The Trend of Earnings Management Practices in the Indian Financial Sector

** Prity Kumari*
*** J. K. Pattanayak*

Abstract

Focusing on the importance of financial disclosure practices and corporate governance mechanism in the current business scenario, this study attempted to analyze the trends of earnings management practices among the financial sector firms in India. The Indian financial sector comprises of the banking and non banking services, securities investment services, fee based financial services, and finance related allied activities. A sample of 43 firms was selected for the study based on companies that were high on market capitalization, and the analysis was carried out for a period of 13 years (2000-2013) by utilizing CMIE Prowess 4.14 database. The findings of the study revealed that there was an existence of earnings management practices through management of discretionary accruals in the Indian financial sector firms, which followed a mixed trend.

Keywords: **firm performance, earnings management, financial reporting, corporate governance**

JEL Classification: M480, M410, M420, G340

Paper Submission Date : January 25, 2015 ; Paper sent back for Revision : June 9, 2015 ; Paper Acceptance Date : August 9, 2015

Prior research defines earnings management as direct or indirect intervention in the financial reporting process, which can be legal or illegal depending upon the instrument used for such earnings manipulation. Researchers such as Jensen and Meckling (1979) and Healy and Wahlen (1999) described earnings management as a result of an agency problem between management and owners , where managers use their discretionary power to produce such a financial report which would increase their remuneration and enhance their control over companies' affairs. Various researchers confirm that GAAP provides a big room for earnings management by giving discretionary power to mangers for making a choice between available alternative accounting techniques for the financial reporting process.

It has been well identified that managers use their discretionary powers to produce favourable financial reports (Healy & Wahlen, 1999), which may distort the actual financial facts of a firm and provide misleading financial information to stakeholders. It has been observed in the recent past that many of the corporate failures and sudden collapse of some large business entities were articulated by hiding the actual financial facts and continuous concealing of the real financial facts for long periods of time. One such example is the case of the Satyam financial scandal (2009) in India. Firms usually adopt earnings management practices to hide the actual financial facts about their businesses and try to produce expected and anticipated financial reports for their stakeholders. Earnings management manipulates the financial reporting process and conceals the actual financial health of a business while providing income smoothing and analytically anticipated financial reports to its stakeholders.

It has been quoted by Levitt (1998) that there are basically three conditions where a company is most likely to

* *Junior Research Fellow,* Department of Management Studies, Indian School of Mines, Dhanbad - 826 004, Jharkhand.
E-mail:prityism@gmail.com
** *Professor,* Department of Management Studies, Indian School of Mines, Dhanbad - 826 004, Jharkhand.
E-mail: jkpattanayak@yahoo.co.in

involve in earnings management practices, which are :

(1) In companies where executive compensation is tied to earnings since good financial results will enhance executive compensation;

(2) Publically traded companies because they are under constant pressure to meet or beat analysts' earnings forecasts and ;

(3) In case where companies are getting ready for major debt financing or for an IPO.

For a firm, it is very difficult to give a consistent good performance in this ever changing business environment, whereas there is consistent pressure on the management of a firm to perform well in the market and produce a smooth income figure in its financial report.

In India, the corporate governance clause was introduced in 2000 with a motive to control corporate scandals and maintain financial transparency in businesses. Since then, there have been many amendments in corporate laws for putting a check on occurrence of corporate frauds. In the recent past, the world has gone through a global financial crisis which started in 2007. The crisis was identified to be worse in comparison to the Great Depression of 1930, and it was assumed that its bad impact would continue to remain for years. The crisis led to global recession, falling indices of stock markets across the world, collapse of large financial institutions, and in some cases, forcing governments to bailout large banks. The crisis was primarily reasoned because of deficiencies in risk management, high volume of subprime mortgage, high degree of leverage, and lack of regulatory and governance control over the functioning of financial institutions. The effect of this financial crisis hampered the overall growth process of the global economy and reduced the world's GDP. The recent global financial crisis (2012) raised concerns about the efficiency of the financial sector of an economy. It has been quoted by IMF in 2012 that this financial slow down will result in changing financial structure and will further affect economic growth and development. For a developing country like India, it is very important to safeguard its economy from the major impact of such crises. In India, a lot of concern has been shown to equip the economy with a well organized and efficient financial sector.

