THE INTERNATIONAL JOURNAL OF
BUSINESS & MANAGEMENT

The Effectiveness of Strategies Used to Combat Earnings Management in Commercial Banks in Tanzania

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Abstract:
This study investigated earnings management in the Tanzanian context. The study specifically focused on the effectiveness of earnings management strategies in Commercial Banks in Tanzania. The research aimed to answer a key research question: How effective are the strategies used by commercial banks in Tanzania to combat earning management. Many studies on earnings management focus on listed and/or large firms, which leave out the Commercial Banks, especially in developing countries like Tanzania. The conceptual framework with two variables (organizational strategies and stakeholders' strategies) was developed from the literature review. The qualitative approach was considered the most appropriate for the study. Being informed by participants' position in the preparation and analysis of financial statements, fourteen 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 purposively selected to from the study sample. McIntosh and Morse (2015) suggested that open-ended semi-structured interviews were used for data collection. The findings of the study were analyzed using a thematic research approach. Following inductive thematic analysis, five effective strategies in combating earning management in commercial banks in Tanzania emerged. The findings of this study indicate that internal control, governance system, competence of the bank personnel, statutory audit, and Central Bank oversight are the effective strategies used to deal with earnings management. Participants disclosed that adopting these strategies could reduce the incidence of commercial banks' earnings management problems. 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 analyze the strategies used in an emerging market by commercial banks to deal with earnings management in Tanzania. 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 involved in ensuring the reliability of the financial statements issued. The reliability of the released financial statement would be strengthened by focusing on the strategies to deal with earnings management in commercial banks.

Keywords: *Earnings management, organization, stakeholders, creative accounting*

1. Introduction

1.1. Introduction and Background to the Problem

Earnings management implies using judgment 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 & Whalen, 1999). In a view to putting forward by 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. As a result, organizations are tempted to manipulate earnings to increase the reported profit or minimize losses (Salome *et al*., 2012).

Despite the fact that commercial banks are highly regulated, there are incentives to manipulate earnings (Healy & Whalen, 1999). Earnings in commercial banks are managed by underestimating the provision of non-performing loans, accrual management, capitalization of operating expenses, and delaying the process of asset write-offs or charge-offs (Oraby, 2017). Commercial banks must comply with several regulations and guidelines and remain within regulatory constraints. Despite several regulations and guidelines, commercial banks are sometimes tempted to participate in earnings management (Healy & Whalen, 1999). For example, according to Krawcheck (2012), commercial banks differ in their earnings reporting. For example, Njogu *et al*. (2014) show how the CEO manages the year-end closure activities by directing how much should be posted or allocated as expenses. Kamau *et al*. (2012) unveiled earnings abuses commonly practiced by many organizations to minimize the amount of tax paid. As the tax is paid based on the reported income, some companies use methods that understate income to reduce the tax burden. This means that EM mainly drives managers' decisions, directives, and judgment.

Commercial banks hugely impact the economy as they play a crucial role as financial intermediaries. Thus, any uncertainty in the sector could have a significant impact on the health of the economy. In addition, commercial banks account for the largest portion of GDP in the country. According to Suryandari, Yuesti, and Suryawan (2019), the percentage of contributions should increase yearly to ensure that the industry is stable and safe. On the other hand, a low percentage contribution could mean that 'per capita income' is relatively low for a country (Lennox, Wang & Wu, 2018). Consequently, it could be concluded that if a commercial bank falsifies or manipulates its financial records, it could hurt the economy.

The banking system in Tanzania is one of the most concentrated in Africa. According to the Bank of Tanzania's Annual Report 2017/18, Tanzania has 60 financial institutions (39 commercial banks, 7 community banks, 2 financial institutions, 2 development finance institutions, and 5 microfinance banks, one mortgage refinancing company, 3 financial leasing companies, and 2 representative offices of foreign banks). Commercial banks have an essential role to play in promoting sustainable economic development (Vishnani *et al*., 2019). When one of the commercial banks experiences turbulence like one associated with EM, it could spill over to the other banks and thereby threaten the wider financial system (Greenwood, Landier, & Thesmar, 2015).

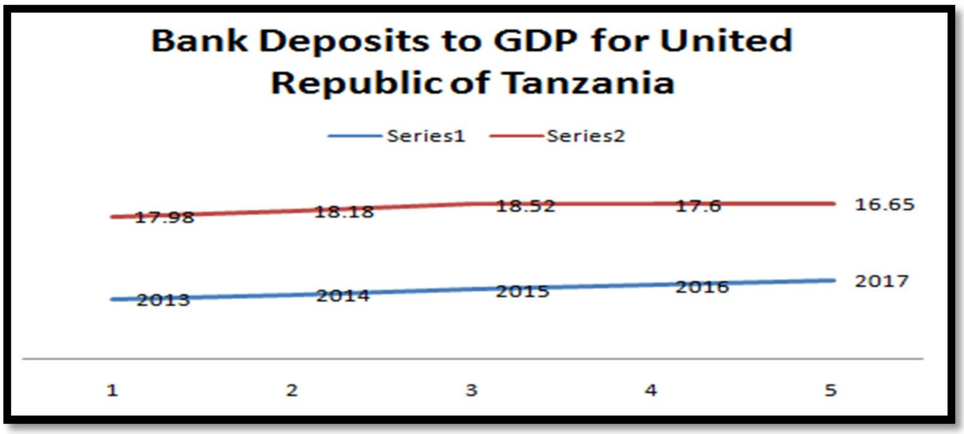

Figure 1: The Percentage of Bank Deposits That Has Contributed towards the GDP of Tanzania
Source: World Bank, 2019

The figure above shows the contribution of the commercial banking sector to Tanzania's GDP. The percentage contribution of commercial bank deposits to Tanzania's national GDP is highlighted. It shows that the percentage contribution in 2013 was 17.98 percent, which increased to 18.18 percent in 2014. The contribution to GDP increased by 1%. The contribution increased to 18.52 percent in 2015 from 18.18 percent recorded in 2014 (World Bank, 2019). The year 2015 was the all-time high percentage contribution of bank deposits to Tanzania's national GDP. The percentage of contribution decreased from 18.52 in 2015 to 17.6 in 2016. This indicates a 5% decrease in contribution rates. This 17.6 percent of 2016 also decreased to 16.65 percent from 2016 to 2017 (World Bank, 2019). This represents a net decrease of 5.7% in the percentage contribution to GDP. This is the highest margin of decrease in the percentage of contributions made by commercial banks. This might suggest that this two-year period saw a massive use of earnings management by commercial banks in Tanzania.

