

The Understanding of Earnings Management Practices by Commercial Banks Stakeholders in Tanzania

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Abstract: This study investigated earnings management practices in the Tanzanian context. The study specifically focused on the knowledge and understanding of earning management among commercial banks' stakeholders in Tanzania. The key research question that influenced the research was: To what extent are commercial bank stakeholders knowledgeable are aware of earning management practices? The qualitative approach was considered the most appropriate for the study and purposively selected 14 participants. Open-ended semi-structured interviews were employed in data collection as suggested by McIntosh and Morse (2015). Participants were asked about their understanding of earnings management in commercial banks in the context of Tanzania. Following inductive thematic analysis, two themes emerged relating to earnings management awareness and examples of earnings management in commercial banks in Tanzania. The finding showed that participants held different meanings and knowledge on earnings management. They also provided different types of earnings management practices as they experienced in their daily life.

In many respects, the present study adds knowledge to the existing body of knowledge. Based on the literature reviewed, this study stands as the first and only research to yield understanding and knowledge of earnings management in the context of Tanzania commercial banks. This research relates to restricted earnings research performed in developed countries. The study results could be used, in particular, by commercial banks, organizations, and other stakeholders in ensuring the reliability of the financial statements.

1. INTRODUCTION

Earnings management implies the use of judgement by the managers to alter financial reports or transactions either to mislead stakeholders concerning the company's underlying economic performance or to manipulate contractual results that rely on the published accounting numbers (Healy and Whalen, 1999). In a views of Amat & Gowthorpe (2004), earnings management (hereafter referred to as 'EM') is synonymous with creative accounting, financial engineering, and cosmetic accounting. EM is an accounting technique used by managers to generate financial information that is overly positive. Organizations are tempted to manipulate earnings to increase the reported profit or minimize losses (Salome, *et.al* 2012).

The term EM is related to US researchers, while European researchers usually use the term *creative accounting* (De la Torre, & Ize, 2011). According to the Chartered Institute of Accountants in Australia & New Zealand, earnings management exists in almost all industries regardless of size or location (Neesham, 2018). The view that EM is synonymous with financial statements fraud is wrong because financial statements fraud produces financial reports based on fictitious transactions, whereas EM occurs when transactions or events are manipulated or distorted (Dechow & Skinner, 2000). EM can also be compared to disclosure management, i.e., purposeful intervention in the financial reporting process (Schipper, 1989).

To inflate the total earnings, the organization indulging in EM uses certain accounting methods and thus ensures that the reflection on the annual financial statements is superficial. It is very difficult to identify EM. According to Taylor, Bogdan, and DeVault (2015), EM appears quite close to other accounting methods, and thus, more often than not, they go unchecked. Misleading financial results often affect the overall financial market, as the underlying growth and market projections are limited

because the data is inaccurate. Earnings management occurs because of personal incentives (of the person committing it), external forces (externally meeting job/company/institution demand), and deliberate compliance with financial analysts' projections. It is an effort made by the management team of the various institutions to manage the financial statements of the organization. It is flexible and therefore business managers tend to manipulate their company's financial status on a monthly, quarterly, or even yearly basis.

Generally, quality, error-free financial statements are crucial for decision-making. For financial information to be useful in the decision-making process, the preparers are expected to perform their duties to the highest level of integrity (Cotter, 2012). One of the key criteria for assessing the quality of financial statements is the prevalence of earnings management (Elias, 2012). Lower earnings management means high-quality financial statements and vice versa is also true. For a long time, therefore, the incidence of earnings management has remained a challenge in financial reporting (Heinz *et.al*, 2013). Due to its importance, this issue has attracted several stakeholders, including regulators, professional bodies, investors, and organizations (Achilles *et.al*, 2013). Earnings Management aims to mislead financial information users by creating a false impression of the organization's performance and financial strengths (Healy & Whalen, 1999).

Broadly speaking, it is argued that earnings management undermines the usefulness of financial statements (Ozili & Outa, 2019). Although earnings management is not criminal or fraudulent, it is considered a serious problem and continues to be an issue in financial reporting (Heinz *et.al*, 2013). The undesirable consequences of earnings management have made it an important topic for organizations and various stakeholders (Achilles *et.al*, 2013). Earnings management undermines the reliability of financial statements (Man & Wong, 2013). The existence of earnings management reduces the reliability of financial statements.

This study aimed to assess knowledge and understanding of earning management practices among commercial banks' stakeholders in the Tanzanian context. Earnings Management has been on the rise globally and across all sectors. In that regard, understanding the stakeholders' knowledge and understanding on earnings management in commercial banks may have a positive impact on the economy. The commercial banks have not been spared and earnings management prevalence has hurt the users of financial statements. However, how commercial banks stakeholders understand and view earnings management is not well documented in various countries including Tanzania. To that end, the study intends to establish views/opinion and understanding of earning management among commercial banks stakeholders in Tanzania. The fight against earnings management is critical in the commercial banks as it provides a level playing field for all the banks.

1.1 Purpose of the Study

The purpose of this qualitative study was to establish the understanding of earning management practices among commercial banks' stakeholders in Tanzania. It is expected that the findings of this study will help both organizations and stakeholders to increase the trust in financial information amongst the stakeholders.

1.2. Problem Statement

Several bank failures occurred in Tanzania between 2016 and 2019. Poor knowledge of Earnings Management is claimed to have been the main causes of these banks' failures. Despite efforts made by the Central Bank to promote integrity in financial reporting, the 2018 report published by the Financial Sector Assessment Program (FSAP) shows that 82% of the banks in Tanzania had manipulated their earnings. The report supports the claim made by Lo, Ramos & Rogo (2017) that earnings management is predominant in commercial banks. Commercial banks manipulate earnings to achieve or to be on par with peer banks or to meet the industry's expectations (Bornemann *et.al*, 2012). Earnings management appears to be a huge challenge for commercial banks, despite numerous attempts made to deal with it (Brazel *et.al*, 2015). There is limited research into what commercial banks' stakeholders know to control earnings management. The study was, therefore, motivated by the existing literature gap. It is, therefore, important to establish views/opinions and understanding of earning management practices among commercial bank stakeholders in Tanzania. A key question guiding the research was: To what extent commercial banks' stakeholders were aware of earning management practices in Tanzania?

