionary accrual and propose that since managers have the power to reverse the discretionary accruals, thus the presence of discretionary accruals in the reported earnings is a sign of earnings management. This study used Modified Jones Model, which is considered to be the most powerful for testing earnings management as well as the most efficient tool in the detection of abnormal accruals which is the indicator that managers are involved in earnings management practices (Dechow *et al*, 1995). Hence, this study used Modified Jones (1995), Model to detect abnormal accruals which was used as a proxy measure of earnings management as applied by Dechow *et al* 1995. The model can be specified as a Total Accruals (TA) is the difference between Net Income (NI) which is the earnings before tax and extraordinary item and the cash flow from operating activities (OCF).

TA = NI-OCF

$$TA_t = \alpha_1 \frac{1}{Asset_{t-1}} + \alpha_2 \frac{\Delta Sales_t}{Asset_{t-1}} + \alpha_3 \frac{PPE_t}{Asset_{t-1}} + \varepsilon_t \text{ ----------(1)}$$

$$NDA_t = \alpha_1 \frac{1}{Asset_{t-1}} + \alpha_2 \frac{\Delta Sales_t - \Delta \text{Re} cv_t}{Asset_{t-1}} + \alpha_3 \frac{PPE_t}{Asset_{t-1}} \text{ ----------(2)}$$

$$TA_t = NDA_t + DA_t \text{ ----------(3)}$$

$$DA_t = \frac{TA_t}{Asset_{t-1}} - (\alpha_1 \frac{1}{Asset_{t-1}} + \alpha_2 \frac{\Delta Sales_t - \Delta \text{Re} cv_t}{Asset_{t-1}} + \alpha_3 \frac{PPE_t}{Asset_{t-1}}) \text{ -------(4)}$$

In order to estimate earnings management, first total accruals for each year was calculated as follows (completed with normalized data):

TAt = (ΔNon-cash current assets - ΔCurrent liabilities excl. current portion of long term debt – Depreciation and Amortization) / Lagged total assets

$$TA_t = \frac{\Delta NCA - \Delta CL - \Delta CCE + \Delta STD + DPAT}{LTA} \text{ ----------(5)}$$

Where;

TAt = Total Accrual in time t

ΔNCA = Change in noncash Current Asset

ΔCL= Change in Current liabilities

ΔCCE= Change in Cash and cash equivalent

ΔSTD= Change in Debt included in Current liabilities

DPAT= Depreciation and Amortization

LTA = Lagged total assets

$Assets_{t-1}$ = Total assets at the beginning of the year

$\Delta Sales_t$= Change in Sales/Revenue

ΔREC_t= Change in Receivables

PPE_t= Gross Property, Plants and Equipment's

NDA = Non-discretionary accruals

DA = Discretionary accruals

CCE =

$\alpha_1\ \alpha_2\ \alpha_3$ =Firm specific parameter obtained after the regress of Total accrual equation. The calculated total accrual model above is then regressed to obtain the coefficients which are then used to estimate non-discretionary accruals. Hence, the coefficients indicated from Non-discretionary accrual equation are the ones which are obtained after regressing the total accrual equation.

The regression model to estimate discretionary accruals is tested after conducting multi-co- linearity test to check correlation between the independent variables.

To determine whether the firm manages earnings, values of discretionary accruals are considered. Managers eventually reverse all discretionary accruals in normal practices, if large values of discretionary accruals are observed in a firm it is an indication that the firms manage earnings. Absolute value of discretionary accrual is always used as a measure of earnings management (Klein, 2002, Bergstresser & Philippon, 2006).

Specific Objective 2: Measuring Firm's performance;

The second specific objective is about measuring the performance of selected manufacturing firms for the study. Four ratios were selected to be used as the measure of firm's performance. The ratios selected have been used as measure of Performance in several previous such as study by Gong *et al*, (2008) which used return on asset (ROA) to measure performance of the firm, the study by Gill *et al* (2013) which used the ratio of debt to asset to measure leverage and current ratio to measure firm liquidity.

Profitability- Profitability was measured using return on asset which is computed as the net profit after tax divided by total assets of the company. This ratio was used to measure how profitable is the firm in term of the ability of the firm to produce net income using the available assets.

$$ROA = \frac{NetIncomeAfterTax}{TotalAsset} \quad \text{----------(6)}$$

Leverage- The firm leverage was measured as the ratio of the total debts to total asset. It measures the bankruptcy risk as well as the dependency of the firm to external borrowings.

$$Leverage = \frac{TotalDebts}{TotalAsset} \quad \text{----------(7)}$$

Liquidity -Current Ratio was used to measure the ability of the firms to pay short terms maturing debts.

$$CurrentRatio = \frac{CurrentAsset}{CurrentLiability} \quad \text{----------(8)}$$

Specific Objective 3: Test for Relationship between Earnings Management and Firm's performance

In order to test the relationship between earnings management and firm's performance the following hypothesis was tested

Ho1: Earnings management has negative impact to the firm's performance

The hypothesis was tested using linear regression model in which earning management was independent variable and firm's performance was dependent variable. The basic linear regression model can be specified as;

$$y_i = \lambda + \beta\chi_i + \mu_i \quad ----------(9)$$

Where: y_i is the i^{th} observation of the dependent variable Y, χ_i is the i^{th} observation of the independent variable X, λ, β are intercept and slope of between Y and X, and μ_i is the error term which also represent other variables which also affect Y but have been omitted from the equation. Using the four dependent variables, their respective regression model can be presented as,

$$ROA_i = \lambda_{1i} + \beta_1 DA_i + \mu_{1i} \quad ----------(10)$$

$$LEV_i = \lambda_{2i} + \beta_2 DA_i + \mu_{2i} \quad ----------(11)$$

$$CA_i = \lambda_{3i} + \beta_3 DA_i + \mu_{3i} \quad ----------(12)$$

$$SP_i = \lambda_{4i} + \beta_4 DA_i + \mu_{4i} \quad ----------(13)$$

Where: ROA_i is the return on asset of observation i^{th}, LEV_i is leverage score of observation i^{th}, CA_i is the current asset ratio, SP_i is the market share price, λ_{1i}, β_1, λ_{2i}, β_2, λ_{3i}, β_3 λ_{4i}, β_4 are the intercepts and slopes of equations, DA_i is the discretionary accrual which is the measure of earnings management for observation i^{th}, μ_{1i}, μ_{2i} μ_{3i}, μ_{4i} are the error terms.

CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results obtained from the data analysed and the findings deduced out of the results. It first presents the descriptive statistics of the data used in the analysis and then presents the findings obtained for each of the specific study objective. Along with the results, the chapter presents the interpretation of the results and provides the deduced findings.

4.2 Descriptive Statistics

This part examines the descriptive statistics of the data used for analysis of the key study objectives. The study used secondary data which are discussed below.

- **Current Asset**

Current assets were used in the calculation of total accrual in the Jones revised model for earnings management as well in the calculation of current ratio which was used as a measure of firm's liquidity. The descriptive statistics for current assets are shown in Table 1.