To deal with earnings management, critics argue that further steps must be taken. The methods used by the organization to manage earnings are deceptive. This problem is facilitated by the company's lack of accountability in reporting its financial affairs. This indicates that organizations and various stakeholders must take more action to plug the loopholes that make it possible for organizations to participate in earnings management. These events raise the issue of the effectiveness of the strategies used by commercial banks to deal with earnings management. In this case, this study investigated the effectiveness of strategies used to manage earnings management in Tanzania.

1.2. Problem Statement

Several commercial banks' failures occurred in Tanzania between 2016 and 2019. Weak strategies for dealing with Earnings Management are claimed to have been the leading 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 most commercial banks. Commercial banks manipulate earnings to achieve, 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). However, there is limited research into what commercial banks are doing to control earnings management. The study was, therefore, motivated by the existing literature gap. It is, therefore, essential to assess the effectiveness of the strategies used by commercial banks to control earnings management.

1.3. Research Objectives

The study aims to investigate the effectiveness of organizational and stakeholder strategies used by commercial banks to deal with EM in Tanzania.

The study aimed to:

- Appraise the effectiveness of the organizational strategies used by commercial banks in dealing with earnings management in Tanzania.
- Appraise the effectiveness of the stakeholder strategies used by commercial banks in dealing with earnings management in Tanzania.

1.4. Conceptual Framework

The conceptual framework refers to the approach used in research to show the critical points to be studied and presented either in graphic or narrative form (Miles & Huberman, 1994). The conceptual framework sets out the demarcation of the variables under study. The conceptual framework is, therefore, a scheme of concepts used in the study to achieve the objectives set. The current study aimed to assess the effectiveness of the strategies used by commercial banks in Tanzania to deal with EM. Literature covering organizational and stakeholders' strategies to deal with earnings management has been reviewed, and from this review, a preliminary conceptual framework has been considered for commercial banks in Tanzania.

The study aimed to assess the effectiveness of the strategies used to deal with earnings management by commercial banks in Tanzania. A conceptual framework with two variables guided the study to address this issue: Organizational strategies and stakeholders' strategies. The conceptual framework observes that earnings management strategies revolve around internal controls, governance systems, the competence of employees, statutory audit, and central bank oversight.

According to the model/conceptual framework, the strategies to deal with earnings management have been distinguished as the organizations' and stakeholders' strategies in the model above. In analyzing these features, the study considered the organization's strategies like (i) Internal control, (ii) Governance system, and (iii) Competence of bank personnel. The study also considered the stakeholders' strategies like (i) Statutory audit and (ii) Central bank oversight.

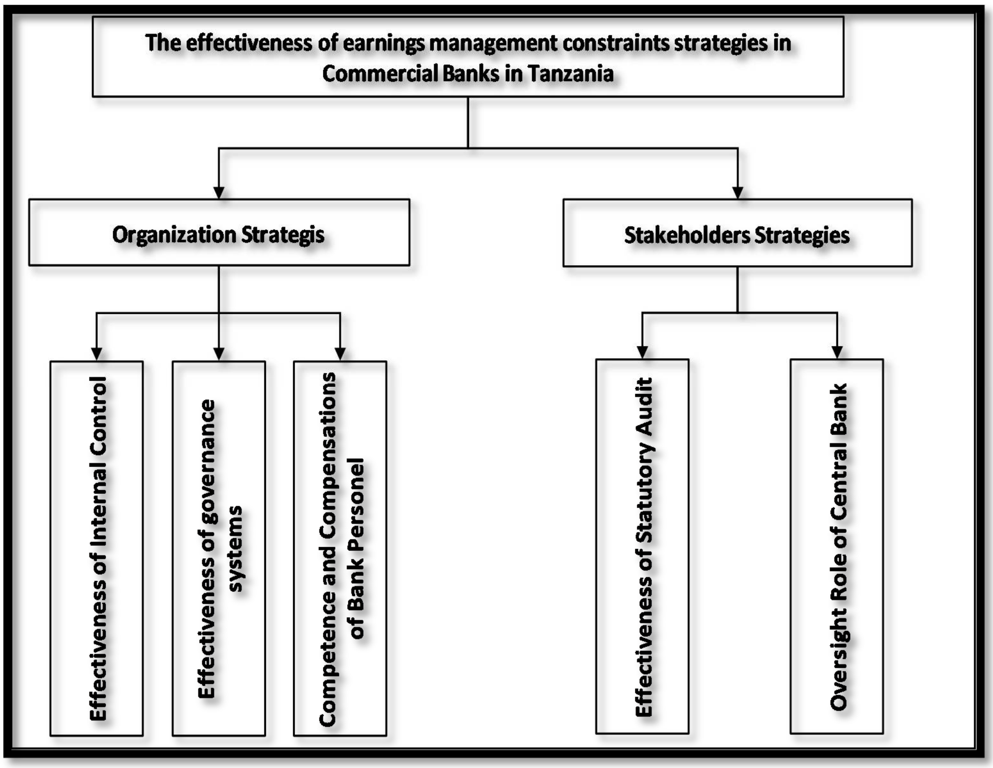

Figure 2: Conceptual Framework on the Strategies Used to Deal with Earnings Management
Source: Modified from the Literature Review, 2022

1.5. Justification for the Study

Companies across the globe face challenges concerning the most effective strategies to deal with EM. 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 dealing with earnings management 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 the effectiveness of the strategies used by commercial banks in Tanzania to deal with 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 strongly influences sustainable economic development in any country. This study focuses specifically on the effectiveness of the strategies used by commercial banks to deal with EM.