Manipulative earnings management practices can be much more devastating when they occur in the financial sector of a country. The financial sector of an economy is responsible for proper allocation of resources and increased return on investments. The importance of the financial sector has been well stated by Robinson (1952) that the financial sector works as a link between saving and investment for creation of new wealth and to permit portfolio adjustment in composition of existing wealth. This sector provides strong incentives for promoting investments in order to get finance for development projects, infrastructure plans, and manufacturing units with an objective to ensure economical independency of an economy. An efficient financial sector widens the access to available assets in an economy and creates an extended larger market for domestic businesses. The actual role of the financial sector is providing an environment where everyone can participate in the growth process and can benefit from the improved economic conditions.

Levine (1997) identified the following five basic functions of financial intermediaries as: (a) saving mobilization, (b) risk management, (c) acquiring information about investment opportunities, (d) monitoring borrowers, and (e) exerting corporate control and facilitating the exchange of goods and services. In the broadest definition, the financial sector includes all the institutions in an economy offering financial services; in reality, the sector includes different intermediaries ranging from the banking industry, stock exchanges and insurance industry, to credit unions, microfinance institutions, and money lenders (DFID, n.d.).

In the Indian context, the importance of financial sector firms, in general, and the banking sector, in particular, has been documented in several related studies, and very recently, has been discussed in the works of different researchers, that is, Saluja and Kaur (2010), Khurana and Singh (2010), and Devanadhen (2013). All these studies confirmed the contribution of these institutions in the overall growth and development of the nation through adoption of disciplined management practices. Technological advancement hastransformed the international markets into a global village, and the innovations in the financial securities market have changed the basic structure of the financial sector and have enhanced the scale of investment opportunities. Thus, there was a need to undertake an in-depth study regarding the reporting practices of financial firms only to identify the extent to which these firms are affected by earnings management practices. The present study makes an attempt to identify the trend of earnings management practices in different categories of firms covered under the Indian financial sector by considering discretionary accruals as a proxy for earnings management.

Literature Review

Globally, all regulatory and governing bodies have shown concern over the effects of earnings management practices and distorting financial information by different business houses. Many reforms have been introduced for restricting earnings management practices, such as the Sarbanes - Oxley Act, 2002 (Sarbanes - Oxley Act, 2006), accounting standards for financial disclosure in different countries, reforms in GAAP (generally accepted accounting principles), IFRS (International financial reporting standard), Clause 49 in Indian SEBI Act, and so forth. These acts have been enacted to ensure fair financial reporting practices. Any type of manipulation in financial earnings - directly or indirectly - using alternative accounting techniques is termed as earnings management. Schipper (1989) defined earnings management as purposeful intervention by management in the external financial reporting process with the intent of obtaining some private gain.

Early research studies - for example, Jensen and Meckling (1979) - defined earnings management as an outcome of an agency problem between the management and the owner of a firm. The discretionary powers available to the managements through the choice given in GAAP for using alternative accounting techniques for recording a particular business transaction is used as a tool for implementing earnings management practices. Healy and Wahlen (1999) defined earnings management as a process where managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of a company or to influence contractual outcomes that depend on reported accounting numbers. Leuz, Nanda, and Wysocki (2003) identified earnings management as an alteration of firms' reported economic performance by the insiders to either mislead some stakeholders or to influence contractual outcomes.

Earnings management distorts the stock price of firms since the market cannot undo the bias in financial reporting over which the market performance of firms depends. Such distorted stock price of firms may have a long awaited bad effect on the financial health of a firm practicing earnings management. Alternative accounting practices provide the managers the discretionary power for making a choice between available accounting techniques for a financial reporting process. Most of the times, it is very difficult to identify and differentiate between allowable accounting practices and manipulative earnings management practices, and for this reason, different proxies and mathematical models are adopted by various researchers to quantify earnings management practices.