1.3. Justification for the Study

Companies across the globe face challenges concerning the understanding of EM amongst stakeholders. The practice of EM renders the financial reporting process worthless and unreliable. It also reduces the reliability of financial statements, adversely affecting economic growth, increasing the cost of prosecution, destroying the careers of those involved in manipulation and others who have not been involved, causing companies to collapse, and finally affecting normal business operations (Rezaee, 2002). Restoring the credibility of financial statements by understanding what earnings management entails is a top priority for many organizations and stakeholders (Elias, 2012). Because of the serious concerns associated with earnings management, it is crucial to understand to what extent commercial bank stakeholders in Tanzania are aware and knowledgeable about earnings management. Commercial banks were selected for this study because they are much more concerned with earnings stability and growth and are therefore expected to be engaged in earnings management (Bhat, 1996). Commercial banks were also selected because of the importance of this sector to the economy (Jadhav, 2020). The commercial banking sector has a strong influence on sustainable economic development in any country. This study focuses specifically on establishing level of understanding of earning management practices among commercial banks stakeholders in Tanzania.

1.4. Definition of Terms

Earnings management, strategies, organizations, stakeholders, and commercial banks are the most common concepts in this research. They are defined as follows.

Commercial Bank: A form of bank offering banking services such as the acceptance of deposits, the provision of business loans and other advances, as well as other profit-making financial services (Aywa, 2014).

Earnings Management: Earnings Management occurs when managers use judgement to modify financial records in financial statements and structuring transactions to either deceive certain stakeholders about the company's underlying economic performance or affecting contractual results that rely on recorded accounting numbers (Healy & Whalen, 1999). Therefore, from the definitions given, earnings management can be said to deceive users of financial statements for personal gain. The person involved in earnings management is, therefore, considered to be fully aware of what is being done and the motives behind.

Stakeholders: Mitchell *et.al*, (1997) describe stakeholders as individuals, communities, organizations, associations, community, and the environment that benefit from the organization directly or indirectly. In the views of Freeman and Reed (1983), stakeholders are persons or individuals who may influence the achievement of the goals of an organization or those who are influenced by the achievement of the goals of an organization.

2. LITERATURE REVIEW

The chapter focuses on the review of the literature to develop an understanding of the knowledge awareness commercial bank stakeholders have on EM practices. It introduces various terms related to the conception of earnings management. The chapter reviews the theoretical and empirical literature on earnings management. The chapter explains factors that lead to the practice of EM in commercial banks. It also provides theoretical models and a research gap as developed from the reviewed literature.

2.1. Theoretical Framework

Several theories to describe the occurrence of earnings management have been put forward. They include the theory of efficiency in earnings management, the theory of opportunistic earnings management, the private banking earnings management theory and the theory of agencies. In coping with earnings management, agency theory has proven to play a great role. This is because the Agency Hypothesis gives solutions to why earnings are exploited by managers.

2.2. Knowledge on Earning Management in Commercial Banks

The definition of earnings management by Healy & Whalen (1999) has been widely used. According to them, earnings management happens when managers use judgement to change financial reports to either deceive some stakeholders about the company's underlying economic performance or to impact contractual results that rely on recorded accounting figures. It can occur because of personal rewards (of the individual committing it), external factors (externally meeting job/company/institution demand), and deliberate compliance with financial analysts' forecasts. The American Institute of Certified Public Accountants (2002) describes EM as a result of omissions in financial statements of amounts or disclosures to deceive users of financial statements, maneuvering, fabrication (including forgery), or modifying accounting documents or supporting documentation from which financial statements are prepared.

Earnings management according to Healy and Wahlen (1999) is defined as:

“Earnings management occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers” (Healy & Wahlen, 1999, p. 368).

There are two types of earnings management, namely real earnings management, and accrual earnings management.

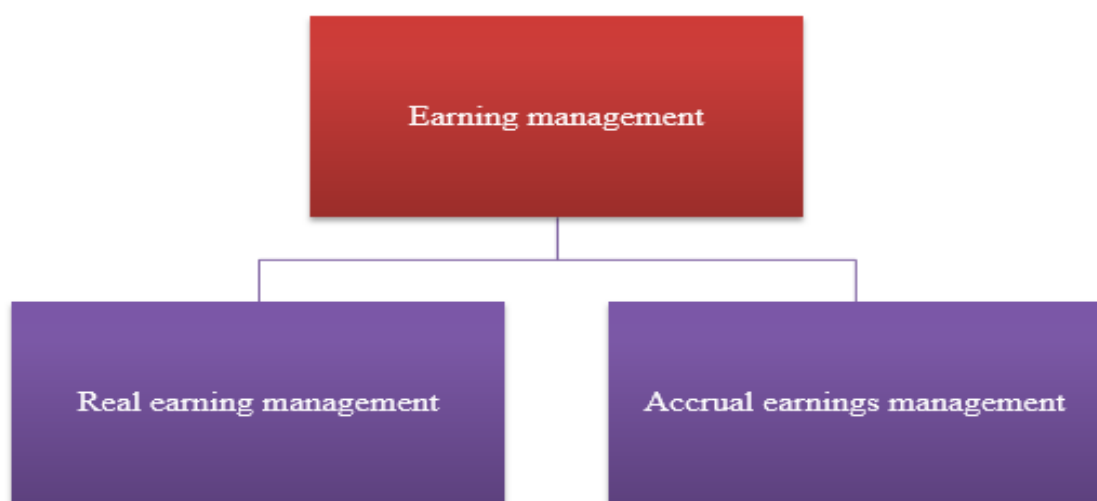


Figure1.3. Types of Earnings Management (Source: Ewing *et.al* 2019)

In the case of “real earning management” the staffing cost, research & development cost, capital outflow cost, and capital investment increase significantly over time. As opined by Khuong, *et.al* (2020), to meet the target profit; the managers tend to manipulate the numbers for attaining the target Performance. The trajectory of the entire banking business depends upon the financial reporting of the banking form whereby the bank’s cash flow information helps in adequately placing the necessary measurement that is necessary for performing the tasks more thoroughly. On the contrary, to the above statement, Wulandari *et.al* (2017) argue that the targeted profit is achieved by the managers working in the banking system who advocates for cutting the operation cost for gaining leverage over the entire performance. The association between the earning management and their holdings of cash needs to be positive, which could inherently mitigate any financial constraints. According to Schipper (1989), earnings management is defined as:

“A purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain (as opposed to say, merely facilitating the neutral operation of the process)” (Schipper, 1989, p. 92).