Table 1: Current Assets ('000)

Firm	Mean	S.D	Rank
TATEPA	6,055,829,	1,519,939	5
TBL	134,622,200	87,503,053	1
TCC	90,960,400	45,814,695	2
TCCL	43,505,269	22,231,514	4
TOL	2,850,730	1,830,949	6
TPCC	72,058,460	35,620,758	3

Source: Research Data from Annual Reports, (2016)

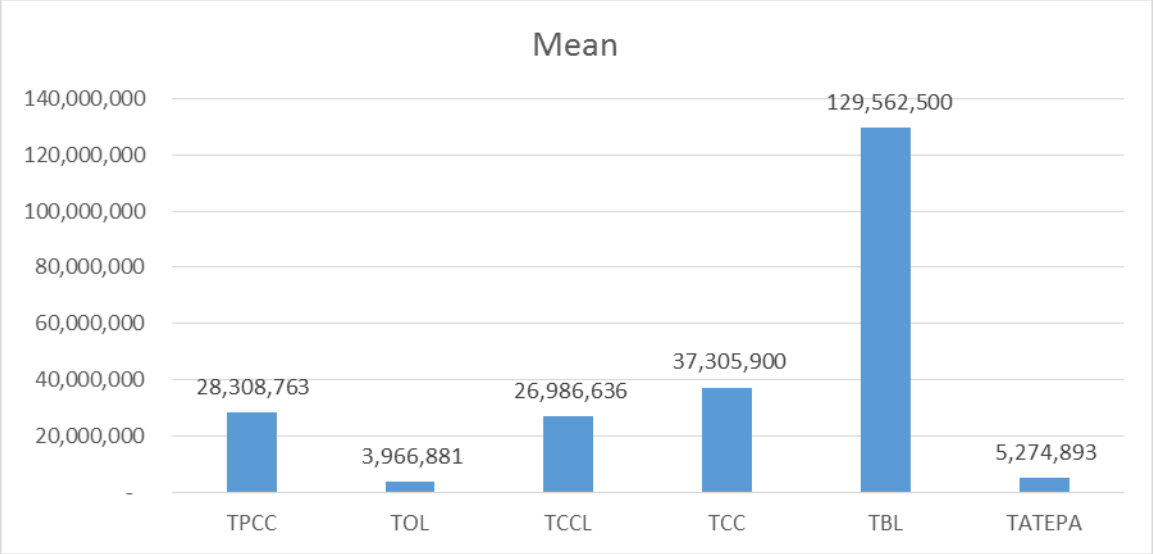
The current asset of the firm show that TBL has more current asset on average as compared to other firms reviewed, followed by TCC, TPCC, TCCL, TATEPA and TOL

was the last. The mean current asset for the period of 10 years' ranges from about 6 billion to 135 billion Tanzanian Shilling.

- **Current Liabilities**

Current liabilities were used in the measurement of total accruals which was used in the determination of discretionary accrual as a measure of earnings management. The total liabilities figure was also used to measure the current ratio for assessing liquidity of the firms. The distribution of the liabilities among the firms is show in the figure below

Figure 2: Current Liabilities ('000)



Source: Research data Collected, (2016)

The distribution of current liabilities among the firms show that TBL has more current liabilities than other firms to the tune of about 130 billion shillings in average while TOL has lesser current liabilities of about 3billion Shillings. Other firms are between the highest and the lowest value of the two firms.

- **Total Assets**

The total assets of the firms were used in the analysis of several measures of the study. The total asset was used in the computation of total accrual in the Jones model for earnings management, in the calculation of return on asset (ROA) as well in the calculation of debt to asset ratio. The distribution of the total asset among the firms is shown in Table 2.

Table 2: Total Assets ('000)

Firm	Mean	S.D	Rank
TPCC	191,265,942	90,792,312	2
TOL	11,152,044	5,927,398	6
TCC	156,664,000	73,558,905	3
TBL	416,031,100	229,180,908	1
TATEPA	15,690,518	3,558,868	5
TCCL	137,147,514	85,438,825	4

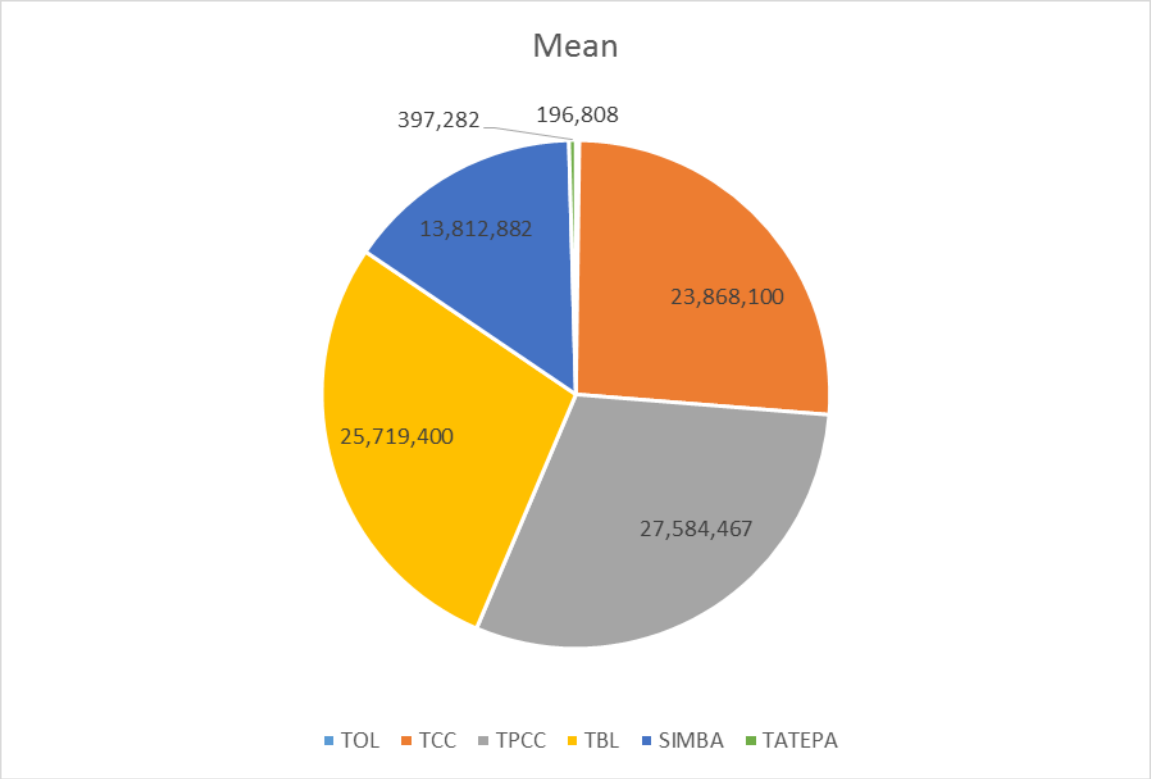
Source: Research data Collected, (2016)

The distribution of the asset shows a maximum average value of 416 billion shilling in TBL Company and a minimum of about 11 billion shillings in TOL. The assets standard deviation was found to be moderate in the period of ten years reviewed.

- **Cash and short term cash equivalent**

Cash and cash equivalent values were used in the Jonas model for discretionary accrual in the computation of total accrual value. Cash and cash equivalent statistics are shown in Figure 3.

Figure 3: Cash and short term Cash Equivalent (‘000)



Source: Research data collected, (2016)

The distribution shows that TPCC has more liquid cash and cash equivalent as compared to other firms, within ten years’ average value of about 28 billion while TOL has the lowest value of about 197 million. Other firms are within that range. The ranking show that TPCC is the first followed by TBL, TCC, TCCL, TATEPA and TOL.

- **Property, Plants and Equipment**

The data for property, plants and equipment’s was used in the Jones model for discretionary accrual in the determination of earnings management. The values were specifically used in the computation of total accruals which were later divided into non-

discretionary accruals and discretionary accruals. The statistics for PPE are shown in Table 3.