In most of the previous research studies about earnings management, one can identify that discretionary accruals is used as a proxy for estimating earnings management (Peasnell, Pope, & Young, 2005 ; Peasnell, Peasnell, Pope, & Young, 2000 ; Sarkar, Sarkar, & Sen, 2008). Discretionary accruals cannot be directly identified from financial reports, and thus, different mathematical models have been developed for calculating discretionary accruals to measure earnings management practices. The accrual based techniques are used for quantifying earnings management through different mathematical models such as Jones model, Modified Jones model, cash flow model, ROA model, and others (Dechow, Sloan, & Sweeney, 1996 ; Kothari, Leone, & Wasley, 2005).

Going through the literature review, it is evident that most of the studies related to earnings management have been undertaken in developed countries like the U.S. and U.K., and very few studies have been undertaken in developing countries. Considering the importance of financial and other industrial sectors and their market efficiency for the economic growth process of an economy, it is imperative that in developing countries also, there should be studies identifying manipulative earnings management practices in business firms .

Some research studies have been conducted in the Indian context relating to the adoption of earnings management practices in different firms. An important study was undertaken by Sarkar et al. (2008) to identify the level of earnings management practices by examining the relationship between earnings management and corporate governance practices in 500 large Indian firms.

Jaiswall and Banerjee (2012) conducted a study in Indian firms, excluding the banking and financial sector firms, and established the trend of earnings management practices. They concluded that there existed a negative relationship between earnings management practices and the corporate governance system. In a study of 1035 Indian companies for a period of 2006-2010, Kaushal (2013) identified the existence of earnings management practices in Indian firms and stated that the practice of earnings management can prove to be very unfavourable for the growth of the Indian economy. Since 2000, Indian incorporation has been taking various initiatives to reduce the probability of corporate frauds and earnings management, these initiatives include the Banking Regulation Act ; Company Act ; Introduction of SEBI Act ; various amendments in Companies Act ; introduction of accounting and audit standards, and separate clauses for corporate governance, financial disclosure, and so forth. Despite the presence of all these corrective measures, there have cases of corporate scandals such as the recent case of Satyam computers (2009) and thus, there is a need for more research to be performed for identification of financial manipulating activities or earnings management practices as early as they surface.

It is evident from the above literature review that there is a lack of sufficient research work to identify earnings management in banking and financial sector (in general) and in the Indian context (in particular). Thus, focusing upon the importance of the financial sector in an economy, there is an emergent need of developing a framework to identify and control earnings management in the Indian banking and financial sector. In an attempt to attain this broad objective, this study is conducted on a sample of financial sector firms to identify earnings management practices by calculating discretionary accruals by using the Modified Jones model and to analyze the existing trend.

Quantifying Earnings Management Through Discretionary Accruals

GAAP provides provisions for using alternative accounting techniques for a single transaction, which is sometimes at the discretion of a manager. Managers use such discretionary powers for practicing earnings management for generalizing income smoothing financial reports. Discretionary accruals have been used as a proxy for identifying earnings management in most of the previous studies (Buniamin, Johari, Rahmen, & Rauf, 2012 ; Peasnell et al., 2000 ; Sarkar et al., 2008). Discretionary accruals are non-mandatory and non obligatory accruals which are yet to be realized and comprise of provisions for bad debts, credit sales, written off preliminary expenses, alternative methods of recording depreciation, and so forth. Kothari et al. (2005) identified that a performance adjusted accruals model can be used to measure discretionary accruals for quantifying earnings management.