1.6. Definition of Terms

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

- Strategies: These are action plans intended to accomplish a particular purpose that may be general or specific (Nickols, 2016).
- 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 judgment to modify financial records in financial statements and structuring transactions to either deceive certain stakeholders about the company's underlying economic performance or affect 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. Therefore, the person involved in earnings management is considered to be fully aware of what is being done and its motives.
- Organizations: Organizations are made up of groups of people bound together by a common goal in order to accomplish a certain goal. Commercial banks and regulatory agencies provide examples of organizations.
- Stakeholders: Mitchell *et* al. (1997) describe stakeholders as individuals, communities, organizations, associations, communities, and the environment that benefits 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

2.1. Historical Background of Banking Sector in Tanzania

Tanzania is a result of the union of two countries, Tanganyika and Zanzibar. The union came into existence in 1964. Tanzania has an area of 945,087 square kilometers (Mushi, 2016). As recorded by Worldometer statistics (2021), the actual total population of the United Republic of Tanzania is estimated to be 59,648,351.

In Tanzania, the history of the banking sector can be traced to the 1800s. The banking sector was under German control from 1884 to 1914. The Handelsbank für Ostafrika was founded in 1911 and opened its first branch in Tanga, the main production area for sisal (Kimei, 1987). Until 1914, Tanganyika had only two banks, one operating as a central bank and a commercial bank, and the other as a cooperative bank. After 1914, only two German-era financial institutions, the Deutsch Ostafrikabank and Handelsbank für Ostafrika were inherited by the British (Kimei, 1987). Three banks of British origin took over with the departure of the Germans from Tanganyika: National and Grindlays Bank, Standard Bank, and Barclays Bank. These were referred to as the Big Three and dominated the Tanganyika banking scene until 1950. Some new indigenous banks were established in the first years after independence: The National Co-operative Bank (1964), the Tanzania Bank of Commerce (1965), and the Zanzibar People's Bank (1966). Commercial banking underwent significant changes after the Arusha Declaration in 1967. They nationalized all international banks and took over the National Bank of Commerce. The National Bank of Commerce in mainland Tanzania and the People's Bank of Zanzibar in Zanzibar and Pemba were taken over by branches of all the nationalized banks (Kimei, 1987).

Tanzania embarked on significant bank reforms in the 1990s. Since 1990, the banking sector in Tanzania has undergone significant changes that have impacted the effectiveness of bank governance and its stakeholders. The changes have altered the way the financial institutions in Tanzania work. New laws were passed to provide financial services in the country by private institutions, both domestic and international. It was appropriate to restructure the existing government-owned financial institutions and then privatize them to encourage productivity and competitiveness in the provision of services. As a result, government interference was removed in determining interest rates, exchange rates, and credit allocation (Ndalichako, 2016).

After financial liberalization in the early 1990s, changes in the banking sector have been achieved through many structural reforms in the banking industry (Muhiilina, 1994). The reforms have been related both to financial capital mobilization and competition in the financial markets. The rise in competition has resulted in credit lending quality and productivity in the economy (BOT Report, 2017).

Commercial bank performance has been cited as one of the primary factors leading to the success or failure of banks (Barr, Seiford, & Siems, 1994). In the current scenario, the banking sector is globally interconnected. Commercial banks must develop adequate business operations to avoid the risk of failure. In Tanzania, the actors that make up the banking sector include The Central Bank, commercial banks, and non-banking financial institutions.

Tanzania has seen substantial growth in players in the banking sector, from 38 in 2009 to 52 by the end of June 30, 2019 (BOT, 2020). This vast development has put Tanzania's banking sector in a precarious position should something go wrong. There may be severe and irreparable effects on the economy and stakeholders.

2.2. Conceptualization of Earning Management

The definition of earnings management by Healy & Whalen (1999) has been widely used. According to them, earnings management happens when managers use judgment 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 judgment 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: real earnings management and accrual earnings management.