Table 3: Property, Plant and Equipment's ('000)

Firm	Mean	S.D	Rank
TOL	8,997,584	4,507,729	5
TCC	68,707,000	32,170,978	4
TPCC	121,150,633	57,269,775	2
TBL	277,743,800	205,128,007	1
TCCL	92,658,391	62,355,061	3
TATEPA	7,026,822	1,114,125	6

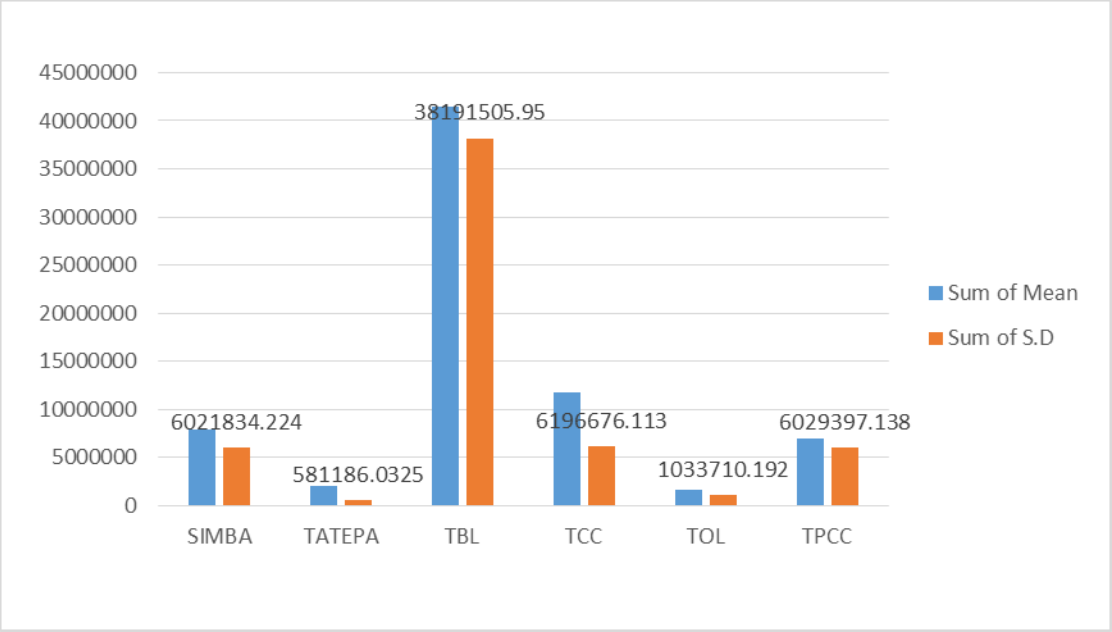
Source: Research Data Collected, (2016)

The descriptive statistics show that TBL has an average of 278 billion shilling in PPE which makes it the first firm in terms of the value of PPE followed by TPCC with the mean value of about 121 billion shilling and TATEPA being the last with value about 7 billion shilling in PPE. The standard deviation was found to be very high for TBL which implies higher variability in the value of PPE. PPE is the most important non-current asset which is used in the production process and other income generating activities.

- **Receivables**

The receivable value was used in the Jones model for discretionary accrual in the computation of total accrual values. The receivables were also used as part of current assets which were used in the measurement of current ratio. The mean statistics of the receivables are shown in Figure 4.

Figure 4: Receivables (‘000)



Source: Research Data Collected, (2016)

Among the six firms reviewed in this study, TBL was found to have more receivables than other firms with a ten years’ average of about 41 billion shillings followed by TCC with 11 billion shillings, TPCC with 7 billion shillings and TOL is the least one with an average of 1 billion shillings. The standard deviation values show high deviation for TBL as compared to other firms but generally, all firms were found to have high variabilities in their receivables as compared to the mean values. The high variability of the receivables indicates that firms are able to correct the receivables and then sales on credit hence receivables increases and decreases from time to time.

- **Sales Turnover**

Sales value was also used in the calculation of total accrual in the Jones model for earnings management. The value for sales was also used in the computation of net profit

margin which was used as a proxy measure for firm profitability. The mean statistics for the ten years are shown in Table 4.

Table 4: Sales Turnover ('000)

Firm	Mean	S.D	Rank
TOL	7,356,030	3,394,156	5
TCC	189,538,800	84,607,265	2
TPCC	159,150,208	61,862,314	3
TBL	477,312,300	207,900,426	1
TCCL	136,367,913	47,682,136	4
TATEPA	14,087,336	4,670,892	6

Source: Research Data Collected, (2016)

The statistics show that among the six firm reviewed, TBL has more average sales of about 477 billion for the ten years reviewed, followed by TCC with about 189 billion shillings and TATEPA is the last one with about 14 billion average sales turnover in the ten years of review.

4.3 Study Results

The main objective of the study was to examine the impact of earnings management on firm's performance, for manufacturing companies listed at Dar-es-Salaam stock exchange market (DSE). The main objective was divided into three specific objectives whose results are discussed in this part.

4.3.1 Objective 1: Earnings Management in Listed manufacturing firms in DSE

As per the requirement of Jones revised model for earnings management, total accrual values were first computed for all firms for the period of ten years which given nine values in each time series since it used a change in value with the first year being the

first base year hence no change in values. The results for total accruals are summarized in table 5.

Table 5: Total Accrual Values

Year	Firms					
	TCCL	**TBL**	**TOL**	**TATEPA**	**TPCC**	**TCC**
2006	-0.0550	0.0527	-0.0684	-0.0250	0.2563	-0.1028
2007	0.0225	-0.0985	-0.0297	0.0184	-0.3223	-0.0251
2008	0.0156	-0.0914	-0.3090	-0.2282	-0.0883	-0.0624
2009	-0.0357	0.0338	0.0431	-0.0484	0.0219	0.0993
2010	0.0371	-0.0167	-0.2310	-0.0007	0.0269	-0.0549
2011	-0.0232	-0.0970	-0.3648	0.0464	-0.1114	-0.0581
2012	-0.0625	-0.0531	0.0179	-0.0472	0.0441	0.0734
2013	-0.0366	0.0561	-0.1306	-0.0723	-0.0627	-0.1150
2014	-0.4374	0.0001	0.1828	-0.0097	-0.0854	-0.0991
Mean	-0.0639	-0.0238	-0.0989	-0.0407	-0.0357	-0.0383
Rank	2	6	1	3	5	4
S.D	0.1444	0.0638	0.1775	0.0792	0.1552	0.0763

Source: Researcher Data Analysis, (2016)

The results on total accruals show that all firms reviewed have effect of accruals in the earnings reported in each of the accounting periods reviewed. The total accrual varies from positive to negative from time to time. On average, all firms were found to have negative total accruals for the ten years (nine periods) reviewed. The average total accruals were found to be -0.063, -0.0238, -0.0989, -0.0407, -0.0357 and -0.0383 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively.

The presence of negative total accrual indicates that the reported earnings are affected downward with the accruals which result in understatement of the profits reported. Although total accruals might also be non-discretionary, hence no earnings management; it suggests the possibilities of firms to decrease reported profit in order to take advantage of tax payments.

The standard deviations were found to be low with value ranging between 0.0638 to 0.1775 which indicate low deviations in the total accruals for the period of review and the firms considered. The analysis of individual firm total accruals shows that TOL has large accruals followed by TCCL, TATEPA and TBL is the least one among the six firms.

According to the revised Jones model for estimating earnings management using discretionary accruals, both total accruals and non-discretionary accruals need to be estimated before estimating discretionary accruals. Therefore, non-discretionary accruals for the six firm in the period of ten years were estimated which gives nine periods (Jones model required the use of change in variables such as change in current asset, current liabilities, revenue etc, hence ten years will give results of nine periods, since the first year is a base year hence not change in value can be measured) results as indicated in Table 6.