Levitt (1998) defines earnings management as:

“a gray area where the accounting is being perverted; whereby managers are cutting corners; and, whereby earnings reports reflect the desires of management rather than the underlying financial performance of the company” (Levitt, 1998, p. 14).

The definition includes the use of various accounting techniques that generate trivial financial information or enable pre-determined benchmarks to be reached by the company. The key concept behind EM, as stated by Bratten, Payne, and Thomas (2016), is to exhibit an artificial or excessively optimistic outcome of an organization's operational activities. This affects executive reports, annual reports, or financial statements, as they are used explicitly to influence the decisions of different stakeholders. In other words, the method of inflating an organization's financial statements and reporting them to the public is known as earnings management. In Tanzania, for instance, commercial banks frequently engage in activities that may confuse users of financial information (IMF, 2018).

The phenomenon of EM is possible because the accounting techniques can be manipulated and used to the advantage of the malpractitioners. As suggested by Tian and Peterson (2016), EM practices are not easily recognizable since they look similar to accepted accounting techniques. This is the main reason behind the highly disguised nature of the manipulated financial statements (Irani & Oesch, 2016).

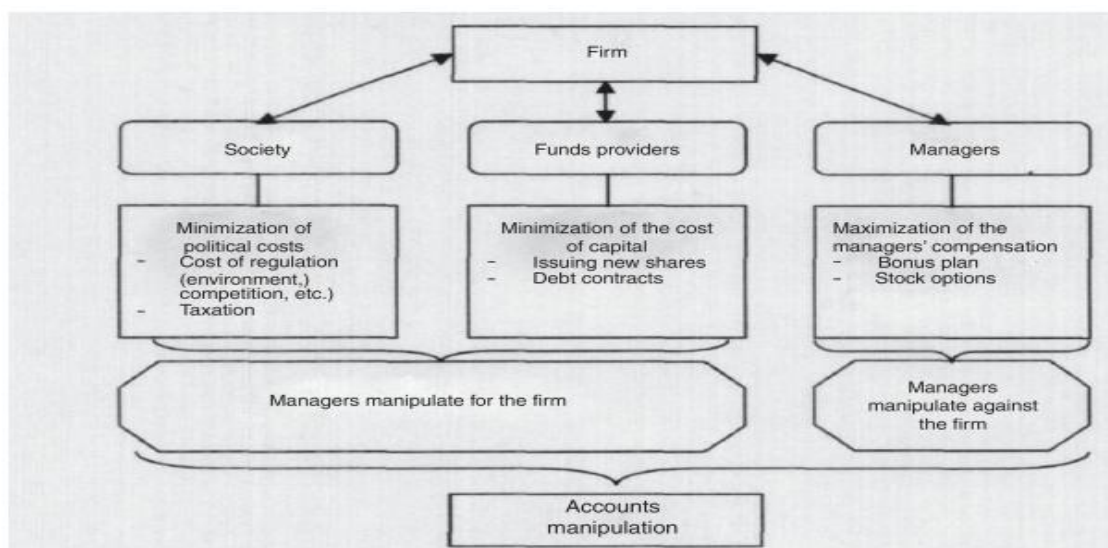


Figure1.4. Responsibilities of a firm

Source: Irani & Oesch, 2016

In addition, the organization's decision-making process is influenced by earnings management. One of the key reasons behind tampering with earnings, as stated by Dhole, Manchiraju, and Suk (2016), is to enhance the appearance of the company's results by consistently beating earnings forecasts. There appears to be a general perception that the risk of earnings management does not spare any organization. This is supported by Griffiths (1995), who claims that most of the UK companies have manipulated their accounts:

‘Every company in the country is fiddling its profits. Every set of published accounts is based on books, which have been gently cooked or completely roasted. The figures, which are fed twice a year to the investing public, have all been changed to protect the guilty’.

2.3. Concluding Remarks

A critical analysis of understanding on earnings management practices has been presented in the chapter. A literature review indicates that several studies have been conducted in developed countries to deal with EM. As evidenced by these studies, a number of strategies have been suggested for dealing with EM. Some of them include the prosecution of perpetrators, imprisonment, monetary penalties, the employment of new managers and a number of disciplinary actions against staff members (Brennan & McGrath, 2007). The Peltier-Rivest (2007) study in Canada proposes external audits, internal audits, background checks and surprise audits. In Nigeria, Omoye & Eragbhe (2014) suggest the use of accounting ratio and other analytical techniques.

Studies such as Albrecht and Albrecht (2002) suggest policy interventions such as fraud policy, internal control systems, and the establishment by the board of directors of the fraud investigation committee (Mohamed & Schachelor, 2014) and ethical awareness (Rest, 1986).

EM exists in Tanzania, but there is no recorded data on the level of knowledge and understanding of earning management practices among commercial bank stakeholders in the country. Therefore, to provide more understanding and insights into the phenomenon, studies on knowledge and understanding of EM among commercial banks stakeholders in commercial banks in Tanzania is required. The present study investigated knowledge and understanding of EM practices among commercial bank stakeholders in Tanzania.

2.4. Gap in Literature

The review of this literature has highlighted several examples and understanding or knowledge on earnings management. The reviewed literature however has a few gaps. The first is that most of these works were written from the perspective of developed countries. Secondly, most of this literature is anecdotal, coming from other sectors ignoring the commercial banks sector.

3. RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the methods, procedures, and techniques used in this study. The chapter starts by addressing methodological applications or what Guba (1981) refers to, in scientific work, as a system of rules. Philosophical assumptions, research paradigms, and architecture, as well as methods of data collection, are also discussed in the chapter. The research methodology is aligned with the main research question in establishing views/opinions and understanding of earning management practices among commercial banks stakeholders in Tanzania.

3.2. Research Methods

Research method is described by Saunders *et.al* (2015) as the general plan for the collection and analysis of data in responding to research questions. It is a technical practice used to classify research issues, gather and interpret information, and present the results (Ballinger *et.al*, 2004). The research method is considered, according to Hinds (2000), as a tool used by the researcher to gather and organize information, thereby converting it into useful information.

Creswell (2017) point out three types of research methods, namely qualitative, quantitative, and mixed approaches that are often applied worldwide in research. The variations in approaches are due to the characteristics of the data and the interpretation of the details (Walliman, 2011). The choice of a research method depends on the research questions, how data is accessed, and what the researcher intends to accomplish (Smith, 2019). Smith further argues that there is no such thing as the best method of research. It relies on what the researcher wants to do at the end and how to interpret the results.