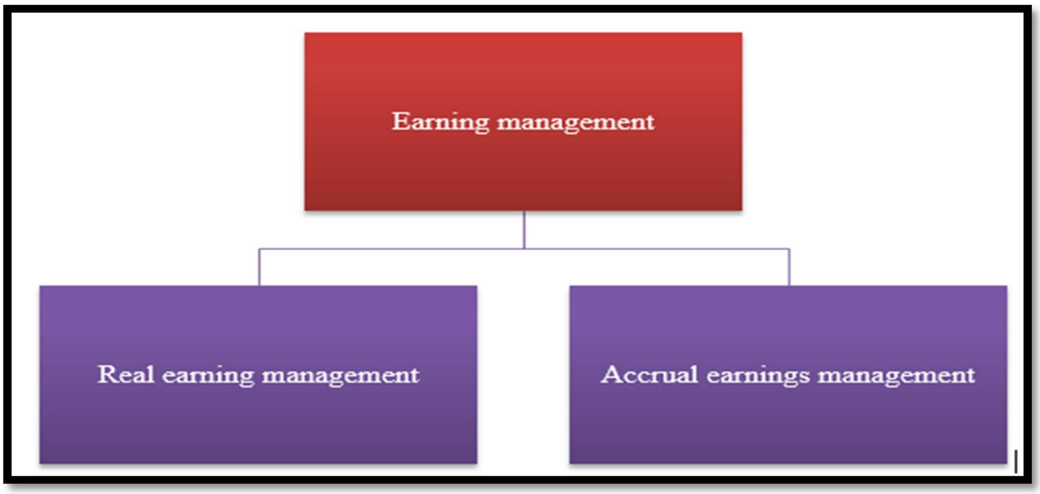

Figure 3: Types of Earnings Management
Source: Ewing et al., 2019

In the case of 'real earning management,' the staffing cost, research & development cost, capital outflow cost, and capital investment increase significantly over time. Khuong *et al*. (2020) opined that to meet the target profit, managers tend to manipulate the numbers to attain 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 necessary for performing the tasks more thoroughly. Contrary to the above statement, Wulandari *et al*. (2017) argue that the targeted profit is achieved by the banking system managers who advocate for cutting the operation cost to gain leverage over the entire performance. Therefore, the association between the earning management and their cash holdings 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 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 using various accounting techniques that generate trivial financial information or enable pre-determined benchmarks to be reached by the company. As stated by Bratten, Payne, and Thomas (2016), the key concept behind EM 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 with 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 Tian and Peterson (2016) suggested, 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).

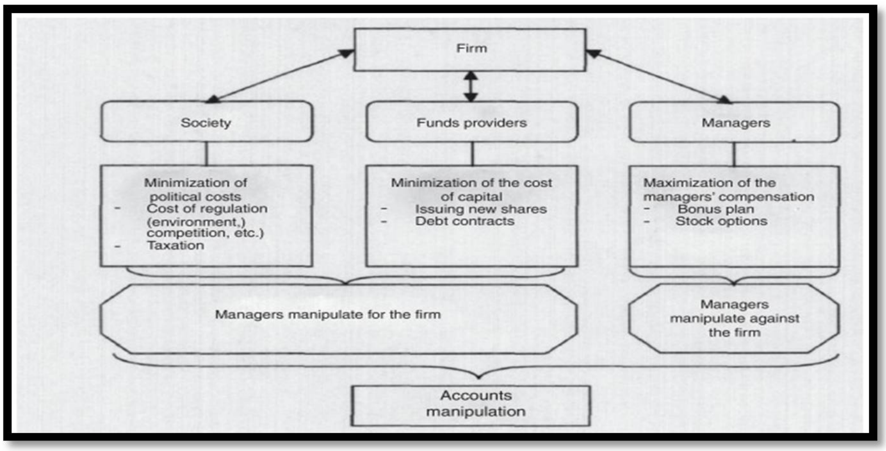

Figure 4: Responsibilities of a Firm
Source: Irani & Oesch, 2016

In addition, the organization's decision-making process is influenced by earnings management. As stated by Dhole, Manchiraju, and Suk (2016), one of the key reasons behind tampering with earnings 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 that 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. Earnings Management Techniques

The analysis of earnings management techniques is essential to identify effective strategies for improving organizational effectiveness in dealing with vices. Techniques of earnings management differ according to the forms of earnings management adopted. Ortega and Grant (2003) describe the accounting earnings management techniques that businesses may use as follows: (a) early revenue recognition, whereby management can report early sales to maximize current earnings; (b) timing of operating expenses, whereby management may postpone expenses to the next year if the company experiences weak performance; and (c) unreasonable assumptions to estimate liabilities. For example, if the management manipulates their estimation of liabilities on the current year performance and if the current year performance is low, then the management may make an unrealistically low estimate; for bad debt allowance, on the other hand, management may prefer to use high estimates for liability allowances when economic performance is doing well. Management uses real tactical decisions whereby business decisions are made in the usual course of the organization.

For example, when profits are below average, to meet the expected earnings, management could lower prices to increase sales volume (Ortega & Grant, 2003). Another example of earnings management is selling fixed assets and other investments to manage the reported earnings (Bartov, 1993). Graham *et al*. (2005) concluded in their analysis of more than 400 executives 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.' However, such a practice could impact the 'long-term interest of the company' and, thus, be expensive (Man & Wong, 2013). According to Zhao *et al*. (2012), real earnings management is more likely to require significant costs to shareholders as it means the company should lose its longer-term cash flows.

Beneish (2001) has described two viewpoints: the 'opportunistic' and 'informative' perspectives on earnings management. An opportunistic view suggests that executives primarily invest in earnings management activities to deceive investors. Healy (1985) argues that managers participate in earnings management solely to control their salaries. He said that management compensation offers incentives for executives to choose accounting procedures and accruals to optimize the value of their bonus awards (Healy, 1985).

Nelson *et al*. (2002) identified earnings management as non-neutral financial reporting in which managers purposely adjust the reported revenue to achieve some private gains. It has also been described as a slippery slope that could result in fraudulent financial reporting (Ortega & Grant, 2003). Small accounting gimmicks become more and more offensive before they produce material mistakes in the financial statements (Abdelghany, 2005). The application of earnings management will potentially lead to negative consequences. According to Loomis (1999), earnings management can require a legal penalty. The difference of views about the acceptability of earnings management is recognized by Beaudoin *et al*. (2015). They claim that some academics regard it as an immoral activity that leads to adverse consequences.

Looking at earnings management from the role of a preparer could lead to a different perspective. Parfet (2000) differentiates between two forms of earnings management; poor or improper management of earnings; and effective management of earnings or operational earnings. Poor earnings management is when a manager uses accounting earnings management to mask actual operating performance, while good earnings management is when a manager develops steps to maximize the financial performance of their business. Parfet (2000) defends and explains this form of earnings management by saying that this is just the business of business.

Based on the analysis made by different researchers, two major earning management strategies emerged: organizational and stakeholder strategies. Organizational strategies include internal control, governance system, competence and compensation of Bank Personnel, competence of bank personnel, employee compensation, and Statutory Audit. On the other hand, stakeholders' strategies include the role of the board of directors, external audit, and the role of regulatory bodies such as central banks and the Board of accountant professionals.