Table 6: Non-Discretionary Accruals

	Firms					
Year	**TCCL**	**TBL**	**TOL**	**TATEPA**	**TPCC**	**TCC**
2006	-0.0646	-0.0452	-0.1482	-0.0509	-0.0568	-0.0562
2007	-0.0756	-0.0513	-0.1414	-0.0621	-0.0703	-0.0437
2008	-0.0729	-0.0600	-0.1668	-0.0661	-0.1017	-0.0454
2009	-0.0893	-0.0644	-0.1283	-0.0883	-0.0746	-0.0438
2010	-0.0734	-0.0725	-0.1002	-0.1005	-0.0657	-0.0422
2011	-0.0641	-0.0597	-0.1449	-0.0899	-0.0644	-0.0471
2012	-0.0568	-0.0608	-0.1666	-0.0695	-0.0512	-0.0445
2013	-0.0686	-0.0545	-0.1185	-0.0637	-0.0593	-0.0386
2014	-0.0991	-0.0880	-0.1078	-0.0525	-0.0610	-0.0345
Mean	-0.0738	-0.0618	-0.1359	-0.0715	-0.0672	-0.0440
Standard Deviation	-0.0131	-0.0125	-0.0239	-0.0174	-0.0147	-0.0059

Source: Researcher Data Analysis, (2016)

The results on non-discretionary accruals show the presence of earnings management among the firm but which was not done intentionally by the management of the firms. The results show presence on negative non-discretionary accruals with mean value of -0.0738, -0.0618, -0.1359, -0.0715, -0.0672 and -0.0440 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The negative sign implies that, the firm's accruals which were results on non-discretionary, reduced the reported profits for the periods under review. Non-discretionary accruals happen on the course of the business and are not intentional hence managers are not responsible for that, hence non-discretionary accruals cannot be used as the measure of earnings management of the firm.

In order to approximate non-discretionary accruals in the Jones revised model, the regression model need to be run and the coefficient obtained. Total accrual model was test using multiple regression model after satisfying the regression assumptions. In the total accrual model, the dependent variable is the total accrual while the dependent variables are reciprocal of lagged asset, the ratio of sales to lagged asset and ratio of property, plant and equipment. The results of the regression model are presented in Table 7.

Table 7: Total Accrual Regression Results Summary

Regression Statistics	
Multiple R	0.7677
R Square	0.7171
Adjusted R Square	0.6160
Observations	54

Source: Researcher Data Analysis, (2016)

The model summary of the regression used show presence of high correlation between the independent and dependent variables. The correlation coefficient was found to be 0.7677 positive, showing the presence of positive association between the dependent

variables and independent variables. In this case the dependent variable was total accrual while the independent variables were reciprocal of total asset, the ratio of the change of revenue over lagged total asset and the ratio of total property, plant and equipment to lagged total asset.

The goodness of fit results was also good with the coefficient of determination of 0.7171 which indicate that, the independent variables were able to explain 71.71% of the changes happening to the dependent variables. The adjusted r-squared which show the a more robust measure of the goodness of fit show that by 61.6% independent variables explain the changes in the dependent variable.

The model also estimated the coefficients of the regression model which was the main results required from the model. The results of the coefficients are shown in Table 8.0753693718

Table 8: Total Accrual Model Regression Coefficients

	Coefficients
Intercept	0.02516
1/ASSETt-1	-477487**
Change Rev/Asset t-1	0.026285**
PPE/Asset t-1	-0.08568**

Source: Researcher Data Analysis 2016 (** = Significant at 5%)

The results of the model show that, the reciprocal of total lagged asset has a negative coefficient of 477487, change of revenue over lagged asset has positive coefficient of 0.02629 and property, plant and equipment to lagged asset has negative coefficient of 0.08568. All coefficients were significant at 5% level of significance.

After estimation of the total accruals, non-discretionary accruals and the coefficients of the total accrual model, the discretionary accruals which are the measure of earnings

management was then estimated basing on Jones revised model. The results of discretionary accruals are shown in Table 9.

Table 9: Discretionary Accruals (Earnings management) Results

Year	Firms					
	TCCL	**TBL**	**TOL**	**TATEPA**	**TPCC**	**TCC**
2006	0.0095	0.0979	0.0798	0.0259	0.3130	-0.3130
2007	0.0981	-0.0472	0.1117	0.0805	-0.2519	0.2519
2008	0.0885	-0.0314	-0.1423	-0.1621	0.0134	-0.0134
2009	0.0536	0.0982	0.1714	0.0400	0.0965	-0.0965
2010	0.1104	0.0558	-0.1309	0.0997	0.0926	-0.0926
2011	0.0409	-0.0372	-0.2199	0.1363	-0.0470	0.0470
2012	-0.0057	0.0077	0.1845	0.0223	0.0953	-0.0953
2013	0.0319	0.1106	-0.0120	-0.0086	-0.0034	0.0034
2014	-0.3383	0.0882	0.2906	0.0428	-0.0244	0.0244
Mean	0.0099	0.0381	0.0370	0.0308	0.0316	-0.0315
S.D	0.1364	0.0652	0.1733	0.0847	0.1510	0.1510
Rank	6	1	2	5	3	4

Source: Researcher Data Analysis, (2016)

The results show that all firms reviewed practice earnings management due to presence of discretionary accruals in all years under review. The results of discretionary accrual were a mix of positive and negative which implies that firm manage income upward or downward depending on the purpose of which they manage the earnings. The mean results for the firms were 0.00099, 0.381, 0.037, 0.0308, 0.0316 and -0.0316 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The mean average results show that; all other firm manage their earnings upward on average except for TCC which on average it manages its earning downwards.

Comparing the extent to which the reviewed companies engage in earnings management, the mean values of discretionary accruals were used. The results show that TBL was more engaged in earnings management as compared to other companies, followed by TOL, TPCC, TCC, TATEPA and TCCL. The firm earnings management levels were then analysed taking the absolute values as indicated in the Jones revised earning management model, the results are presented in Table 10.

Table 10: Earnings management Levels

	Firms											
	TCCL		TBL		TOL		TATEPA		TPCC		TCC	
Year	DA	NDA	DA	NDA	DA	NDA	DA	NDA	DA	NDA	DA	NDA
2006	17.4%	82.6%	9.8%	90.2%	8.0%	92.0%	2.6%	97.4%	31.3%	68.7%	4.7%	95.3%
2007	9.8%	90.2%	4.7%	95.3%	11.2%	88.8%	8.0%	92.0%	25.2%	74.8%	1.9%	98.1%
2008	8.9%	91.1%	3.1%	96.9%	14.2%	85.8%	16.2%	83.8%	1.3%	98.7%	1.7%	98.3%
2009	5.4%	94.6%	9.8%	90.2%	17.1%	82.9%	4.0%	96.0%	9.6%	90.4%	14.3%	85.7%
2010	11.0%	89.0%	5.6%	94.4%	13.1%	86.9%	10.0%	90.0%	9.3%	90.7%	1.3%	98.7%
2011	4.1%	95.9%	3.7%	96.3%	22.0%	78.0%	13.6%	86.4%	4.7%	95.3%	1.1%	98.9%
2012	0.6%	99.4%	0.8%	99.2%	18.4%	81.6%	2.2%	97.8%	9.5%	90.5%	11.8%	88.2%
2013	3.2%	96.8%	11.1%	88.9%	1.2%	98.8%	0.9%	99.1%	0.3%	99.7%	7.6%	92.4%
2014	33.8%	66.2%	8.8%	91.2%	29.1%	70.9%	4.3%	95.7%	2.4%	97.6%	6.5%	93.5%
Mean	10.5%	89.5%	6.4%	93.6%	14.9%	85.1%	6.9%	93.1%	10.4%	89.6%	5.6%	94.4%

Source: Researcher Data Analysis 2016

From Table 10, the total accruals of the firm were divided between the non-discretionary and the discretionary accruals in order to ascertain the extent to which the accrual of the firm are intended for earnings management.

