Earnings Management- An Indian Perspective
Dr. Hari Leela Vemula¹, B. Sasidhar², B. Amarnath³.

¹Associate Professor,
Faculty of Management Science,
Mahatma Gandhi Institute of Technology
²Assistant Professor,
Faculty of Management Science,
Mahatma Gandhi Institute of Technology
³Assistant Professor,
Faculty of Management Science,
Mahatma Gandhi Institute of Technology

Article History: Received: 10 January 2021; Revised: 12 February 2021; Accepted: 27 March 2021; Published online: 28 April 2021

Abstract
Earnings on the board have been a gigantic and predictable issue among controllers and experts and have pick up critical consideration in the field of bookkeeping. This study focuses on Earnings Management in India. Subsequently, it tends to be inferred that at the time of the investigation, the Companies in the sample and since they are representative, the companies in India are indeed exhibiting Earnings Management Practices. There is additionally solid proof that various companies from various industry segments were bound to practice Earnings Management. The aftermaths of the study are in line with the findings of Nelson et al. (2002).

This study has both academic and industry implications as this is forming base for further research in academics and the Industry practitioners can have a fair idea of the Earnings management influencing parameters. The limitations of the study can be how representative the sample is and this is overcome by the fact that the samples were chosen in a random manner.

Further studies can be conducted on the other financial parameters influencing Earnings management in the Indian context.

Keywords: Earnings, Management, Return on Assets, Earnings Per Share, Net Profit.

1.0 Introduction
Earnings on the board have been a gigantic and predictable issue among controllers and experts and has pick up critical consideration in the field of bookkeeping. A few reasons and procedures exist for Earnings on the board practice and the vast majority of which are the points of the administration's (Baber, W. R., et.al. 2011). Earnings on the board and profit control stayed an incredible worry for the distributed budget report unwavering quality. Scholarly writing showed that the profit the executive’s practice is broadly led inside openly recorded firms (Rudra and Bhattacharjee, 2012).

As indicated by Cohen and Zarowin (2010) and Roychowdhury (2006), they give confirmation and examine that corporate administrators moved their concentration from accumulation-based Earnings the executives to the real exercises control (real profit on the board). Genuine exercises control happens when the board purposely controls the genuine operational exercises. This incorporates given out a rebate to clients to improve deals, timing of productive venture and decrease of consumption to build the benefit level. In another contention, Graham, Harvey and Rajgopal (2005), they demonstrate that because of the burden related with the gathering profit the board, the Earnings controls are well on the way to be acknowledged through the genuine operational practices
Productivity have been perceived as the components that influence the executives capacity to misuse the announced Earnings (Memis, M. U., and Cetenak, E. H. 2012). This contention was steady from the past examination as benefit data was fundamentally impact the partners trust in the capital market. A few explores have reported factors, for example, productivity
and influence impact the degree of association's exercises of Earnings the executives (Bushman, R. M., and Piotroski, J. D. 2006). Moreover, benefit of firm is found to essentially affect administrators want to utilize inventive bookkeeping procedure in revealing Earnings. Flagging hypothesis accepts that beneficial firms have a solid motivation to uncover quality profit data to the market member. Actually, it is discovered that low degree of benefit makes the executives exaggerate their Earnings to surpass or get together with the expert expectation (Islam, A., Ali, R., and Ahmad, Z. 2011).