The goal of qualitative research is to investigate the facets of human behaviour in order to address questions about what, how and why (McCuskey & Gunaydin, 2015). The goal of this study was to establish views/opinions and knowledge of earning management among commercial banks stakeholders in Tanzania. When understanding the status of something is a function of personal interaction and perception and a description of the processes that characterize the views on the status of something, a qualitative approach is considered the most appropriate for this study.

3.3. Research Design

The research design refers to the logic or master plan of research that sheds light on how the study is conducted (Johnston, 2017).

It shows how all the major parts of the research study, samples or groups, activities, treatments, or programs work together to address research issues. The design of the research is the architectural outline of a study (Gilligan & Kypri, 2012). Common research designs include case studies, phenomenology, and ethnography (Gentles *et.al*. 2015). This study looked at views/opinions and knowledge of earning management among commercial banks' stakeholders in Tanzania. The selection of the design followed the qualitative process, given the inductive approach that was chosen to guide the analysis. There are numerous qualitative designs, such as designs for ethnography, grounded theory, phenomenology, narrative, discourse, and case study.

A phenomenological design was chosen for this study, given the nature of the research questions. Phenomenology is about studying the appearance of things, or things that appear in people's experiences, or how people experience things, and thus the meanings that things have in their experiences (Groenewald, 2004). The study gathered perceptions on understanding and knowledge of earning management among commercial banks' stakeholders in Tanzania. The use of phenomenological design supported the collection of data by interviewing individuals with experience in the phenomenon via interviews.

3.4. Data Collection

The choice of the data collection method depends on the intent of the research and research questions under investigation (Singh, 2006). In research, there are two types of data collection; primary and secondary data sources. Using primary data collection techniques, the data for this study was collected according to the study objectives. In this study purposive and snowball sampling techniques were used. The participants were selected basing on the unique characteristics such as their positions while others were suggested by their fellow participants (Creswell, 2012).

3.4.1. Interviews

Interviews are the tools used in the collection of qualitative data. The techniques are usually used to gather data on the thoughts, views, and perceptions of participants in terms of their own experiences and perception of a specific phenomenon (Ary et.al, 2018). It is applauded for being able to provide quality data or data that cannot be obtained by other methods, such as observation rephrasing (Punch, 2000).

The study used interviews to gather information on the thoughts, perspectives, and values of the participants and value their perceptions of the relevant phenomenon (Ary et.al, 2010). The technique was chosen because it allows the researcher to gather rich and in-depth details of the experiences, opinions, and expectations of the participants regarding understanding and knowledge of EM in commercial banks. I used semi-structured interviews in this study to collect data on knowledge and understanding of EM practices in commercial banks in Tanzania. The approach was used to obtain information from the senior accountants of the commercial bank and other stakeholders. This approach facilitates collaborative discussions between the interviewer and the informant (Patton, 2002).

The researcher adopted member checking and methodological triangulation to guarantee the study quality, which helped to improve the credibility, precision, validity, and transferability of a sample (Yin, 2017).

I used participant checks during the research to ensure the reliability and integrity of my work. Checking participants are viewed as successful in achieving reliability and reputation (Bureau & Anderson, 2014). In addition, Yin (2017) indicated that participants' regular reviews provide researchers with opportunities to collect authentic information and ensure that the collected data is authentic and correct. By using participants' checks to verify the data and information, I preserved the integrity of my report.

I constantly reminded the participants during the interview sessions of the purpose of the study and the use of the data being gathered. I also acknowledged the permission from the participants before recording our conversation (Britten, 1995). In the interviews, I collected various kinds of information, such as examples and a general understanding of earnings management. The participants of whom the majority were certified public accountants, shared information on their insights on general understanding of earnings management.

3.5. Population

For this study, the population included participants from seven commercial banks based in Dar es Salaam. Chief Financial Officers, Financial Controllers, Performance Managers, External Auditors, Internal Auditors, Members of the Board Audit Committee, and Stakeholders were among the participants. This demographic representation was suitable because trained accountants and stakeholders have rich and in-depth expertise about earnings management.

The findings helped to establish the understanding of earnings management in commercial banks. BOT (2020) shows that Tanzania had 52 licensed banks as of 30 June 2019, 39 of which were commercial banks (equivalent to 75%).

3.6. Sample Size and Sampling Procedures

In the study, non-probability sampling was used, whereby each variable of a population was chosen deliberately. In this study, purposive and snowball techniques were used. Purposive sampling is used in qualitative research to choose the demonstrative population (Ritchie et.al. 2013). The purposive sampling helps the researcher to preselect participants based on their experience and awareness of the study phenomenon, opposed to the snowball sampling in which the researcher provides participant referral from the individuals in communication with the researcher (Siciliano et.al, 2012).

Purposive sampling helps the researcher to choose participants with the appropriate skills, interest, and experience and who can provide the most valuable insightful information. This technique was used in sampling organizations as well as stakeholders who took part in the study. The target group was that of qualified accountants (Chief Financial Officers, Financial Controllers, and Performance Managers) and stakeholders (Auditors and Board Audit Committee Members). They were chosen due to their in-depth understanding of EM and according to their professional status, impact, and access to networks, information, or experiences. It was appropriate for the selected banks to be national-wide (having branches or centres in other regions of the country).

The snowball method of sampling is a useful method for identifying research subjects in which one subject gives the name of another to the researcher, who in turn gives the name of a third and so on (Cohen & Arieli, 2011). In situations where the researcher anticipates difficulties in producing a representative sample of the research population, the snowball sampling approach may be used to access, locate, and include people from particular populations. An important finding was that the use of snowball sampling could result in a participant not fulfilling the research requirements (Siciliano et.al, 2012). Consequently, I used this approach to perform my research.

3.7. Sample Size

Kumar (2019) describes the sample size as a population subgroup comprising all population characteristics. Tanzania had 38 commercial banks, 12 cooperative banks, 3 financial companies, 2 development financial institutions, 5 microfinance banks, 1 mortgage refinancing business and 2 international banks' representative offices as at the end of 30 June 2017 (BOT, 2017).