2.3.1. Internal Control on Earnings Management in Commercial Banks

Internal controls over financial reporting play a crucial role in producing quality reports, deterring earnings management (Ratcliffe & Landes, 2009). To ensure the presentation of true and fair financial reporting, the internal control over financial reporting provides the policies and procedures for every accounting process. COSO (1992) has identified five components of effective internal control over financial reporting. Firstly, the control environment is said to be the foundation of the internal control design. The control environment is found to be gained from the top management on the direction of the company's control and the values that have been inculcated among the company's individuals. The second component is the risk assessment component. The designed control should be analyzed concerning the possible risk of material misstatement in the financial statement. Therefore, the identification of a particular risk should be identified for every accounting process. The third component is related to the second component of internal control. Once the risk has been identified and addressed, the improvement of the policies and procedures should be tailored to suit. The control activities are said to be the third component, which involves the approval, authorization, verification, reconciliation, and review of operating performance, security of assets, and segregation of duties. The fourth component relates to the effective communication and information that should be efficiently disseminated among the company individuals. The fifth component requires the ongoing monitoring process. The monitoring process is said to be essential for ensuring the quality of designed internal control over financial reporting. The company must consider the new business strategy development, business size, and current economic performance.

Effective internal audit functioning is essential to a firm's success (Adedokun, Asaolu, & Monday, 2016). Efficient internal controls are useful to a company because they support consistent financial statements and give a reasonable guarantee for the records on which managers rely to make vital business decisions (Tong, Wang, & Xu, 2014). Internal audit adds to the attainment of business objectives and is more beneficial to business performance (Badara & Saidin, 2013). Control in an organization is an elemental provision for the well-organized and effectual attainment of any company's general and specific goals (Muceku, 2014). Commercial Banks need a viable internal audit system to contribute to the achievement of set business objectives. With effective internal control compliance, enterprises will garner limitless gains that stream from well-organized procedures, adding value to the company's capacity (Nor Azimah, 2013). The four types of internal control are (a) preventive, (b) detective, (c) corrective, and (d) compensating (Johnston & Spencer, 2011). Correct applications of preventive controls could prevent fraud. Preventive controls are useful in avoiding non-valid transactions and stopping assets from being misused. Preventive controls require considerable physical effort and involvement to succeed and are the costliest type of control to apply. Examples of preventive controls include two-fold signatures on the financial instrument to prevent unapproved transactions, user identities, and computer passwords to avert illegitimate access to applications (Johnston & Spencer, 2011). The right application of preventive controls may aid commercial banks in dealing with earnings management. The most effective activity an organization can embark upon to minimize fraud is to improve its internal control practices (Leng & Zhao, 2013). The greatest problem with internal control activities is the unavailability of controls (Egbunike, 2014). Therefore, the capability of internal control in dealing with earnings management rests on the assurance over financial reporting, segregation of duties, and policies and procedures for every accounting transaction.

2.3.2. Governance System on Earnings Management in Commercial Banks

Governance System refers to the regulations that run the organization but consistently as required by the law (OECD, 2015). This refers to the extent to which companies are run openly and honestly (Sanusi, 2003). It aims to harmonize the relationship between the Board, CEOs, and a company's shareholders and related parties (Saiful, 2018). Therefore, an effective governance system must incorporate reporting and compliance with statutory regulations, transparency, accountability, and fairness. Commercial banks have assumed heightened governance system interests due to the sector's strategic role in the economy (Nworji *et al*., 2011). The uniqueness of commercial banks is in the fact that it requires a focus on an effective governance system (Nam, 2004). In addition, commercial banks are highly opaque or have severe information asymmetries hence pruning earnings management (Levine, 2004). Therefore, the governance system is critical in restricting earnings management practices (Kumar & Pattanayak, 2017).

The Board of Directors, as an essential section of the governance system, is often considered the most appropriate approach for coping with EM (Beasley, 1996). This is because they are solely responsible for maintaining the credibility, precision, efficiency, accountability, and reliability of the company's financial statements (Tugman & Leka, 2019). The Board of Directors must ensure that internal controls on financial statements are carried out, effective accounting practices are implemented, and independent external auditors are hired and monitored by the Audit Committee. Zhang, Zhou, and Zhou (2007) found that the audit committee's effective function is to lead to more robust internal controls within the organization. In addition to the audit committee's competence, they are also required to be autonomous in managing the company's internal control. The audit committee should recruit independent auditors to review and report on the company's financial health. The audit committee should also be presented with a report on internal controls designed by independent auditors. Zhang *et al*. (2007) also found a relationship between the independence of the external auditor and the strength of the company's internal control. The analysis shows that the company's strong internal control indicates the external auditor's independence**.**

2.3.3. Competence and Compensation of Bank Personnel on Earnings Management in Commercial Banks

Competence is knowledge, skill, attitude, experience, ability, and the trait that enables individuals to successfully interact with others at work, school, home, and community. Competences are predictions of success in an organization. Competence also means the state or quality of being adequately or well qualified and being able to perform a specific role (Hoffmann, 1999). The six most essential competencies include effective leadership skills, problem-solving skills, communication skills, customer orientation, results orientation, and team orientation (Abraham *et al*., 2001). Compensation represents the value the bank paid for the staff of the bank (FDIC, 2015). According to FDIC (2015), compensation includes salaries, bonuses, hourly wages, overtime pay, and other incentive paid to staff and employees of the bank.