Dechow et al. (1996) observed that the Jones model and the Modified Jones model are the two appropriate mathematical models for calculating discretionary accruals. After this study, several other studies were performed to prescribe more appropriate models for computing discretionary accruals. Beneish (1999) provided a model for earnings management by using different variables from financial statements such as assets quality index, gross margin index, and so forth. In an another study, Larcker and Richardson (2004) suggested that the book to market ratio and cash flow need to be introduced to the existing modified Jones model to mitigate error in calculation of discretionary accruals by incorporating the effect of growth factors and operating performance.

In this study, the modified Jones model has been used for calculating discretionary accruals as a proxy for earnings management practices.

➢ **The Modified Jones Model :** Jones model was modified by Dechow et al. (1996) as the Modified Jones model, and was designed to eliminate the conjectured tendency of the Jones model to measure discretionary accruals with error when discretion was exercised over revenue recognition. In the modified model, non - discretionary accruals are estimated during the event year (i.e., the year in which earnings management is hypothesized). Later on, Dechow, Hutton, Kim, and Sloan (2012) suggested that despite the prevalence of the concept of reversal of earnings management, if hypothesized earnings management is correlated with firm growth, use of the Jones model and modified Jones model should alleviate omitted variable bias. Hence, we are using the Modified Jones model for this study since we hypothesize that earnings management is correlated with firm growth. Therefore, discretionary accrual is calculated as follows:

$$DA_{i,t} = TA_{i,t}/A_{i,t-1} - [\alpha_i (1/A_{i,t-1}) + \beta_{1,i} (\triangle REV_{i,t}/A_{i,t-1} - \triangle REC_{i,t}/A_{i,t-1}) + \beta_{2,i} (PPE_{i,t}/A_{i,t-1})] \qquad (1)$$

where:
$TA_{i,t}$ is total accruals of firm i calculated as the difference between incomes before extraordinary items and operating cash flow for year t; A_{it-1} is assets at the beginning of the year; $\triangle$REV is the change in sales from year (t - 1) to (t); $\triangle REC_{it}$ is net receivables in year (t) less net receivables in year t - 1; and PPE is gross property, plant, and equipment. Here, in the Modified Jones model α, β_1, and β_2 are same as obtained from the original Jones model. The only difference between the original Jones model and the Modified Jones model is that in the Modified Jones model, the change in revenues is adjusted for the change in receivables in the event year (i.e., in the year earnings management is hypothesized).

Research Design, Analysis, and Results

For the purpose of the study, initially, a sample of 227 companies representing the financial sector comprising of banking, non - banking, fee based financial services, and companies of finance related allied activities were selected. However, only 43 companies of these four different groups of the financial sector [viz. Banking (18), Fee based financial services (2), Finance and allied activities (7), and Securities and investment companies (15)] out of 227 companies were picked up for the purpose of this study owing to the availability of required data. Data were collected for a period of 13 years (31.03. 2000 to 31.03.2013) from the Prowess 4.14 database of Centre for Monitoring Indian Economy (CMIE) in accordance with market capitalization. The Modified Jones model is used to compute discretionary accruals as proxy for earnings management practices. Considering the uniqueness of the financial sector, the below given model is developed for identifying discretionary accruals based on the modified Jones model formula:

$$DA_{i,t} = TA_{i,t}/CA_{i,t-1} - [\alpha_i (1/CA_{i,t-1}) + \beta_{1,i} (\triangle REV_{i,t}/CA_{i,t-1} - \triangle REC_{i,t}/CA_{i,t-1}) + \beta_{2,i} (PBDts_{i,t}/CA_{I,t-1})] \qquad (2)$$