2.0 Literature Review and Hypothesis Development

The evaluated literature has indicated that the term Earnings as the executives portray, is from the two essential viewpoints; from the instructive viewpoint and sharp viewpoint. The principal point of view which is the educational viewpoint, considers Earnings to be as an instrument utilized in revealing private data that is connected to the association's expected execution inside the monetary market. The second viewpoint which see Earnings the executives as an essential instrument utilized by corporate chiefs in other to forestall certain conditions which may influence the firm and furthermore trick speculators on the current state of the firm. Thusly, in a type of abatement or increment of Earnings, corporate administrators unveiled to speculators about the accomplishment of results and they would be remunerated by streamlining the individual advantage. This idealistic point of view is in many times seen before some significant exchanges, for example, in a circumstance of consolidations and acquisitions. Earlier researchers have sorted Earnings the board from two unique measurements: the genuine profit the executives or genuine exercises control (i.e., which is influencing the Earnings) and the gatherings the board which includes change of bookkeeping technique and evaluations. Past researchers have comparably suggested that the particular expense of profit the executives shifts across these procedures, the genuine Earnings the board generally considered to be considerably more exorbitant for the firm (Roychowdhury, 2006). According to another perspective, Graham, Harvey, and Rajgopal (2005) directed a basic study and they reach resolution that corporate chiefs are probably going to include in the genuine Earnings the executives than the accumulations the board: decline optional spending by 80%, 55% would concede the estimation of a venture, when contrasted with just 28% that may pull down stores and that the 8% may have change the bookkeeping suppositions. Appropriately, the basic study is being discovered to be conflicting with the greater expense of the genuine Earnings the board. In any case, earlier examination researched the use of a few monetary credits of profit the executives. These investigations make accentuation because of the monetary determinants that could be utilized to inspect its conceivable relationship with the Earnings the board in the organization's exercises. It has been distinguished that the significance of Earnings capacity, monetary structure capacity and furthermore the non-monetary facto could be applicable in evaluating the impact with respect to the monetary determinants of profit the executives in the organizations (Chen, 2011). Profit capacity is accepted to have a critical impact in affecting existing and expected investors of the organizations during speculation choice in the capital market (Sra, J., Ajit, D., and Donker, H. (2013). As a rule, the Earnings capacity of the organizations was discovered to be related with the market upper hand among the capital market players (Memis, M. U., and Cetenak, E. H. 2012). Along these lines, as expressed by Miloud (2014), Earnings capacity of the organizations can be viewed as an essential instrument utilized by organizations to ensure that the monetary report unveiled for use by the current and potential investors is fit for drawing their consideration. Earnings capacity is likewise being utilized in recognizing monetary abnormalities (Siregar, S.V., & Utama, S. 2008). Moreover, Memis, M. U., and Cetenak, E. H. (2012) in his exploration, he analyze the impact of the monetary factors on the cost of offer on the cited firms in Philippines utilizing the Return on Assets (ROA) and EPS. The outcome demonstrates that there is factually huge
positive relationship between the offer cost and EPS, though there is a negative relationship between the offer cost and ROA.