2.3.4. Competence of Bank Personnel

One of the reasons mentioned as causative of earnings management is the lack of adequate and appropriate practical knowledge concerning the processes and principles of accounting. The organization needs knowledge for application in their managerial functions and to manage and sustain the competitive edge. The dynamic nature of knowledge moves with time, and the environment, which means knowledge, must be contained, assessed, and updated. Managers of an organization must use the knowledge management system to identify areas of threats and weaknesses and take advantage of the opportunities and strengths to reshape their operations.

This means that education and training are the inevitable strategies that can help organizations deal with earnings management. Some authors like Gbegi and Okoye (2013) have gone a step further to recommend specific forensic audit training to deal with earnings management. This means that forensic auditors are well-placed to detect earnings management. Conner and Conner (2013) talked about the management of information technology data management that spans various points accessible both within and without the corporate environment. Murphy and Dacin (2011) agree that education and training against fraud should begin with what is socially acceptable and despicable behaviour.

With proper training, there will be more uniformity in financial disclosure, periodic differences, and the elimination of interpretational discrepancies. In the course of educating and training personnel, accountants, auditors, and management to understand and appreciate the paradigm of shift from the U.S. GAAP to the IFRS or the convergence of the two different standards, investors must also be adequately informed to follow through with their ideas for comparison and decision-making.

2.3.5. Employee Compensation

Employee compensation and reward systems are essential to motivate employees to attain organizational expected goals (Mihret, 2014). The shareholders and employees may sometimes have different expectations (Ndofor *et al*., 2013). Employees may perceive an unfair compensation system and may act for their benefit instead of the owners' interests (Bosse & Phillips, 2016). This misalignment between owners' and employees' interests may push employees to engage in earnings management against owners' wishes (Clor-Proell *et al*., 2014). The organization should establish adequate compensation and reward systems for owners' and employees' interests (Mellat-Parast, 2013; Ndofor *et al*., 2013). Some compensation mechanisms are salaries, fringe benefits, stock options, and performance bonuses (Wen-Hsin Hsu & Chih-Hsien, 2013). Some reward systems may not necessarily be financial, but things like better offices, preferred parking spaces, and training trips may be used as compensation. As a result, business leaders should identify adequate employee rewards and compensation. Therefore, the organization should establish compensation and reward systems considering monetary and non-monetary incentives with attainable goals to reduce the incidence of earnings management.

2.3.6. Statutory Audit on Earnings Management in Commercial Banks

A statutory audit examines a company's financial records following the requirements. External auditors usually conduct a statutory audit (Gantz, 2013). Independent external auditors audit the company's financial statement to ensure they provide an accurate and fair view of the company affairs (PWC, 2013). A statutory audit is conducted to give the users confidence about the financial statement's quality (Moberg, 2003). Tanzania has had a law-regulated statutory audit in all limited companies as per the Companies Act of 2002 (IFAC, 2021). Statutory audit implies that companies are obliged to get an audit done by an external and independent certified public accountant. Some of the reasons that necessitated the statutory audit are (i) the need to create credibility in the company's financial reporting and (ii) to prevent fraud and illegal acts (Thorell & Norberg, 2005).

The International Standard guides the objectives of conducting audit financial statements on Auditing 200 (ISA 200). The ISA 200 states the external auditing of financial statements aimed 'to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, per an applicable financial reporting framework; and report on the financial statements, and communicate as required by the ISAs as per the auditor's findings. Therefore, the financial information the audited financial statement provides becomes a tool for investment decisions. According to Cullinan and Sutton (2002), the external auditor is required to detect manipulations in financial statements. The external auditors are also required to evaluate the reasonableness of management estimates and judgments in preparing the financial statements to determine if they are indeed 'reasonable' (Love, 2012). This, however, depends on external auditors, in-depth, the auditor's understanding of the business process (Curtis &Turley, 2007).

2.3.7. Central Bank Oversight on Earnings Management in Tanzanian Commercial Banks

It is generally supported that the central bank's oversight plays a crucial role in deterring earnings management. Commercial banks are subject to the central bank's supervision regarding the classification of their credit operations. The Central Bank's oversight of commercial banks covers critical issues such as frequent review of financial statements from commercial banks and its role in ensuring the commercial banks adopt accounting and auditing standards comparable to those accepted internationally, which will measure the conditions of banks consistently and accurately.

The role of Central Banks in dealing with earnings management is highly relevant for Tanzania. The Central Bank of Tanzania (BOT) is owned by the government and represents Tanzania's monetary regulatory authorities. The BOT is the main body in Tanzania that controls and supervises banks. By regulation, the BOT is responsible for supervising the bank's operations, including maintaining the integrity of the accounts. The law gives the BOT all the power to ensure that banks comply with the Bank Law and all banking regulations connected with it. BOT has set up the Financial Sector Supervision Directorate to track banking activities to exercise its role over banks. The Directorate is primarily responsible for monetary and banking issues such as the monitoring of the reserves, the position of liquidity; the monitoring of the financial position of commercial banks and the expression of the necessary notices; the monitoring of compliance with the Bank Law and related regulations; the organization of training in various fields to ensure that the staff of commercial banks is staffed. In the appointment of external auditors, BOT has a role to play. They have to be on their approved list and have mandated independent internal audit functions for all banks.

2.4. Empirical Review

Commercial banks have taken an important role, mainly because of the strategic position of the sector in the economy (Nworji *et al*., 2011). Commercial banks' novelty has drawn particular interest in how they deal with earnings management and the effectiveness of their earnings management strategies (Nam, 2004). Because of their peculiar existence, commercial banks are deemed complicated in terms of how they present their financial information (Levine, 2004). The distinctive essence of commercial banks is also seen in how they approach issues such as financial reporting. In addition, the financial information given by commercial banks to depositors and other stakeholders might not be transparent since they can choose what they want to reveal (Demirguc-Kunt & Detragiache, 2002). As opposed to non-financial businesses, commercial banks have more stakeholders (Mehran *et al*., 2011).