Participants were chosen purposively from accountants and other stakeholders working in commercial banks in Tanzania for this study. The sample size of participants in a qualitative study can be 15 and below (Boddy, 2016). What is important is to achieve data saturation for the researcher. A sample of 14 participants, including two (2) Chief Financial Officers, two (2) Financial Controllers, two (2) Performance Managers, two (2) External Auditors and two (2) Internal Auditors, two (2) Audit Committee members and two (2) stakeholders, were included in the study. The sample size is determined by data saturation in qualitative research, and 14 participants were therefore deemed adequate to provide the required information to achieve the saturation level (Yin, 2014).

In this study, a researcher could achieve data saturation with fourteen participants (Dworkin, 2012). The increased sample size does not necessarily contribute to higher saturation of data (O'Reilly & Parker, 2013). Theoretically, data saturation happens when a researcher comes to a point where any new information does not add any new facts to the study (Boddy, 2016). I allocated enough interview time for the interviews so that I could reach the data saturation stage. I used methodological triangulation to obtain data from different sources to hit data saturation. In order to achieve data saturation, data collection from multiple sources may lead to comprehensive, layered and complex data (Fusch & Ness, 2015). I pick participants carefully by purposeful sampling to represent the total population of commercial banks and other stakeholders. Participants included experts who have worked with the board of directors in accounting, finance, and auditing. Participants were prepared to sign a consent form and provide the interview questions with honesty and impartial responses. I met the participants in a place that was comfortable for them, but discreet enough to maintain shared confidentiality.

3.8. Data Analysis

Punch (2000) argues that the methods of data analysis should be systematically disciplined and can be seen and described. Data analysis requires information reduction and organization, synthesizing, looking for important trends, and defining what is significant. In doing this, a researcher must arrange and then attempt to make sense of what he/she has seen, learned and read in order to understand and draw conclusions, establish hypotheses or ask new questions (Ary *et.al*, 2018). Data analysis in a qualitative study is often carried out via an iterative and complex process in conjunction with data collection (Punch, 2000). Bogdan and Biklen (2003) affirm the claim of Punch (2000) that data analysis is not a one-off case, but an ongoing dynamic and systematic method through which a researcher finds the meaning behind what is being examined.

I used a qualitative method of data analysis in this report. The data was analysed using thematic analysis. After collecting all the information, the researcher transcribed interview data, identified codes, and searched popular themes. Direct quotes have also been used. Having identified common trends to support the validity of the findings, I compared the results with company records and the published literature available. The established themes were in line with the conceptual context of the study (Borrego, Foster, & Froyd, 2014).

The data analysis was guided by an approach suggested by Miles and Huberman (1994) known as the stage analysis. As such, my research was focused on the reduction of data, the display of data and the drawing and checking of conclusions, processes that operated in this study simultaneously. I began drawing some conclusions from an initial analysis of the data during data collection and the recording of participants' answers, with some of these conclusions being validated as the process unfolded. I captured my initial interpretation of the data in my field notes (cf Punch, 2000).

Throughout the coding process, I have been able to reflect on and recall my contact with the participants as well as other field research activities. In addition, I relied on the guidance of my supervisor in the entire process of coding, categorizing, and producing themes and sub-themes. He led me from time to time to simplify my emerging themes into a more cohesive product by ensuring that all relevant categories fall under one sub-theme and that these sub-themes evolved into meaningful themes that answered my research questions. I succeeded in grouping related voices and quotations into different themes and sub-themes, a method that has streamlined the presentation of Chapter Four of this study.

3.9. Data Trustworthiness

A systematic and comprehensive approach to design, data collection and review, interpretation and reporting of the findings is required for a thorough investigation. Silverman (2013) notes that regardless of the choice of methodology, considering the principles of reliability and validity is important. Reliability is related to the question whether the analysis can be replicated at another time by different researchers or by the same researcher, and the field will produce the same results, while validity is the degree to which the study tests what it aims to measure (Silverman, 2013). In qualitative research, attaining reliability is difficult. Taylor and Bogdan (1998) state that validity is emphasized by qualitative studies and that they are considered to ensure a near match between the knowledge and what people actually say and do.

Silverman (2013) suggests that researchers should clearly outline their research methodology and set of theories in order to conduct a reliable qualitative research study so that others can observe, understand and replicate the steps taken. Braun and Clarke (2006) argue that the objective of qualitative research is to honour the views of the research participants and to shed light on the subjective meaning, behaviour and context of the research participants. Therefore, what is important to the quality of qualitative research is whether the views of the contributors in the research process have been authentically expressed and the interpretations provided by the information obtained (authenticity); and whether the findings are consistent in the sense that they are in line with the evidence and the social context from which they are derived.

Guba (1981) suggests that the reliability and validity of the data in qualitative research are determined by ensuring the reliability of the data. In qualitative research, it proposes four elements (credibility, reliability, conformity and transferability) to maintain trustworthiness. My objective in this study was

to obtain credible, reliable, transferable, verifiable and genuine results (Lincoln, Lynham, & Guba, 2011). By relying on member-checking and day-to-day discussions with my supervisor on all that emerged from the field, I tried to obtain verifiable results (as suggested by Whittemore, Chase, & Mandle, 2001).

Finally, the researcher uses peer debriefing, which is considered to improve the accuracy of the account. The researcher was able to use the supervisor who played a key role in the analysis of results and interpretations (Merriam, 2009). This was a key step in adding reliability to the analysis.

3.10. Ethical Consideration

This study followed a specific set of guidelines. The researcher did not manipulate the information in any way to satisfy any requirements. The researcher adhered to the Data Security Act. Other principles that I held in high regard included honesty and trust, as well as the prevention of participants from harm. I used a letter of consent for all participants as part of the study protocol and secured confidentiality by encoding their names and location. Before starting the study, all participants, regardless of their age, were told about the nature, purpose and benefits of the study. Each participant was granted the right to participate or withdraw from the research on a voluntary basis any time they so wished. I also informed the respondents that the findings of this research are for academic purposes only and not for any other use. Honesty and trust in the study were guaranteed from the start to the end of the study.

4. DATA FINDINGS AND ANALYSIS

4.1. Introduction

The results of the research are discussed and analyzed in this chapter. The objective of the study was to investigate knowledge and understanding of earnings management among commercial banks' stakeholders in Tanzania. The study was guided by a research question: to what extent commercial bank stakeholders in Tanzania are aware of earning management practices? The data were analyzed using thematic analysis. Several categories emerged following the analysis of raw data. Subsequently, the categories were grouped into research themes. The findings are presented in the context of the specific objectives of the study, in addition to the themes that emerged from the field as presented in Table 4.1.