2.1 Productivity and Earnings Management

Sun and Rath (2009) give a clarification to the presence of a connection between Earnings of the executives and benefit. The creators contend that productivity influences the degree of Earnings on the board since lower bookkeeping benefits can inspire firms to control profit since these organizations are probably going to confront monetary limitations. The creators further guess that the degree of profit the board is reliant upon the association's working execution. On the off chance that working execution is exceptionally low, a few firms may scrub down by seriously diminishing pay, to make future profit targets simpler to reach. Further, Kao, L., & Chen, A. (2004). “The Effects of Board Characteristics on Earnings Management.” Corporate Ownership and Control, 1 (3), pp. 96-107 contend that higher benefit is identified with stable monetary conditions and hence conjecture a negative connection among productivity and the two profit the board strategies since a firm portrayed by more steady monetary conditions is less inclined to require a further degree of Earnings the executives. Alternately, a contention can be made that higher bookkeeping benefits can prompt a further degree of profit the executives. Firms described by higher productivity can have higher motivating forces to oversee profit since monetary execution influences the pay of the executives (Kao, L., & Chen, A. 2004). With regards to created economies, Sun and Rath (2009) find that ROA is an essential determinant of accruals-based profits in Australia. They locate that less productive firms are bound to take part of the in profit on board. Predictable with this discovering, Chen et al. (2015) contend that organizations with better execution have less inspirations to participate in real profit on the board. They inspect US firms and locate a negative connection among ROA and real Earnings on the board. Essentially, Iqbal, A., & Strong, N. (2010) finds that less productive firms take part in more significant levels of real Earnings the board in an investigation of 22 European nations. Comparable outcomes are accounted for by Kim et al. (2010) for US firms who locate a negative connection among productivity and real earnings on the board. Likewise, Choi, J. J., and Kim, M. S. (2012), finds a negative connection among ROA and the degree of real Earnings the executives for US firms. With regards to creating economies, Ho et al. (2015) find that the 77 degree of genuine Earnings the board is lower for firms with higher productivity in an investigation of Chinese firms. A similar outcome is found by Guidara, R., and Boujelbene, Y(2015) for Chinese firms. Predictable with the finding that less productive firms participate in Earnings the executives, Gunny, K. A. (2010) lead an investigation of Singaporean firms and find that pay smoothing is displayed by firms with helpless productivity and extreme changes in pay. Interestingly, Gunny, K. A. (2010) find that organizations portrayed by higher benefit show higher optional gatherings for an example of Malaysian freely recorded firms. Similarly, Zamri et al. (2013) look at Malaysian firms and contend that administrators of these organizations practice operational watchfulness to depict better future execution. They locate a positive connection among benefit and genuine Earnings the board. With regards to MENA locale nations, Abdullahi, R., and Mansor, N. (2015) locate a negative connection between accruals-based Earnings the executives and productivity for Jordanian firms. Then again, Hashemi, S. A., and Rabiee, H. (2011) look at firms in the UAE, Morocco, South Africa, and the Philippines and locate a positive affiliation. Additionally, Hamza and Bannouri (2015) inspect genuine profit the board exercises in Tunisian firms and locate a positive affiliation. It is additionally conceivable that examiners and speculators expect firms portrayed by higher productivity to keep on performing great. To meet this desire, such firms are probably going to take part in pay increase so as to persuade the executives to try not to report diminishes in profit. As recently referenced, the MENA locale is described by moderately high political precariousness. Under
such conditions, productive firms are bound to participate in profit the executives, through either strategy, to keep on performing great and meet the desires for investigators and speculators. In this foundation different past examination had reported the different motivating force that chiefs have when managing Earnings, the executives (Ball et al., 2003; Lang et al., 2006; Bushman and Piotroski, 2006; Burgstahler et al., 2006). In this regard a lot of consideration is offered both to impetuses and monetary conditions that uphold those impetuses. Profit the executives has been characterized from various perspectives, for example, Fields et al (2001), expressed that Earnings the board emerges when chiefs utilize their decision over bookkeeping numbers with or then again without limitations. Such carefulness can be either firm esteem amplifying or astute. Profit the executives happens when administrators utilize his own judgment in monetary revealing and in collecting exchanges to change monetary reports either to mislead a few speculators about the key monetary execution of the organization or to impact authoritative results that rely upon announced bookkeeping numbers (Healy and Wahlen, 1999). Schipper (1989), characterizes profit the executives as the deliberate obstruction in the outer monetary announcing measure with the goal of private additions. In this examination, profit the board is seen as an intentional inclusion of the outer monetary detailing measure with the point of misdirecting a few partners about the basic financial execution of the organization. The late Satyam Scandals and Sarada Scandals in India; Enron Corporation Scandals, ZZZZ-Best Scandals and WorldCom tumble down in United States are the reality veining illustration of abuse of adaptability in picking the bookkeeping strategies and medicines by the administration.