The results show that, on average 10.5% of the TCCL accruals were a results of discretionary accrual and 89.5% were a results non-discretionary accruals. This indicated that the level of earnings management of TCCL is low as compared to accrual arising from normal operations of the company. TBL results show that discretionary accruals were 6.4% of the total accrual as compared to 93.6% non-discretionary accrual in the total accrual. This also implies that among the total accrual of the firms most of them were a results on normal operations while management involved in earnings management at very low rate. The results from other companies indicated that among the total accruals of the companies, 14.9%, 6.9%, 10.4% and 5.6% were discretionary accruals for the TOL, TATEPA, TPCC and TCC respectively.

Generally, the manufacturing firms reviewed were found to engage in earnings management practices basing the Jonas revised model for earnings management. The

firms result on discretionary accruals which is the measure of earnings management indicated presence of both positive and negative discretionary accruals which implies upward and downwards earnings management. The comparison between the discretionary and non-discretionary accruals show that, although the firms engage in earnings management, most of the accruals were not a results of management discretions rather they were a results on normal operations of the business.

4.3.2 Objective 2: Performance

The second objective of the study was to examine the performance of the manufacturing firms listed at DSE which are included in the study sample. The performance of the firm was divided into different categories, the profitability of the firm measured by net profit margin, the asset management ability measured by return on asset, the leverage measured by the ratio of debt to asset and debt to equity and the firm liquidity measure by current ratio.

Profitability

The company's profitability level was measured by net profit margin that indicates the ratio of the net profit to the sales of the companies in a period. The net profit margin also indicates the ability of the management to manage well expenses of the firm and ensure high profit. The results of net profit margin are shown in Table 11.

Table 11: Net Profit Margin Results

Year	Firms					
	TCCL	TBL	TOL	TATEPA	TPCC	TCC
2005	10.79%	20.76%	-84.33%	-7.21%	22.64%	22.34%
2006	20.61%	22.40%	-63.48%	11.63%	24.31%	17.89%
2007	25.15%	21.41%	5.27%	-8.47%	25.14%	21.97%
2008	24.93%	19.57%	-1.86%	52.88%	23.51%	22.69%
2009	25.37%	18.32%	-1.32%	-5.85%	26.81%	27.66%
2010	21.11%	18.47%	-31.86%	0.12%	25.15%	28.53%
2011	13.58%	20.24%	1.63%	-5.68%	23.29%	28.34%
2012	17.64%	23.43%	9.96%	3.17%	24.22%	30.54%
2013	17.76%	22.34%	9.22%	-10.52%	16.96%	26.86%
2014	13.85%	24.19%	13.83%	-16.08%	24.27%	24.16%
Mean	19.08%	21.11%	-14.29%	1.40%	23.63%	25.10%
S.D	0.0524	0.0200	0.3420	0.1967	0.0262	0.0391
Rank	4	3	6	5	2	1

Source: Researcher Data Analysis, (2016)

The results on firm's profitability indicated that generally all firms were operating at profit except for TOL and TATEPA, which indicated a mix of profit and losses for the ten years' period under review. The mean net profit margin indicates that on average TCCL net profit was 19.08% of the sales; TBL has an average of 21.11% while TOL, TATEPA, TPCC and TCC have (14.29%), 1.4%, 23.63% and 25.10% respectively.

The profitability ranking among the firm shows that, TCC was more profitable on average among the six firms followed by TPCC, TBL, TCCL, TATEPA and TOL which was the last one. The profitability trend analysis shows that all firms had a mixed trend which shows the increases and decreases of the net profit margin in the ten years of review. The results on the standard deviation of the net profit margin for the period of ten years show that TOL had high variability in the net profit margin (0.3420) as compared to others and TBL had the lowest level or net profit margin variability (0.02) as compared to other firm reviewed in the period of ten years.

Asset Management

To assess the ability of the management to manage asset in the organization, return on asset ratio was used. Return on asset measures the extent to which the management of the firm were able to use the available asset efficiently in producing return measured by net profit. The results on the return on asset are presented in Table 12

Table 12: Return on Asset Results

	Firms					
Year	**TCCL**	**TBL**	**TOL**	**TATEPA**	**TPCC**	**TCC**
2005	18.74%	33.18%	-50.24%	-4.97%	30.04%	28.03%
2006	32.63%	35.39%	-41.98%	11.08%	28.33%	21.30%
2007	34.30%	31.33%	4.10%	-4.17%	29.24%	29.64%
2008	34.06%	26.39%	-1.12%	48.59%	20.73%	31.10%
2009	26.19%	22.37%	-0.81%	-5.41%	24.95%	30.73%
2010	22.07%	19.32%	-26.28%	0.11%	23.12%	34.05%
2011	14.05%	21.77%	1.37%	-5.03%	20.03%	34.67%
2012	18.64%	23.40%	6.69%	2.99%	21.72%	38.54%
2013	15.70%	23.40%	5.46%	-11.25%	12.30%	31.38%
2014	8.45%	26.97%	8.45%	-17.17%	9.78%	27.74%
Mean	22.48%	26.35%	-9.44%	1.48%	22.02%	30.72%
S.D	0.09026	0.05347	0.21739	0.18223	0.06799	0.04649

Source: Researcher Data Analysis, (2016)

The results show that on average the return on assets for the firms were 22.48%, 26.35%, (9.44), 1.48%, 22.02% and 30.72% for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The mean comparisons show that TCC was better performing on asset management as it generates 30.72% profit out of the unit value of the total asset invested while TOL was the last one as for each unit value invested in the asset, the firm produced a loss of 9.44% on average for the period of ten years.

The trend analysis on the firm's ability to manage asset and produce return show that, TCCL had both positive and negative changes in the return on asset. The firm minimum return on asset was 8.45% in 2014 and the maximum value was 34.3% in 2007. For TBL also mixed trend was observed from year to year with the maximum return on asset being 35.39% in 2006 and minimum of 19.32% in 2010. TOL with mean losses for the ten years of review attained a maximum of value of 8.45% return on asset in 2014 with

minimum value of (50.24%) in 2005. Although the firm shows mean loss, but the it has a positive return on asset trend for the recent four year of operation (2011 to 2014).
On the other hand, TATEPA, TPCC and TCC also show improvement in the return on asset with minimum value of (17.17%) in 2014, 9.78% in 2014 and 21.3% in 2006 and maximum values of 48.59% in 2008, 30.04% in 2005 and 38.54% in 2012 respectively.

Leverage

The firm leverage was measured by the ratio of debt to asset and debt to equity. Leverage measures the firms financing structure or capital structure composition. It is the measure of bankruptcy possibility as the results of the financing structure of the firm. First the debt to asset ratio was computed and examined, the debt to asset ratio show the extent to which the total asset of the firm is being financed by the debt in the firm. The results on debt to asset ratio are shown in Table 13.

Table 13: Debt to Asset Ratio Results

	Firms					
Year	**Simba/TCCL**	**TBL**	**TOL**	**TATEPA**	**TWIGA/TPCC**	**TCC**
2005	36.22%	28.64%	35.34%	62.42%	28.04%	27.68%
2006	27.69%	35.07%	42.39%	56.07%	21.82%	36.24%
2007	26.56%	42.66%	42.16%	44.12%	23.38%	28.65%
2008	30.87%	52.80%	44.75%	50.04%	37.09%	37.63%
2009	20.89%	55.13%	38.28%	50.50%	26.42%	44.18%
2010	24.53%	55.92%	77.53%	57.85%	22.49%	27.14%
2011	25.30%	39.66%	80.48%	69.09%	26.04%	27.46%
2012	21.53%	42.01%	81.27%	66.57%	23.75%	22.45%
2013	17.30%	33.14%	76.49%	83.04%	24.06%	27.33%
2014	40.30%	27.38%	57.90%	77.97%	24.99%	27.84%
Mean	27.12%	41.24%	57.66%	61.77%	25.81%	30.66%
S.D	0.0705	0.1055	0.1927	0.1254	0.0439	0.0654

Source: Researcher Data Analysis, (2016)

The results of the debt to asset ratio show the mean value of 27.12%, 41.24%, 57.66%, 61.77%, 25.81% and 30.66% for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. From the results it can be deduced that on average the total asset of TCCL are financed by debts to the tune of 27.12% meaning that for more than 70% the assets

are financed by equity. For TBL, debts finances 41.24% of the total asset while equity finance 58.76% of the total asset. The situation was found to be alarming for TATEPA and TOL in which debts were found to finance 61.77% and 57.66% of the total asset respectively. This means if all the debts are to be paid at once, the remaining asset will have a value of less than 50% of the current average value which might be difficult for the companies to continue with operations hence being liquidated. The results on TPCC and TCC show the averages of 25.81 and 30.66% debts financing respectively which implies that equity finances at least 69% of the total assets of the firms.