Table4.3. Findings of the Study

Theme	Sub-theme
Knowledge/understanding of Earning management	<ul style="list-style-type: none"> • Definition and interpretation of EM • Examples of EM from commercial institutions • Views on the current earnings management practices

4.1.1. Knowledge on Earning Management in Tanzanian Commercial Banks

It was in the interest of the study to gather the perceptions of participants regarding earnings management practices in Tanzania's commercial banks. The results indicate that there were different responses from respondents sharing their views on earnings management activities in Tanzania's commercial banks. Three groups of views on earnings management in commercial banks in Tanzania were established by the findings. The first group is those who consider the management of earnings to be unethical and unacceptable, and commercial banks should not allow it. The second category includes those who consider earnings management in commercial banks to be good and acceptable, as it helps prevent commercial banks from collapsing. The third group is one of those who were undecided; they were not sure whether the earnings management in commercial banks was either bad or good practice.

The findings of the study show that the study participants had a different impression of whether or not earnings management in commercial banks was acceptable. The mixed feelings of the participants reflect understanding and the position they hold on earnings management. It also shows that sometimes the understanding of earnings management practices and the meaning it holds is contextual.

A different interpretation of what earnings management entails among the respondents was revealed by the research findings. Some perceive earnings management as a general falsified financial statements phenomenon. Any action taken by commercial banks to trick their stakeholders and the public is considered as earnings management. One of the interviewees made the following statement.

“To fulfil some predetermined management goals, earnings management can be defined as an act of planning and managing financial reporting systems. This may involve meeting stakeholders' expectations, such as target and/or expected numbers/revenue, etc. It may also refer to inflation or deflation in reported earnings. It can also refer to the absence of proper disclosure of financial statements. By leveraging the disparity in accounting principles or policies and procedures, earnings management attempts to present a bias in the organization's results.”

Respondents in the first group gave several reasons for proving that earnings management is an unreasonable and bad phenomenon for commercial banks in Tanzania. They say that commercial banks are needed at all times by law to have an accurate and fair financial statement. This is because they can misinform decision-makers about their choices by making misleading financial statements. Often affected is the reliability of the financial statements. As follows, one of the interviewees said:

“Earnings management is a very poor practice. In the decision-making process, commercial banks' stakeholders can be deceived. For example, board members can use fabricated numbers to recognize leadership for good performance when it is a bad performance. Several other decisions could be wrongly made, such as salary increases, bonus payments, and dividends.”

Another respondent said this about earnings management practices in commercial banks:

“Earnings management is not a good thing at all. The standard requires a financial statement to provide a true and fair view at all times. Using the EM technique means that the financial statements will not have the quality that is crucial for users. Earnings management has a wide range of impact on stakeholders, such as regulators of commercial banks, investors and tax authorities. Financial statements should always be free from any manipulations.”

The results also showed that some respondents thought that the earnings management in commercial banks was not a negative thing. In their opinion, commercial banks are looking for some measures to preserve their sustainability, as the banking industry's rivalry is strong and demanding. The management of earnings is one of the metric employed by commercial banks to sustain performance. They insist that the management of earnings helps commercial banks prevent earnings volatility. The following information was given by one of the interviewees:

“Earnings management can also be a good thing, as it helps organizations prevent earnings volatility.”

Further, the results of the study showed that some did not know whether the earnings management in commercial banks was ethical or immoral. The argument in this category was that there are times when earnings management in commercial banks is appropriate, particularly for the stability of the bank. They also said that earnings management is inevitable when business is tough and banks need to remain in the market because it solves immediate problems. The study shows that the objective of engaging in earnings management is to stay afloat. Management of earnings is not immoral if it is intended to benefit the public.

In response to this, one participant in an interview said:

“In my view, earnings management practices need to be looked at very carefully because they have negative and positive sides to them. It can ruin the organization in the long run. This is because taxes, dividends, and bonuses will be paid based on incorrect information.”

Moreover, the findings show that some of the respondents consider EM to be over-reporting of the bank's performance to impress the public. In this case, commercial banks submit to the public financial statements showing the maximum generation of profits, which do not represent reality because they are not supported by facts and evidence. They hide any information that might represent a bad public image of the bank. They ensure that the financial statements represent a positive trend for the banks. One of the interviewees had to say this:

“Earnings management is the use of accounting techniques to produce financial statements that provide a positive view of the company's business activities and financial position. A very good example of an earnings management technique includes changing company policy so that more

costs are capitalized rather than being directly expensed. EM can also be achieved by delaying the recognition of expenditure to increase profits in the short term. This is because most banks are obsessed with positive outcomes. Good stories from published results sell more than negative results. It is cooking books to show better performance than it is”.

Other respondents also view earnings management as the institution's process of over-reporting or under-reporting its performance to meet specific objectives, whereby commercial banks increase profits or reduce losses. In this case, the information presented in the financial statements shows a positive or negative trend depending on the objectives of the user. One interviewee reported the following:

“Earnings Management occurs when companies raise profits or minimize losses by using accounting methods such as smoothing costs, inflation of income or underestimation. It is a misrepresentation of the financial statements in order to demonstrate a strong performance than it is. In some cases, the companies’ present poor performance to lower the amount of tax paid. Usually, this is done by some accounting and judgement techniques.”

4.1.2. Examples of Earning Management Practices

Examples of earning management practices in commercial banks in Tanzania were another theme emerged out the study findings. The findings show that participants were aware of earning management practices taking place in commercial banks in Tanzania. The findings indicated Expenditures, rate manipulation, under provision of impairment of non-performing loans, revenue reporting, overstatement of expenditures, overstatement of revenue, overstatement of loans and non-booking accumulations as often EM practices happening in Tanzania commercial banks.

Manipulated Expenditures

Participants accepted that earnings management is primarily done through manipulation of expenditure. It was important to note that a number of those respondents suggested that commercial banks used loopholes in accounting procedures to manipulate expenditure. The findings of the study show that in order to demonstrate improved performance, i.e. higher profits or lower losses, most commercial banks in Tanzania are manipulating income, which shows that they are higher than actual and/or manipulate expenditure, which shows that they are lower than actual. Commercial banks in Tanzania use cost manipulation as a means of improving performance. The study reports that some of the techniques used to manipulate expenditure do not impair assets such as accounts receivable, inventory, or buildings and equipment to their correct values under the accounting rules. The findings of the review of the bank documents, including the auditor's reports, have been informed that manipulation in commercial banks could be revealed in the marketing and advertising costs of businesses, the costs of software development and the costs of research and development. In an interview with the participants, one had to say this:

“Bank spending manipulation is one of the easiest methods of earnings management in commercial banks in Tanzania, which is achieved by showing higher costs than the truth or by showing lower costs than the actual, depending on the intent of earnings management.”