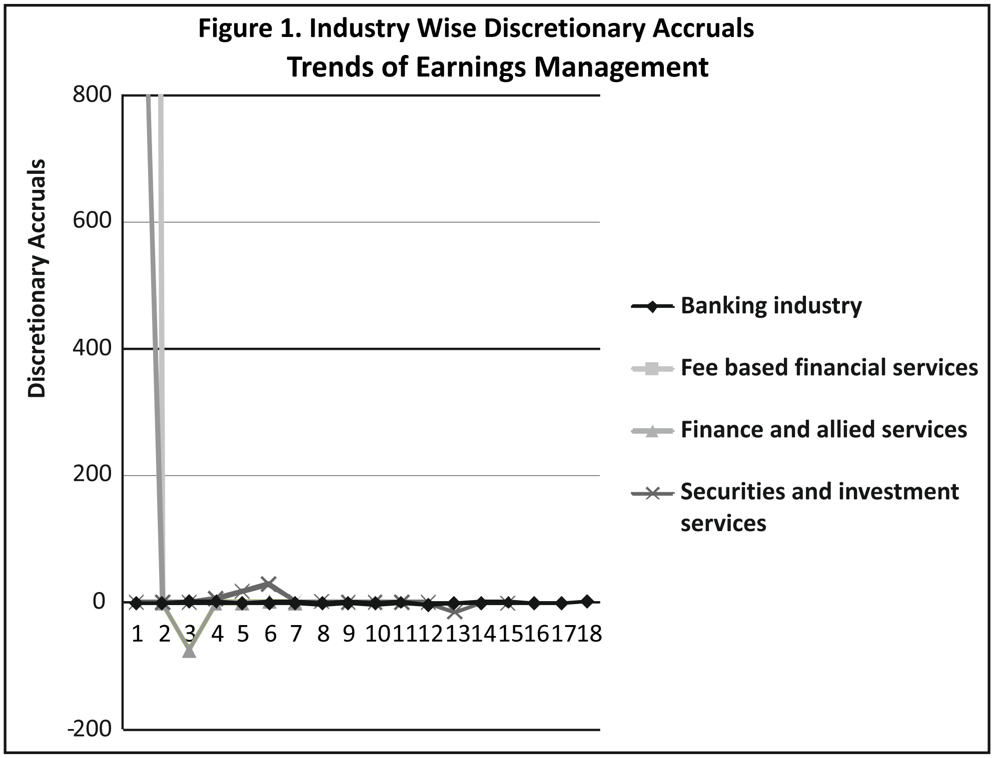
where;
$DA_{i,t}$ is discretionary accruals of 'i' firm for 't' period.
$CA_{i,t-1}$ is the current assets of 'i' firm for 't-1' period.
$\triangle$REV is the change in revenue from financial services of 'i' firm, in 't' period over the revenue of 't-1' period.
$\triangle$REC is the change in loan and advances of 'i' firm in 't' period of time over 't - 1' period.
$PBDts$ is the provision for bad and doubtful debts of 'i' firm for 't' period.

The Table 1 shows the calculated average discretionary accruals of various firms considered under different groups of the financial sector, that is, the banking industry, securities and investment industry, fee based financial

Table 1. Average Discretionary Accruals of Different Groups Under the Indian Financial Sector

Company	DA (Modified Jones Model)
BANKING INDUSTRY	
H D F C Bank Ltd.	-1.19708
State Bank of India	-0.17589
ICICI Bank Ltd.	**0.871486**
Axis Bank Ltd.	**0.670211**
Kotak Mahindra Bank Ltd.	-0.65236
Bank of Baroda	-0.03799
Punjab National Bank	-0.13493
Indusind Bank Ltd.	-1.97506
Bank of India	-0.14964
Canara Bank	-1.75113
ING Vysya Bank Ltd.	**0.357986**
IDBI Bank Ltd.	-4.5844
Union Bank of India	-0.69767
Federal Bank Ltd.	**0.132995**
Jammu & Kashmir Bank Ltd.	**0.427278**
Uco Bank	-0.9244
Central Bank of India	-0.50739
Oriental Bank of Commerce	**1.58974**
FEE BASED FINANCIAL SERVICES	
Edelweiss Financial Services Ltd.	10963.67
Khandwala Securities Ltd.	0.064081
FINANCE AND ALLIED ACTIVITIES	
L K P Finance Ltd.	**1459.947**
Trans Freight Containers Ltd.	**0.194699**
N P R Finance Ltd.	-74.8134
Triton Corp Ltd.	-0.03906
Sterling Holiday Financial Services Ltd.	-0.01752
S B E C Systems (India) Ltd.	**1.952315**
Devki Leasing & Finance Ltd.	-0.13406
SECURITIES AND INVESTMENT COMPANIES	
Coal India Ltd.	0.414478
Bajaj Holdings & Invst. Ltd.	0.210313
Max India Ltd.	0.160702
Tata Investment Corpn. Ltd.	5.746859
J M Financial Ltd.	17.84104
Pilani Investment & Inds. Corpn. Ltd.	29.18513
Hinduja Ventures Ltd.	2.287724
Maharashtra Scooters Ltd.	1.989503
Capri Global Capital Ltd.	0.168406