Apart from debt to asset measure, the leverage was also measured by the ratio of debt to equity which indicated the comparison of the amount of the debts and equity financing in the firms. The results on return on equity are presented in Table 14.

Table 14: Debt to Equity Ratio Results

Year	Firms					
	TCCL	**TBL**	**TOL**	**TATEPA**	**TPCC**	**TCC**
2005	56.80%	40.14%	54.66%	166.06%	38.96%	38.27%
2006	38.29%	54.02%	73.58%	127.66%	27.91%	56.84%
2007	36.17%	74.39%	72.89%	78.96%	30.52%	40.15%
2008	44.66%	111.86%	81.00%	100.17%	58.95%	60.33%
2009	26.41%	122.86%	62.02%	102.00%	35.91%	79.16%
2010	32.50%	126.88%	345.08%	137.25%	29.01%	37.24%
2011	33.88%	65.72%	412.37%	223.53%	35.21%	37.85%
2012	27.43%	72.44%	433.95%	199.10%	31.15%	28.95%
2013	20.92%	49.57%	325.29%	489.77%	31.67%	37.61%
2014	67.51%	37.70%	137.55%	354.00%	33.32%	38.59%
Mean	38.46%	75.56%	199.84%	197.85%	35.26%	45.50%
S.D	0.1436	0.3354	1.5879	1.3027	0.0897	0.1518

Source: Researcher Data Analysis, (2016)

The results on debt to equity ratio show that on average TCCL total debts are equal to 38.46% of the total equity, TPCC total debts equal 35.26% of the total equity and TCC total debts equals 45.50% of the firm's total equity. All these three firms were found to

have more equity than debts in the capital structure and the debts were less than half of the total equity hence no bankruptcy risk. The comparison of debt to equity was found to be different in the remaining three firms which were found to have more debts than equity. The results show that TBL debts were equal to 75.56% of the total equity, TOL debts equals 199.84% of the total equity while TATEPA debts were equal to 197.85% of the total equity. The amount of debts for TATEPA and TOL were more than the equity financing which indicates bankruptcy risk in case the debt holder requires to be paid their dues at once.

Liquidity

The liquidity of the firm refers to the ability of the firm to pay its maturing short-term liabilities. If the firm does not have liquid cash to pay short maturing liabilities that firm is facing technical insolvency risk. The firm liquidity was measured by current ratio which is the ratio of debts to asset. The results of the current ratio are shown in Table 15.

Table 15: Current Ratio Results

	Firms					
Year	**TCCL**	**TBL**	**TOL**	**TATEPA**	**TPCC**	**TCC**
2005	1.5457	1.0841	1.2694	0.8239	3.9570	2.2715
2006	2.5528	0.9590	1.0800	1.3560	5.8579	1.3387
2007	1.9034	0.7819	1.1697	2.0141	2.5392	1.9797
2008	1.4050	0.6076	0.5499	1.5318	0.9052	1.7662
2009	2.8548	0.5689	1.0511	1.4379	1.8742	1.7935
2010	2.3176	0.6292	0.6517	1.7579	3.3874	2.6698
2011	2.3180	1.3840	0.3036	1.5391	2.5384	2.6355
2012	3.7276	1.4528	0.4567	1.2715	3.9782	3.7782
2013	4.0018	1.2629	0.5838	0.7463	2.9000	2.7358
2014	0.6085	1.5055	1.1001	0.7609	2.3823	2.7941
Mean	2.3235	1.0236	0.8216	1.3239	3.0320	2.3763
S.D	1.0376	0.3659	0.3463	0.4310	1.3602	0.6975
Ranks	3	5	6	4	1	2

Source: Researcher Data Analysis,(2016)

The average results for current ratio for the period of ten years show that the firms under review were able to be pay their short term maturing debts except for TOL which whose ratio was below 1. The mean values were 1: 2.3, 1:1, 1:0.8, 1:1.3, 1:3 and 1:2.4 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The standard deviation of the current ratio shows very high deviation of 1.0376, 1.3602 and 0.6975 for TCCL, TPCC and TCC respectively which implies that the firm ability might drop due such high variability from time to time. The variability among the remaining firm was found to be moderate for the entire period of the ten years. The comparison on ability of the firm to pay short term maturing debts show that, TPCC was performing better than other firms reviewed, followed by TCC, TCCL, TATEPA, TBL and TOL was the least one.

4.3.3 Objective 3: Relationship between Earnings management and Firm's performance

The third objective of the study was to examine the relationship between the earning management practices and the firm's performance. The analysis was conducted in two ways, one was through correlation analysis and through pooled regression analysis.

i. Partial Correlation between earnings management and performance

Partial correlation test was conducted in order to assess the association between different performance value to the earnings management values. The results on partial correlation are shown in Table 16.

Table 16: Partial Correlation Results

Partial Correlation of DA		
Variable	**Corr.**	**Sig.**
ROA	0.0863	0.551
Debt/Asset	0.239	0.095
Current Ratio	0.3454	0.014
Debt/Equity	-0.1976	0.169
Net Profit Margin	-0.1115	0.441

Source: Researcher Data Analysis, (2016)

The results on partial correlation show weak association between measures of performance and discretionary accruals which was used as a measure for earnings management. The results show that return on asset has positive insignificant association with earnings management, Debt to asset ratio has weak (0.239) positive association to earnings management which is significant at 10% level of significance, current ratio has weak positive association coefficient of 0.3454 but which is significant at 5% level of significance while debt to equity and net profit margin all have negative association to earnings management but which was found to be insignificant.

ii. Linear Regression analysis

Apart from the partial correlation analysis, regression analysis was also conducted to check the presences of causality relationship between earnings management and firm's performance. The causality relationship was conducted in two ways, first as per the specific objective three, impact of earnings management to the performance was examined in which earnings management was the independent variable and performance was the dependent variables. Five univariate regression analysis were conducted in case with dependent variables being the measures of performance (Return on asset-ROA, Debt to equity ratio, Debt to asset ratio, net profit margin and current ratio) while discretionary accrual was used independent variable as it the measure of earnings management. The results on the five-univariate regression analysis are summarised in Table 17.

Table 17: Regression Result (Earnings Management to Performance)

	Independent: Discretionary accruals (Earnings Management)		
Dependent	**Coefficient**	**P-value**	**R-Square**
ROA	(0.0585)	0.9770	0.0192
Debt/Equity	(0.8389)	0.5370	0.0117
Debt/Asset	(0.1059)	0.6320	0.0147
Net Profit Margin	(0.0454)	0.08300	0.0183
Current Ratio	2.3599	0.0750	0.0597

Source: Researcher Data Analysis, (2016)

From Table 17, the regression results show weak r-square for all the five univariate models, which suggest that the changes which are observed in the performance measures to high extent are explained by other factors which are not in the model. Hence, earning management explains less than 10% of the changes which happen to the dependent variables which are the measures of performance.