2.2 Earnings Management Practices

Directors principally partake in Earnings the executives for four sorts of consolations specifically, outer agreement motivating forces, the board pay contract impetuses, administrative inspirations and capital market inspirations (Healy and Wahlen, 1999). That methods, all these means of Earnings on the board center around the legitimate bookkeeping and adaptable zones of financial decisions that might be utilized to impact revealed Earnings Dechow et al.,(1995) assesses elective accumulation based models for identifying Earnings the executives and featured the significance of controlling for monetary execution when examining Earnings the board boosts that are associated with monetary execution. Islam et al., (2011) inspected the viability of Altered Jones Model in recognizing profit the board among the underlying public contributions of Dhaka Stock Exchange recorded organizations during 1985 to 2005 what's more, seen that Modified Jones model isn't compelling in recognizing Earnings the executives with regards to Bangladesh. Memis and Cetenak, (2012) explores the connection between profit the executives and review quality across various arising nations and inferred that just for Brazilian and Mexican organizations, there is huge connection between the optional gatherings and review quality however for the other nations there isn't critical relationship. Rudra and Bhattacharjee, (2012) explores the affiliation between selection of IFRs and Earnings Management furthermore, presumed that despite the fact that bookkeeping norms may control Earnings the board at times, it doesn't essentially imply that a nation with high-caliber bookkeeping principles will likewise have top notch announced monetary data and hence low Earnings the executives. Studies led by (Burgstahler and Dichev, 1997; Graham et al., 2005; Charitou et al., 2007) on the foundation Earnings the executives occurring and degree in different monetary circumstances and found that organizations deal with their Earnings when experience a few sorts of monetary trouble. Lim and Matolcsy, (1999) saw that the majority of the profit the executives rehearses are utilized to acquire points of interest from the government. As of late hardily any investigation reported that the declining of monetary execution during the worldwide monetary emergency acts like a solid motivating force for administrator to conceal the genuine monetary execution and accordingly lock in in Earnings the executive’s practice in announcing the monetary data.
(Huijgen and Lubberink, 2005; Krishnan, 2007). Jenkins et al., (2009) established that traditionalism is additionally one of the significant purpose behind lower level of Earnings the board. The investigation of Barth et al., (2008) including 21 nations and investigation of Marra et al., (2011) saw that reception of IFRS has a considerable effect on decrease of profit the executives practice in monetary detailing. Cohen et al., (2008) seen that the entry of Sarbanes-Oxley Act in 2002 has generously decrease the accumulation-based Earnings the executives however genuine Earnings the board rehearses has increments considerably after 2002. Besides few examines were directed from the outlook of worldwide monetary emergency and its effect on profit the executives. For example the investigation of (Saleh and Ahmed, 2005; Ahmed et al., 2008) observationally archived that during 1997 Asian monetary emergency troughs occupied with additional pay diminishing Earnings the board. Despite the fact that there is tremendous experimental writing of Earnings the executives particularly in the point of view of the US, in the Indian setting, there are just restricted examinations have been done (Shen and Chih, 2005; Chipalkatti and Rishi, 2007; Sarkar, Sarkar, and Sen, 2008; and Rudra and Bhattacharjee, 2012; Roy and Debnath, 2015). Shen furthermore, Chih, (2005) saw that profit the executives to be winning among Indian banks. Chipalkatti and Rishi, (2007) discovered manages an account with low benefit enjoyed Earnings on the board. Sarkar et al., (2008) reported a negative connection between board freedom and Earnings on the board. Rudra and Bhattacharjee, (2012) discovered optional accumulations among Indian firms to be as high as 48.3 percent (of absolute resources) for 2010.

Roy and Debnath, (2015) archived that the administration area industry is more participate in profit the executives practice as apparent from investigation of Indian Public Venture.

2.3 Hypothesis of the Study
Based on the review of these studies, the following null hypothesis has been formulated:
H0: The sample companies did not engage in earnings management.

3. Significance of the Study:
Distinguishing income on the board is one of principle challenges for both the analysts and specialists (Dechow et al, 2012); it is neither noticeable nor straightforward. Academicians have defined circuitous techniques to gauge profit the board.

4.0 Objective of the Study
The core objective of the study is to examine the earnings management practices in select Indian companies.

5.0 Methodology
The data for 1000 Indian organisations was chosen for the study. The data was collected from Capital market database from the FY 2015 to FY 2020 ie for 5 years to date. Discretionary accruals (DA) were utilized as an intermediary of earnings management. Altered jones model was utilized to compute the optional gathering extent of profit the executives.