The findings further noted that, for three years in a row, two commercial banks involved in this study were caught in cases of manipulated expenditure. In this case, the manipulated expenditure included an overrated advertising price for a different bank product. The cost of the advertisement did not reflect the market price as it was on the higher side.

Capitalization of Operating Expenditures

The findings of the study noted that, despite the fact that accounting rules require operating expenses to be charged in the period in which they were incurred, due to performance pressure, sometimes organizations are tempted to capitalize expenditure that treats them as assets while in reality the costs should be expensed. This example of earnings management takes place as management maintains certain expenses and waits for them to be booked in future periods. In this case, the study reports that costs such as marketing costs, software development costs, research and development costs are improperly capitalized (frozen on the balance sheet) instead of expenditure. One interviewee commented as follows:

“Capitalization of operating expenditure is another example of earnings management in a commercial bank. At a time when a bank wants to improve its profitability, it freezes certain expenditure on the balance sheet, such as marketing, software development and the cost of research and development, instead of expensing it.”

Recognition of Revenues (Premature or Delayed)

The findings of the study also show recognition of income as another good example of earnings management in commercial banks. Income is the largest item reported in the income statement of the organization, which has a significant impact on performance. Some commercial banks in Tanzania are observed to accelerate revenue by early recognition of revenue prior to the transfer of title and/or shipment of the product or at a time when the customer still has the option of cancelling or delaying the sale. This is because income acts as a barometer of the company's past performance and outlook. Consequently, the results of the study show that revenue recognition is one of the most significant problems facing standard setters and accountants.

The findings of the study show that one of the key issues concerning recognition of revenue is timing and improper recognition of revenue. The findings noted that the timing of recognition of revenue in commercial banks in Tanzania is complicated due to the complexity and diversity of the underlying revenue-generating transactions. In some instances, the findings noted that some commercial banks in Tanzania are creating fictitious suppliers and customers to generate fictitious revenue. When commercial banks in Tanzania overstate revenue, they also inflate profits, resulting in an increase in share prices. One of the interviewees had the following comment:

“Recognition of income is a key factor for most commercial banks in Tanzania, which accelerates revenue through early recognition of revenue prior to transfer of title, or at a time when the customer still has the option to cancel or delay the sale. This is done to add past performance and future prospects to the company.”

Depreciation and Amortization of Expenditures

Furthermore, the results have shown that other examples of earnings management in commercial banks in Tanzania are amortization and depreciation. In Tanzania, commercial banks have been found to overrate the value of the cost of their intangible assets over the useful life of those assets. In terms of depreciation, the study found that Tanzania's commercial banks were incorrect to spread a fixed asset on its useful life. When commercial banks seek to boost their performance, physical assets, such as computers, machinery or cars, which decay over time and decline incrementally in value are manipulated. One of the interviewees said the following in an interview:

“Amortization and depreciation of expenses are one of the techniques used by commercial banks in Tanzania to achieve targeted performance. Physical assets, which degrade over time and decrease incrementally in value, are manipulated by being overvalued when commercial banks want to achieve pre-determined performance.”

Rate Manipulation

The findings of the study identified the existence of rate manipulation in commercial banks in Tanzania. The findings indicate that the rates in commercial banks are manipulated to increase the reported profit. The study found several cases of rate manipulation in commercial banks in Tanzania to increase their profits. One of the interviewees had the following comment:

“In several big commercial banks, bankers manipulate prices to boost profits. The LIBOR controversy involving giants such as Deutsche Bank, Barclays, UBS, Rabobank, HSBC, Bank of America, Citigroup, JPMorgan Chase, Bank of Tokyo Mitsubishi, Credit Suisse, Lloyds, WestLB, and the Royal Bank of Scotland are excellent examples worldwide.”

Under- Reporting the Provision of impairments on Non-performing Loans

Another example of earnings management in commercial banks in Tanzania was the under-reporting of impairments on non-performing loans. The study findings indicate that when commercial banks have a high volume of non-performing loans (NPLs) that creates a major drag on the bank's

performance, non-performing loans appear to be under-reported. Instead of identifying impairment losses on loans and holding appropriate LLPs in anticipation of the anticipated loss of loans needed by the International Financial Reporting Standard (IFRS) 9, they use this as a way of addressing the challenge. In an interview with the participants, one had to state this:

“The under-reporting of impairments on non-performing loans is a common phenomenon among commercial banks in Tanzania. This happens to banks with large amounts of non-performing loans. Instead of reporting impairment provision as required by IFRS, these banks opt to under-report the provision of non-performing loans to reflect the positive image of banks. Depending on the level of non-performing loans, the International Financial Reporting Standard (IFRS) number 9 requires banks to recognize impairment losses on loans”.

Overstated Loans

Another example of earnings management found in the study's findings is overstated loans. The results inflate a company's net worth by increasing the value of its holdings. The results of the analysis in this situation showed suggest that overestimated loans are used by commercial banks in Tanzania on the balance sheet in order that loans are priced higher than their fair market value. The analysis notes that the goal of doing so is to gain more business and keep the financial position of the bank stable. The following statement was given to one of the interviewees:

“Commercial banks in Tanzania engage in many forms of earnings management deliberately and often unknowingly. The propensity to overstate the balance sheet of their loans is part of the traditional earnings management in commercial banks in Tanzania. By showing their ability to handle loans, they do so in order to impress the public; loans are priced higher than their fair market value.”

Not Booking Accruals for Unpaid Services

The study also found that non-booking of accruals for unpaid services is another earnings management practice in commercial banks in Tanzania. The findings of the study indicated that, although commercial banks in Tanzania are obliged to account for costs incurred in the past or which would have been due in the future, this is not the case for all commercial banks in Tanzania involved in the study. The findings of the study showed that the accrued expenses, which included those liabilities that were built up over time and were due to be paid out, were not reflected in the balance sheet. The study found that most commercial banks in Tanzania tend to ignore expenses already incurred by booking only cash-paid expenses contrary to accounting principles, which require that all expenses be accounted for regardless of whether they are paid or not. In an interview with one of the interviewees, he had to say:

“Accrual accounting is a method of tracking the costs incurred by banks, either as accrued expenses or as accounts payable. This is not the case for many commercial banks in Tanzania. Many banks ignore the costs that have already been incurred by booking only the cash-paid expenses. This is different from the accounting principles that are required.”