The regression coefficients of the five univariate linear models show that, earnings management has a negative causality relationship with return on asset (ROA) of (0.0585) but which was found to be insignificant. The results on the second model also show a negative coefficient 0.8389, which is insignificant indicating that although earnings management appear to have negative causality relationship to debt to equity ratio such relationship is not significant. Likewise, the results of the third model show presence of negative causality relationship between earnings management and performance measured by debt to asset with a coefficient of (0.1059) but which was found to be insignificant.

The results on the fourth model which regressed earnings management and performance measured by net profit margin shows presence on negative causality with a coefficient of (0.0454) which was found to be significant at 10% level of significance. This implies that, increase in earnings management results in declining in reported net profit margin, which confirm the results observed in earnings management in which most of the firms were found to manage earnings downwards by reducing the reported profit.

The results on final model which regressed earnings management as independent variable and firm's performance in term of liquidity (current ratio) as dependent variables, show presence of positive causality relationship between the two variables. The results of the model show the coefficient of 2.3599 which was found to be significant at 10% level of significance. This implies that earnings management have causal effect to the liquidity ratio of the firm, as earnings management increases the

liquidity ratio also increases. This might be due to the fact that most of accruals relates to current assets such as inventory, debtors etc. hence decrease in accrual might relates to increase in stock which results in high values of current asset as well as current ratio.

Generally, from both partial correlation analysis and simple linear regression models conducted above, it was observed that the impact of earnings management on performance depends on the measures of performance used. This is due to the fact that some measures show presence of significant earnings management

iii. Impact of performance on earnings management

Since the results on impact of earnings management on performance did not show satisfactory results, the researcher also tested the impact of performance on earnings management. This followed from study which test impact of performance on earnings management with arguments that, when a firm does not perform well it manages its earnings so that the resulting or the reported performance become impressive to the users of financial statements. The STATA results on the multiple regression analysis on impact of performance on earnings management are shown in Table 18.

Table 18: Performance Versus earnings management

Source	SS	df	MS	Number of obs =	54
				F(5, 48) =	1.48
Model	.095865579	5	.019173116	Prob > F =	0.2150
Residual	.62325818	48	.012984545	R-squared =	0.1333
				Adj R-squared =	0.0430
Total	.719123759	53	.013568373	Root MSE =	.11395

daorg	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
roa	.1836016	.3060696	0.60	0.551	-.4317927	.7989959
debtasset	.4948122	.290153	1.71	0.095	-.0885795	1.078204
currentratio	.0555377	.0217788	2.55	0.014	.0117486	.0993268
debtequity	-.0544063	.0389623	-1.40	0.169	-.1327452	.0239325
netprofitm~n	-.2215133	.2849041	-0.78	0.441	-.7943513	.3513248
_cons	-.2216152	.1245006	-1.78	0.081	-.4719405	.0287101

Source: Researcher Data Analysis, (2016)

The multiple regression models was conducted with dependent variable being the earnings management measured by discretionary accruals and dependent variables being the performance of the firms measured by five different ratios of return on asset, debt to asset ratio, current ratio, debt to equity ratio and net profit margin.

The results show a low goodness of fit with r-squared of 13.33% which indicates that the changes in discretionary accrual is largely explained by other factors apart from the performance of the firm. Among the five performance measures, only two were found to be significant while others were found to be insignificant. The results show that debt to asset ratio has positive coefficient of 0.4948 which was found to be significant at 10% level of significance. Current ratio was also found to have negative coefficient of about 0.0555 which was significant at 5% level of significance. The two performance variables show the presence of causality relationship between them and earnings management.

The results on the impact of performance on earning management also support the previous results on impact of earnings management on performance that, the impact depends on the variables used as the measures of performance, while some variables show the presence of significant relationships other variables shows insignificant relationship.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

This chapter presents the discussion of the findings which is the comparison between the findings of this study with the findings of other similar or related previous studies.

5.2 Earnings Management

Basing on the results of this study we found out that manufacturing firms listed at Dar-es-salaam stock exchange market engage in earnings management. The results show the presence of both total accrual, non-discretionary accruals and discretionary accruals which were used as the measure of earnings management. The findings of the study also show that manufacturing firms engage in earnings management in both ways upward and downwards which results in overstating of reported earnings and understating of reported earnings respectively.

The findings of this study are similar to the findings presented by several previous studies in firm's earnings management practices among the firms. The study by Llukani, (2013) reported that firms in Albanian stock exchange market engage in earnings management, study by Gill *et al* (2013) reported that manufacturing firms in India engage in earnings management, study by Waseemullah and Shehzadi, (2015) in Pakistan reported that managers of the firms listed at Karachi Stock exchange market use aggressive earning management practices to smooth their earnings. The study by Hassanand Ahmed (2012) on corporate governance, earnings management and firm's performance in Nigeria manufacturing firms also reported presence of earnings management among the reviewed firms. Other studies which also reported presence of earnings management practices among the listed firms include Chiraz and Anis (2013), Dutta and Gigler, (2002) and Putri, (2013). All the above studies were found to use Jones discretionary accrual model as the measure of earnings management similar to this study.

Basing on the previous studies, the findings of this study follow the same pattern as it shows that firms listed at DSE also engage in earnings management in order to smooth the reported earnings with the aim of either taking advantage of tax payments or showing the impressive performance to the users of the financial statements.

5 .3 Performance of Firms

The results on performance of the firms were moderate as firms reviewed performed well in the measures of the performance used except few firms which were observed to lag behind in all measures of performance. The findings of the study on profitability of the firms show that, firms reviewed had an average profitability ranging from -14% to 25%. This implies that some firms were on average operating at profit except for one firm which on average it was operating at loss. The findings on asset management measured by return on asset (ROA) shows the minimum value of -9% and a maximum value of 30%. The findings revealed that among the six firms one firm was not able to produce profit using its total asset invested while other firms were able to produce profit using the asset with the highest producing more than 30% of profit using unit value invested in total asset.

The results on firms leverage show that debt to asset ratio ranged between 25% to 61% and most of the firm were found to finance assets using the owners' equity and not the debts. The results on debt to equity ratio show an average minimum of 35% and maximum of 199%. It was found out that four firms had more equity than debts in their capital structure while two firms have more debt than equity. Lastly, the firm's performance in terms of their liquidity measured by current ratio, reported a minimum of 1:0.8 and maximum of 1:3. The findings showing that most of the firms were able to meet their short term obligation except one whose ratio was below one.

The findings of this study were similar to findings reported in previous studies on performance of listed firms in different countries. The findings by Waseemullah and Shehzadi (2015) in Karachi stock exchange market which reported average return on asset of 5% among the firms listed in that market, study by Hassan and Ahmed (2012) on corporate governance, earnings management and firm's performance in Nigeria manufacturing firms reported an average profitability of 21% using net profit before interest and tax ratio. This study used Jones modified discretionary accrual model to measure earnings management of manufacturing firms.

5.4 Relationship between earnings management and firm's performance

The findings of the study on relationship between earnings management and performance reported a mixed result. From both partial correlation test and regression tests the findings indicates that there are presence of significant association and causality relationship between earnings management and performance but which depends on the variables used to measure firm's performance. Some of the variables did not show any significance while in some variables significant results were observed. The findings of this study show presence of significant relationship between earnings management and firm's performance when firm's performance was measured using net profit margin and current ratio while when firm's performance was measured using return on asset (ROA), debt to equity ratio and debt to asset ratio the results were not significant.