The data according to the condition was utilized for a cross segment of organizations.

Dependent Variable: Discretionary accruals (DA), Independent Variables: 1. Profit Ability (Net Earnings – Preferred Div)/Number of Outstanding Shares = Earnings Per Share; 2. Variation in Sales Revenue; 3. Variation in Net Profit. Data will be analysed by MS excel and a Regression model will be developed.

6.0 Data Analysis and Discussion
Dependent Variable: Discretionary accruals (DA), Independent Variables: 1. Profit Ability (Net Earnings – Preferred Div)/Number of Outstanding Shares = Earnings Per
Earnings Management- An Indian Perspective

Share; 2. Variation in Sales Revenue; 3. Variation in Net Profit. Data was analysed by MS excel and a Regression model was developed.

<table>
<thead>
<tr>
<th>Table 1 R Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple R</td>
</tr>
<tr>
<td>R Square</td>
</tr>
<tr>
<td>Adjusted R Square</td>
</tr>
<tr>
<td>Standard Error</td>
</tr>
<tr>
<td>Observations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 2: ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Df</td>
</tr>
<tr>
<td>Regression</td>
</tr>
<tr>
<td>Residual</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 3: Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coefficients</td>
</tr>
<tr>
<td>Intercept</td>
</tr>
<tr>
<td>X Variable 1</td>
</tr>
<tr>
<td>X Variable 2</td>
</tr>
<tr>
<td>X Variable 3</td>
</tr>
<tr>
<td>Standard Error</td>
</tr>
<tr>
<td>t Stat</td>
</tr>
<tr>
<td>P-value</td>
</tr>
<tr>
<td>Lower 95%</td>
</tr>
<tr>
<td>Upper 95%</td>
</tr>
<tr>
<td>Lower 95.0%</td>
</tr>
<tr>
<td>Upper 95.0%</td>
</tr>
<tr>
<td>Lower 95%</td>
</tr>
<tr>
<td>Upper 95%</td>
</tr>
</tbody>
</table>

The data was analysed by developing a Regression model using MS Excel. As per Table no 3 Coefficients are built into the regression model linking the dependent and independent variables. The Regression Model will be as follows:

Discretionary accruals (DA) = 8.878288675 +0.016744598* Variation in Sales (%) +0.010412457* Variation in Net Profit (%) +0.002090796* Earnings per Share (EPS-INR)

The Discretionary accruals (DA) is having the above relationship with the Variation in Sales as a percentage, Variation in Net Profit as a percentage and Earnings per share in Indian Rupees.

As per Table no 1, R Statistics , The R and R**2 values indicate that good explanation of the variation in the dependent variable is exhibited by the independent variables. As per table no 2, ANOVA, The ANOVA table indicates goodness of fit which is statistically significant. So, the model is exhibiting goodness of fit.

The Discretionary accruals (DA) is explained by the variation in Sales revenue, variation in Net Profit and the Earnings per share. The model is exhibiting goodness of fit and is statistically significant at 5% value. So, the Earnings Management practices are prevalent in the companies selected for this study. The sample being representative and big enough for a Country like India, the Hypothesis that the Companies in the sample of study, did not engage in Earnings Management is rejected. It is evident that these companies are indeed engaging in Earnings Management Practices.
7. Conclusion and Recommendations
Subsequently, it tends to be inferred that at the time of the investigation, the Companies in the sample and since they are representative, the companies in India are indeed exhibiting Earnings Management Practices. There is additionally solid proof that various companies from various industry segment were bound to practice Earnings Management. The aftereffects of the study are in line with the findings of Nelson et al. (2002). This study has both academic and industry implications as this is forming base for further research in academics and the Industry practitioners can have a fair idea of the Earnings management influencing parameters. The limitations of the study can be how representative the sample is and this is overcome by the fact that the samples were chosen in a random manner. Further studies can be conducted on the other financial parameters influencing Earnings management in the Indian context.

References

Earnings Management- An Indian Perspective