The bank's stakeholders include debt holders, depositors, and subordinated debt holders. Despite the multitude of stakeholders, the board of directors only expresses the views of shareholders in the light of regulatory constraints. As a result, there is an unavoidable conflict of interest between shareholders and other banking stakeholders, where shareholders may have short-term prospects. Debt investors and regulators favour long-term expectations and low volatility in most situations.

Commercial banks are extremely opaque and complex. The opaque nature of banks is explained by the degree of information asymmetry between internal and external investors (Harris & Raviv, 1991). The difficulty of commercial banks makes the task of dealing with earnings management complex. The complexity of the banking industry increases knowledge asymmetry and reduces stakeholders' ability to control bank managers' decisions (Andres & Vallelado, 2008).

Given the commercial banks' strategic role in the economy, successful strategies to ensure quality financial statements are of greater significance (The Basel Committee, 2008). Banks, as the major intermediaries in the financial system, are crucial drivers of economic development (King & Levine, 1993). Banks are active contributors to industrial growth, companies' corporate governance, and capital allocation.

Banks play a critical role in describing and prescribing the corporate governance of other firms (Franks & Mayer, 2001) as creditors or equity holders (Santos & Rumble, 2006). Due to their special position in financial intermediation and the management of the payment system, the failure of banks can be extremely costly and unacceptable (Haan & Vlahu, 2013). In this respect, excessive risk-taking by banks generates major negative externalities and systemic risk, which is why the financial sector is highly regulated relative to non-financial sectors (Flannery, 1998). In addition, the ability of banks to leverage deposits and distribute funds effectively is necessary to minimize corporate capital costs, increase capital formation, and promote product development. Therefore, the banking sector's stability, through effective governance, sector regulation, and supervision, is essential.

A critical analysis of the available strategies to address earnings management has been presented in the section. A literature review indicates that several studies have been conducted in developed countries to deal with EM. As evidenced by these studies, several effective strategies have been suggested for dealing with EM. Some of them include the prosecution of perpetrators, imprisonment, monetary penalties, new managers' employment, and 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 using accounting ratios 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).

The review, 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. EM exists in Tanzania, but there is no recorded data on successful strategies in the country to tackle it.

Therefore, studies on effective strategies to deal with EM in commercial banks in Tanzania are required to provide more understanding and insights into the phenomenon. The present study investigated the efficacy of strategies used to deal with EM by commercial banks in Tanzania.

3. Research Methodology

A qualitative phenomenological approach was used as a design for the study. A phenomenological design was chosen, 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 of the effectiveness of current strategies for EM in commercial banks in Tanzania. The use of phenomenological design supported data collection by interviewing individuals with experience in the phenomenon. The researcher could assess the efficacy of the strategies used to deal with EM by commercial banks in Tanzania via interviews. The paradigm allowed the researcher's engagement, involvement, and participation in the study to assess the significance of the participants' different views and perceptions. The participants' understanding of the efficacy of the current strategies used to deal with EM in commercial banks was developed by using interactive means of data collection (interviews). In other words, based on subjective experience, the researcher attempted to find the truth and reality of practical strategies from the participants' viewpoints to deal with EM. Critics observe, however, that the inference is too arbitrary to prevent the researcher's bias. This was resolved by the researcher bracketing his pre-conceptions by thoroughly passing through the data to be aware of what is going on in the field and not writing the researcher's biases. The researchers' conclusions were also revealed.

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. Further, purposively and snowball sampling techniques were used to sample 14 respondents, 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. Interviews were used to collect data from the sampled population. The participants were selected based on their unique characteristics, such as their positions, while their fellow participants (Creswell, 2012) suggested others. Methodological triangulation through which data were obtained from different sources ensured data saturation. Theoretically, data saturation happens when a researcher reaches a point where new information does not add new facts to the study (Boddy, 2016). Therefore, I allocated enough interview time for the interviews so that I could reach the data saturation stage.

For the purpose of reliability and validity of the data, 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). Triangulation added rigorousness to this study. Further, the study provides detailed documentation of data, methods, and decisions to achieve reliability and reports potential changes that occurred in the study descriptions and reports (Babbie, & Mouton, 2001). In addition to the audit trail, I documented, translated, and transcribed all interviews and discussions verbatim. In order to improve the rigour of the study, I also kept a thorough analysis record in my research diary (Nadin & Cassell, 2006). In addition, I relied on member-checking to ensure integrity and reliability by going back to the participants to crosscheck whether what I documented was precisely what they said. This process was carried out partially in May 2020 and completed in August 2020, during which time I presented the participants with the established themes and sub-themes and asked them to comment on them. I used the following approaches: detailed quotations from the participants' responses; presenting detailed and thick descriptions; collaboration; and peer debriefing. A detailed account of the participants' answers was ensured by recording and transcribing all sessions. I spent substantial time gathering data to obtain rich, dense, and accurate data from the field; different interviews were performed during this period.

3.1 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 preventing 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 study's nature, purpose, and benefits. Each participant was granted the right to participate or withdraw from the research voluntarily at any time they 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.

3.2. Data Analysis

A qualitative method of data analysis was used in this report. First, the data were analyzed 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 recording 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 (Punch, 2000).

Throughout the coding process, I have been able to reflect on and recall my contact with the participants and 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. As a result, I succeeded in grouping related voices and quotations into different themes and sub-themes, a method that has streamlined the presentation in the following chapter.

4. Data Findings, Analysis, and Discussion

The data were analyzed using thematic analysis. After collecting all the data, I translated all the reported data from Kiswahili into English before formal review. Then, I went through different steps to analyze the data. Firstly, the systematic transcription of the collected data was carried out after careful reading and re-reading of the transcripts. Secondly, the procedure to categorize the data was undertaken. Thirdly, the data was coded to understand the studied phenomenon well, noting what is interesting and requires significant terms (Creswell & Poth, 2016). The final step in evaluating the data was defining and establishing patterns based on the categories. Words, sentences, or phrases that discussed the description of EM-related feelings by the participants were marked with a highlighter.