Over Reporting of Income

Moreover, the study found that revenue over-reporting is another type of earnings management that has often occurred in Tanzania's commercial banks. The study findings suggest that over-reporting of revenue in Tanzania's commercial banks exists when the estimated revenue is greater than the actual data indicates. The study also noted that, on the basis of false disclosure of commercial banks' financial performance, income inflation is being used by commercial banks to influence stakeholder decisions. The following was said from the interviews by one interviewee:

“Over-reporting of income can occur purposely or sometimes accident. Some inflated revenue to attempt to blackmail the stakeholder of the bank on the bank's results, particularly on the revenue side. On the basis of false income generated, this affects the decisions of stakeholders.”

5. DISCUSSION

5.1. Knowledge on Earning Management

The findings inform us that all the interviewees knew what earnings management was all about. It is also crucial to understand that their understanding may be split into three categories. The first category consists of respondents who considered earnings management to be a deliberate process of presenting a falsified financial statement in order to meet a hidden agenda for the public. The second category is for those respondents who see earnings management as a process of over-reporting the bank's financial results in order to gain customers and/or the public more confidence. Finally, others see the management of earnings as both over-reporting and under-reporting of the financial statements of the bank in order to hide from the public an unstated purpose intended to favour commercial banks.

Full understanding of earnings management was important in order to be able to predict the responses to deal with earnings management in commercial banks in Tanzania. These study's findings have shown that earnings management had different meanings across participants in this study. There was a diversity of understanding among the participants in this study. Some respondents considered EM to be the same as a falsified financial statement, while others considered EM to be the over-reporting of performance. In addition, there are other respondents who saw earnings management as the act of inflating profits or reducing losses, while others saw EM as distorting financial statements with a view to showing a better picture than it actually is. Generally, the findings inform that all of the interviewed respondents were aware of what earnings management is all about. Diverse views have shown a different understanding of the term earnings management in commercial banks in Tanzania.

All the definitions offered by the participants reflected both the understanding of the concept and its overall effect. The overarching theme that arose from the interpretation of the participants was that earnings management focuses on hiding true results through a deliberate procedure.

The findings of the study that participants had a different understanding of earnings management are consistent with the view of Kassem (2012) that sometimes the meaning of earnings management held by people is determined by different factors, such as the reasons that force them to engage in EM practices, institutional culture and the context of a person. In addition, Nguyen (2016) suggests that it is not necessary for people around the world to have the same meaning of a particular object or phenomenon. Based on the above findings and views from different literature, the researcher can conclude that the understanding of EM by commercial banks in Tanzania is not exactly the same as that defined in the accounting literature, although their understanding is influenced by many factors, the context of which is one of the reasons. Also Graham et al's (2005) assertions are in line with the current study findings when they say that managers prefer the economic or actual earnings management form, as they point out that "most earnings management is achieved through real actions as opposed to accounting manipulation." Such a practice, however, could impact the "long-term interest of the company" and, thus, it could be expensive (Man & Wong, 2013). According to Zhao et al (2012), real earnings management is more likely to require major costs to shareholders as it means that the company should lose its long-term cash flows.

5.2 Examples of Earning Management in Commercial Banks in Tanzania

The study provided various examples of revenue management in commercial banks in Tanzania. As discussed earlier, there is a strong belief that EM is widely practiced in commercial banks in Tanzania. The findings are in line with what can be expected from their positions. Generally, these examples can be categorized as manipulated expenditures, capitalization of operating expenditures, recognition of revenue (Premature or Delayed), depreciation and amortization of expenditures, rate manipulation, provision of impairments on non-performing loans, over-reporting of revenue, overstatement of expenditures, understatement of revenue, overstatement of loans and non-Booking accumulated loans. The findings have revealed that EM is common in commercial banks in Tanzania.

The findings from Tanzania's commercial banks are supported in the literature. Geiger & Smith (2010) noted several instances of earnings management including but not limited to, not documenting operating expenses (travel, advertisement, hiring and maintenance) or manipulation of revenue recognition in the current accounting period. Not recording expenses for the duration in which the amount of cost manipulation was incurred. In other terms, in order to manipulate the organization's earnings, expenditure and revenue may be pushed forward or backward.

6. CONCLUSION AND RECOMMENDATION

The study was interested to gather the perceptions of participants regarding earnings management activities in Tanzania's commercial banks. The results indicate that there were different responses from respondents sharing their views on earnings management activities in Tanzania's commercial banks.

Conclusion

The objective of this qualitative study was to determine the knowledge and understanding of EM among commercial banks stakeholders in Tanzania. The results of this study suggest theme; knowledge on definition of EM and describing examples of EM practices as they happen in commercial banks in Tanzania. The research concluded that all interviewees had knowledge of earnings management. It is also important to remember that their comprehension may be split into three classes. The first group is made up of respondents who see earnings management as a systematic process of publishing a falsified financial statement to hide from the public the true results. Second, some interpret earnings management as a process of over-reporting the bank's financial results in order to gain customers and/or more confidence from the public. Finally, some view earnings management as both over-reporting and under-reporting of the bank's performance in order to conceal the public's undisputed intention of benefiting commercial banks

The results of this study could provide valuable knowledge for commercial banks in Tanzania to manage earnings management practices. Using the findings of this study, the organization and stakeholders could reduce the incidence of EM and promote trust among users of financial information from commercial banks.

Recommendation

The study demonstrated the value of qualitative research in financial research. The data gathered from the respondent with experience on phenomenal actual and current practices in commercial banks (hearing from the horse mouth). This differs from previous academic research, which focused more on mixed or quantitative methods of research. This study, based on actual practices, supports some of the existing findings, increases knowledge on earnings management, and recommends for improvements. This validates that even in financial reporting qualitative research is a powerful tool and can add value as the information is derived directly from the respondents.

The study also recommends that commercial bank stakeholders to assess themselves to improve their knowledge of earnings management, something that will help them reduce the risk of earnings management. I also recommend similar studies using a different approach, quantitative methods and mixed methods. By conducting a quantitative study, researchers may also examine and verify the knowledge and understanding of commercial bank stakeholder on EM as identified in this study for the management of earnings.

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