Murugappa Holdings Ltd.	0.562704
Texmaco Infrastructure & Holdings Ltd.	0.494662
Dalal Street Investments Ltd.	0.09679
Bharti Telecom Ltd.	**-14.6482**
Indianivesh Ltd.	**-0.43768**
Vardhman Holdings Ltd.	**-0.62248**



services, and finance & allied activities. The difference in the trend of earnings management has been depicted in the Figure 1.

The Table 1 shows the average value of calculated discretionary accruals representing the four groups' financial sector firms. The average value of data calculated over 13 financial years provides a brief picture of the existing trend of earnings management practices in each company under each group considered for this study. In the banking group, the average value of calculated discretionary accruals of various firms shows that approximately two-thirds of the total number of firms in the banking group follow income decreasing earnings management practices. Since the amount of discretionary accruals varies at a greater degree of discretion among firms, we also infer that apart from being in the same group, there are various other factors affecting the choice of earnings management practices adopted by the firms such as age of a firm, market share, the target group of customer, and so forth.

Taking into consideration the fee based financial services group, we only have two firms fulfilling the selection criterion and together have more than 80% of market capitalization. The average value of a firm in the fee based financial services group reflects that mainly income increasing earnings management practices exist in this group.

In case of the finance and allied services group, we have seven firms together having more than 80% of market capitalization. We identified that out of seven firms, four have negative average discretionary accruals calculated for a period of 13 financial years, and three have positive average discretionary accruals . Since the actual trend of earnings management practices through management of discretionary accruals in case of finance and allied services group is rather random, and therefore, we can infer that the trend of earnings management practices in this group is more affected by firm specific factors.

The fourth group under consideration is the securities investment services group having a sample of 15 companies. The average value of calculated discretionary accruals for a period of 13 financial years of firms under this group shows that out of the total 15 sample companies, only three sample firms with a comparatively low market capitalization have a negative average value of discretionary accruals. The average value of discretionary accruals of firms in this group indicates that firms in the securities investment services group mostly follow income increasing earnings management practices and produce inflated financial reports to maintain their market share.

The Figure 1 shows the trend of earnings management practices in different groups functioning under the financial sector. It is obvious from the Figure that most of the firms in the banking sector followed a low degree of negative and income decreasing earnings management practices since the line of the group's discretionary accruals is mostly close and below the *x*- axis. Firms of securities and investment services group were mostly following a low degree of positive and income increasing earnings management practices since the discretionary accruals line of the group is mostly slightly above and close to the *x*-axis. The line charts of other two groups, that is, fee based financial services group and finance & allied services group shows a random trend of earnings management practices, which is mainly due to the existence of firm specific differences among the firms of these groups.

The results show that there is a clear difference in the pattern of earnings management practices through discretionary accruals among these four groups. While most of the firms in the banking group are found to practice an income decreasing earnings management practice, firms of other three groups are mostly engaged in income increasing earnings management practices. The difference in the pattern of earnings management among the groups is basically linked with the difference in performing varied nature of business activities.