The findings of the study related to the findings of some previous studies which also reported presence of significant relationship between earnings management and firm's performance. Study by Putri, (2013) reported presence of relationship between earnings management and value of the firm in Indonesian stock exchange market, Eman (2010) reported presence of negative impact of earnings management on firm value and Sayari *et al.* (2013) which was conducted in Tunisia, examined the impact of earnings management on the stock return. The study used the modified Jones model to measure earning management using discretionary accruals. The findings of the study reported

significant impact of earnings management on performance and value of the firm. Likewise, the study by Chiraz and Anis (2013) which examined the relationship between earnings management and performance of French IPO companies, reported that companies with aggressive earnings management in the IPO process, tend to suffer from subsequently poor returns. The findings from study by Izadinia *et al*, (2014) examined the relationship between earnings management and social responsibility of the firms listed at Tehran Stock exchange, reported presence of negative relationship between earnings management and corporate social responsibility but financial performance of the firm was found to have positive relationship with earnings management while organisation commitment was found to be negatively related with earnings management.

On the other hand, the findings of the study also were similar to the findings reported by Fattahi *et al* (2014) which examined the impact of earnings management on value relevance of accounting information of listed firms at Tehran Stock Exchange, the study reported that earning management does not have any significant relations to the value relevance of accounting information.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

This chapter seeks to give the summary of the results obtained in the study, findings of the study, conclusion, recommendations and the areas for further studies. The chapter starts by providing the summary of the key results and findings obtained in the study and then presents the conclusion made regarding the findings obtained. Thereafter, it presents the conclusion of the study and areas which was not covered by the study which can be further explored by other studies in the future.

6.2 Summary of the Results and Findings

The results and the findings of the study are divided basing on the specific objectives of the study. The study had three major specific objectives, the first one was to examine the earnings management level and practices on the reviewed firms, the second was to measure performance of the selected firms and the last one was to examine the relationship between earnings management and firm's performance.

- **Earnings management practices among manufacturing firms listed at DSE**

The findings on the study on earnings management show that the firms reviewed are all involved in earnings management practices. The results on total accrual show presence of average negative total accruals for the ten years (nine periods) reviewed. The average total accruals were found to be -0.063, -0.0238, -0.0989, -0.0407, -0.0357 and -0.0383 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively.

The results on non-discretionary accruals show presence on negative non-discretionary accruals with mean value of -0.0738, -0.0618, -0.1359, -0.0715, -0.0672 and -0.0440 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The negative sign implies that, the firm's accruals which were results on non-discretionary, reduced the reported profits for the periods under review.

The results on discretionary accruals which was used to measure earnings management show the mean averages of 0.00099, 0.381, 0.037, 0.0308, 0.0316 and -0.0316 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The mean average results show that; all other firms manage their earnings upward on average except for TCC which on average it manages its earnings downwards.

- **Performance**

The performance of the firms was measured using five different measures, profitability, asset management, leverage and liquidity measures. The results on profitability measured by net profit margin show that TCCL net profit margin was 19.08% of the sales, TBL has an average of 21.11% while TOL, TATEPA, TPCC and TCC have (14.29%), 1.4%, 23.63% and 25.10% respectively.

The results on asset management measured by return on asset (ROA) show the performance values of 22.48%, 26.35%, (9.44), 1.48%, 22.02% and 30.72% for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. The mean comparisons show that TCC was better performing on asset management as it generates 30.72% profit out of the unit value of the total asset invested while TOL was the last one as for each unit value invested in the asset, the firm produced a loss of 9.44% on average for the period of ten years.

The results on leverage performance of the firm was measured using two ratios, the debt to asset ratio and debt to equity ratio. The results of the debt to asset ratio show the mean

value of 27.12%, 41.24%, 57.66%, 61.77%, 25.81% and 30.66% for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively. From the results it can be deduced that on average the total asset of TCCL are financed by debts to the tune of 27.12% meaning that for more than 70% the assets are financed by equity. Results on debt to equity ratio show that on average TCCL total debts are equal to 38.46% of the total equity, TPCC total debts equal 35.26% of the total equity and TCC total debts equals 45.50% of the firm's total equity.

The findings on firm's liquidity were measured by current ratio which shows the ability of the firm to pay short term maturing debts. The average results for current ratio for the period of ten years show that the firms under review were able to be pay their short term maturing debts except for TOL which whose ratio was below 1. The mean values were 1: 2.3, 1:1, 1:0.8, 1:1.3, 1:3 and 1:2.4 for TCCL, TBL, TOL, TATEPA, TPCC and TCC respectively.

- **Relationship between Earnings management and Firm's performance**

In assessing the relationship between earnings management and firm's performance both partial correlation test and regression test were conducted. The results on partial correlation show week association between measures of performance and discretionary accruals which was used as a measure for earnings management. The results show that return on asset has positive insignificant association with earning management, Debt to asset ratio has week (0.239) positive association to earnings management which is significant at 10% level of significance, current ratio has week positive association coefficient of 0.3454 but which is significant at 5% level of significance while debt to equity and net profit margin all have negative association to earnings management but which was found to be insignificant.

The results on regression analysis show that causality relationship between earnings management and firm's performance was statistically insignificant for three measures of

performance which are return on Asset (ROA), Debt to asset ratio, debt to equity ratio, and significant for the two measures of performance.

The results on regression analysis where performance measured by net profit margin was the dependent variable and earnings management independent variable, shows presence on negative causality with a coefficient of (0.0454) which was found to be significant at 10% level of significance. This implies that, increase in earnings management results in the decline in reported net profit margin, which also confirms the results observed in earnings management in which most of the firms were found to manage earnings downwards by reducing the reported profit. Likewise, the model which regressed earnings management as independent variable and firm's performance in term of liquidity (current ratio) as dependent variables, show presence of positive causality relationship between the two variables. The results of the model show the coefficient of 2.3599 which was found to be significant at 10% level of significance. This implies that earning management have causal effect to the liquidity ratio of the firm, as earnings management increases the liquidity ratio also increases. This might be due to the fact that most of accruals relates to current assets such as inventory, debtors etc hence decrease in accrual might relates to increase in stock which results in high values of current asset as well as current ratio.

6.3 Conclusion

From the above findings of the study, it was concluded that:

- Manufacturing firms listed at Dar-es-Salaam stock exchange market engage in earnings management practices by either smoothing earnings downward to take advantage of tax or upward to impress the users of financial statement and other stakeholders on their performance. The earnings management practices were found to be undertaken by all six firms reviewed which suggest that firms listed

at the stock market might all be practicing earnings management in different ways.

- On the performance of the firm, the study concludes that reviewed firms are generally performing well in profitability, asset management, leverage and liquidity. Although the performance was found to vary among the individual firms, some showing better performance than others. All the firms were found to perform well except TOL, which was observed to have poor value of performance in most of the measures used.

- On the relationship between earnings management and performance, the study concludes that, both association and causality relationship exists between earnings management and performance, but such relationship depends on the performance measures selected. Some measures show presence of the statistical significant relationship while others show insignificant relationship.

6.4 Recommendations

From the findings above, the study recommends the following:

- The registered firms at DSE should present their statement fairly to enable investors to make correct decisions. Earning management practices distorts the true and fair view of the statement hence resulting in incorrect decision when users rely on the financial statement for decision making.

- The regulators of DSE should develop more mechanism to detect earnings management among the listed firms and should ensure that all firms present financial statements which show true and fair view. All discretionary accruals should be eliminated by firms.

- Earnings management has impact on performance, therefore the study recommends the users of financial statements especially those who wish to make decisions basing on them, that they should first evaluate whether the related firms engage in earnings management so that the decision made can be correct ones.

6.5 Areas of further studies

This study examined the impact of earning management on performance of manufacturing firms listed at Dar-es-Salaam stock exchange market. The following areas were not covered and hence can be considered by future researchers.

- This research was limited in terms of the nature of firm as only manufacturing firms were considered. Future studies can consider all firms listed at DSE in order to determine whether there are differences in earning management practices among firms in different sectors.

- The study only considered firm listed at DSE, future studies can expand the study by checking all firms listed in east Africa stock exchange markets in order to determine whether geographical areas has impact of the firm decision to engage in earnings management.

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