The banking group is a totally different group from the other three groups since the bank is the only financial institution which is allowed to provide a savings account facility to its customers and which provides direct services to the people in general (facility of deposit and withdrawal from the saving accounts along with other financial services) as per the customers' requirements. The basic business of a bank is to take deposits from its customers and provide facilities such as withdrawal from bank account, overdraft facilities, loan and advances, and so forth. Financial institutions in other groups have basic business of providing investment and financing opportunities to their clients. The clients of firms other than the banking group mostly constitute corporate houses and other big investors. Banks deal with common people, including customers with limited savings and deposit resources. There is a big difference in the nature of business among these four industrial groups, and this is the reason why the pattern of earnings management practices differs. We also notice a different nature of earnings management practices through management of discretionary accruals within every single group; the change in practice occurs basically because of difference in firm specific factors such as firm's life cycle, marketing policy, customer preference, brand value, goodwill, market coverage, target customer, and so forth.

Conclusion and Discussion

The results of the study indicate that the earnings management practices differ across groups of a particular sector of an economy as evidenced among the four groups representing the Indian financial sector. The difference in trend indicates that the nature and purpose of earnings management practices of a group depend upon the nature of business and market condition of the industry in the economy.

We identified a relatively low degree of earnings management practices in the banking group. The reason for a lower degree of earnings management practices in the banking group in comparison with the other three groups lies in the fact that the banking industry in India is governed by the Indian Banking Act, 1949 and the Banking

Regulation Act, 1949, which have been amended from time to time in the best interest of the society. The securities and investment services industry also shows a comparatively low degree of earnings management practices, and it should be brought into consideration that the industry is also governed specifically by the SEBI Act, 1992 which ensures fair business practices in the industry. We identified a rather random trend of earnings management practices in the other two groups, that is, fee based financial services and finance & allied activity services groups, and noticed that there is no specific law for firms covered under these groups.

The results of the present research are similar to the results obtained by Biurrun and Rudolf (2010). Their study comprised of a large number of financial firms across 47 countries and found that the practices of earnings management varied with the change in business environment of the companies. Similar results were also obtained by Evans, Houstan, Peters, and Pratt (2012) for financial firms across the U.S., Europe, and Asia, indicating that the prevailing financial reporting standards highly influence the earnings management practices. In a study of Indian services sector firms conducted by Dadhania and Bhayani (2014), the authors observed that the banking industry is governed by specific regulations. The authors observed that the industry practices a higher degree of control and a lower degree of earnings management practices.

Hence, through this study, we finally conclude that the business environment and governance pattern of firms under an industry are basically responsible for the nature of earnings management practices undertaken in that industry. The analysis of results and trends of earnings management practices show that firms with a greater degree of law enforcement for better governance have a propensity to have a relatively low degree of earnings management practices. Therefore, it is concluded that adoption of a better governance pattern, and fair business practices will surely reduce the possibility of hazardous earnings management practices in any business firm.

Implications

This study indicates that there is a presence of earnings management practices in the Indian financial sector. The results indicate that there is a need for introducing control variables in organizations' structure to reduce the scope of manipulative earnings management practices. This study can be considered for analyzing the trend of earnings management practices prevalent in the Indian financial sector depending upon the changing business environment and market conditions.

Limitations of the Study and Scope for Further Research

The present study suffers from the limitation of available data and other related information for various companies. In this study, the sample size was reduced to 43 companies out of a population size of 227 companies owing to the difficulties in collection of the required secondary data. The number of sample companies can be increased for a better group representation of financial sectors. The limitation of the present study provides scope for further research. In future studies, attempts may be made to identify the reason for presence and practice of earnings management in specific group firms under different business scenarios for conducting group specific studies.

References

Biurrun, V., & Rudolf, M. (2010). *Mitigating bank earnings management - The role of regulation and supervision*. DOI : http://dx.doi.org/10.2139/ssrn.1600703

Beneish, M. D. (1999). *The detection of earnings manipulation*. Retrieved from http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.195.3676&rep=rep1&type=pdf

Buniamin, S., Johari, N.H., Rahmen, N.R. A., & Rauf, F. H. A. (2012). Board diversity and discretionary accruals of the top 100 Malaysia corporate government (MCG) index company. *African Journal of Business Management, 6* (29), 8496-8503.

Cadbury Committee. (1992). *Report of the Committee on the financial aspects of corporate governance*. London, U.K.

Dadhania, M., & Bhayani, S. (2014). *Corporate governance and financial performance : Comparative study of Indian banking and IT firms*. Retrieved from http://gtuelibrary.edu.in/documents/E-Book/CORPORATEGOVERNANCE/62.pdf

Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting Horizons, 13* (4), 365-383. DOI: http://dx.doi.org/10.2308/acch.1999.13.4.365

Jaiswall, M., & Banerjee, A. (2012). *Exploring the relationship between earnings management and corporate governance characteristics in the Indian context* (WPS No. 704/ July 2012). Retrieved from http://financelab.iimcal.ac.in/resdoc/WPS%20704.pdf

Jensen, M. C., & Meckling, W. H. (1979). *Theory of the firm: Managerial behavior, agency costs, and ownership structure* (pp. 163-231). Netherlands : Springer.

Kaushal, M. (2013). An analysis of earnings management in India : An empirical study. *Indian Journal of Finance, 7* (6), 45-55.

Khurana, A., & Singh, M. (2010). NPA management: A study of new private sector banks. *Indian Journal of Finance, 4* (9), 3- 13.

King, R. G., & Levine, R. (1993). Finance and growth: Schumpeter might be right. *The Quarterly Journal of Economics, 108* (3), 717-37. doi: 10.2307/2118406

Kothari, S. P., Leone, A. J., & Wasley, C. E. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics, 39* (2), 163 - 197.

Larcker, D. F., & Richardson, S. A. (2004). Fees paid to audit firms, accrual choices, and corporate governance. *Journal of Accounting Research, 42* (3), 625 - 658.

Leuz, C., Nanda, D., & Wysocki, P. D. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics, 69* (3), 505 - 527.

Levine, R. (1997). Financial development and economic growth: Views and agenda. *Journal of Economic Literature, 35* (2), 688-726.

Levitt, A. (1998). The numbers game. *Speech delivered at the NYU Center for Law and Business*, *New York, NY,* September 28.

Nelson, M.W., Elliott, J.A., & Tarpley, R.L. (2003). How are earnings managed? Examples from auditors. *Accounting Horizons, 17*, 17 - 35.

OECD. (n.d.). *OECD principles of corporate governance*. Retrieved from www.oecd.org/dat/governance/principles/html

Peasnell, K.V., Pope, P.F., & Young, S.E. (2005). Board monitoring and discretionary accruals: Do outside directors influence abnormal accruals? *Journal of Business, Finance & Account, 32* (7-8), 1311-1346.

Peasnell, P., Peasnell, K. V., Pope, P. F., & Young, S. (2000). Detecting earnings management using cross-section a abnormal accruals models. *Accounting and Business Research, 30* (4), 313-326.

Robinson, J. (1952). The generalization of the general theory. In, *The rate of Interest and other essays.* London: Macmillan.

Saluja, J., & Kaur, R. (2010). Profitability performance of public sector banks in India. *Indian Journal of Finance, 4* (4), 17-25.

Sarbanes- Oxley Act 2002. (2006). *The Sarbanes-Oxley Act.* Retrieved from http://www.soxlaw.com/

Sarkar, J., Sarkar, S., & Sen, K. (2008). Board of directors and opportunistic earnings management: Evidence from India. *Journal of Accounting, Auditing & Finance, 23* (4), 4517- 4551.

Schipper, K. (1989). Commentary on earnings management. *Accounting Horizons, 3* (4), 91–102.

The World Bank. (1999). *World development report 1998-99 : Knowledge for development.* Retrieved from http://www.rrojasdatabank.info/wdr98/front2.pdf