In addition, codes for different types of statements have been assigned, while important identification statements have been grouped into meaningful units. Hultgren (1990) refers to this further division of sub-themes as a means of 'articulating' the central theme. Sub-themes have also been coded for primary codes. The processing of data was an essential step in this study.

Several categories emerged following the analysis of raw data. Subsequently, the categories were grouped into research objectives and research themes. The findings are presented in the context of the study's specific objectives, in addition to the themes that emerged from the field as presented in the next section.

4.1. Effectiveness of Strategies Used by Commercial Banks to Deal with Earnings Management

The researcher asked participants about the strategies commercial banks currently use to deal with EM. Participants were also asked to evaluate the efficacy of those strategies. Several strategies used by commercial banks in Tanzania to reduce earnings management were identified in the report. The study's findings identified several strategies used by commercial banks in Tanzania to deal with earnings management. The strategies amounted to organizational strategies to stakeholders' strategies. They include the use of internal control, governance system, competence and compensation of bank personnel, statutory audit, and Central Bank oversight.

4.1.1. Internal Controls Is Key to Reducing Earnings Management

The first sub-theme emerged from participants' views on the strategies to deal with earnings management and adequate internal controls. Respondents view internal control as a key and effective organizational strategy for dealing with earnings management. With regard to the internal controls as a whole, the control framework should be designed and implemented across the organizations. There are three internal control frameworks suggested as a mechanism for earnings management in commercial banks, namely (1) documented operating instructions, (2) Division of duties, and (3) peer review.

4.1.1.1. Documented Operating Instructions

Respondents view documented operating instructions as a key strategy to deal with earnings management. All fourteen participants mentioned that documented operating instructions (DOIs) are essential strategies for dealing with earnings management in commercial banks. To implement this strategy, participants mentioned using updated manual or departmental operating instructions, which are reviewed and updated repeatedly. The findings show that some accounting procedures should be properly documented for easy reference. This could help in avoiding unnecessary judgment. Commenting on this, one of the interviewed respondents said:

> *‘Documented operating instructions policies and procedures are very effective. They provide the necessary guidance and act as a reference for transactions and disclosures. Written policies and procedures seem to work well.’*

4.1.1.2. Division of Duties

Data from interviews and business documents revealed segregation of duties as a useful strategy to deal with earnings management. The idea behind the division/segregation of duties focuses on separating responsibilities among different employees to ensure that an individual does not have total control over a transaction to commit and cover-up manipulations. All respondents considered segregation of duties as one of the key strategies to deal with earnings management in commercial banks. The division or segregation of duties based on the principle of sustainable risk management and internal control for a business is focused on having shared responsibilities of an essential process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, earnings management is far less manageable. Commenting on this, one of the interviewed respondents said:

‘Segregation seems to be effective if there are makers and checkers.’

4.1.1.3. Peer Review

According to some participants, inviting peers to review the work done by other professional accountants may play a significant role in deterring the incidence of earnings management. However, some respondents were indifferent to this. Most of them believe this strategy may work more in a group-setting environment but not in local banks with no group structures.

4.1.1.4. Governance System on Earnings Management in Tanzanian Commercial Banks

The influence of governance systems in constraining earnings management is reported in this thesis section based on fieldwork evidence. Earnings management has implications for the directors of a company, as they are responsible for driving corporate governance in the company. A company can manage its reported earnings in the financial report following internal policies set out by its directors. The company's directors are in a position to control insider dealings in their companies. In addition, the company's directors can influence information asymmetry between the company and the investors and lenders. Governance System also has a role to play in forming company policies and approving significant transactions that may be material for the company. For example, in a situation where a company's accounting policies forbid manipulation of statements of financial position and income statements, profits may be moved from one period to another. Governance systems could also stop a company from taking advantage of the timing of transactions. Similarly, corporate governance plays a role in ensuring that a company does not mask the inability of profits to be generated from the company's core operations. Creating an atmosphere within the business that promotes financial transparency in the company is an area where Governance System plays the most crucial role.

The Governance System is another effective strategy for mitigating earnings management in commercial banks in Tanzania. The findings revealed that the Governance System, mainly composed of the board of directors and audit committees, greatly mitigates earnings management in commercial banks. All interviewees believed that good corporate systems would effectively mitigate the practice of earnings management in commercial banks. According to one respondent, for example:

'It will constrain the management and prevent it from overriding the normal procedures. In addition, the governance system will separate functions, making it difficult for managers to manage earnings.'

Such a finding could lead to an assumption that for an effective deal with earnings management, commercial banks should adopt corporate governance codes and oversight committees, which are the core of governance systems. The role played by the oversight committees includes questioning and requesting for supporting documents relating to any matter tabled for their decision. In addition, the findings show that audit committees are effective and efficient in detecting misstatements. Commenting on this, one of the interviewed respondents said:

'Diverse Board of Directors, especially members with prior knowledge of auditing and accounting, is very helpful in dealing with EM. In addition, the review done by the Board plays a crucial role in ensuring the integrity of financial statements.'

The findings identify Supervisory Board as another effective strategy for mitigating earnings control in Tanzania's commercial banks. The findings show that the Board of Directors and the Audit Committees in alleviating earnings management in commercial banks play a significant role. Questions and demands for supporting documents relating to any matter brought to their decision shall include the role played by the Supervisory Committees. The findings show that audit committees are accurate and successful in detecting errors. One of the interviewees, reflecting on this, said:

'A diverse Board of Directors, particularly with members with prior knowledge in auditing and accounting, is very helpful in dealing with EM. In addition, the Board's review plays a key role in ensuring the integrity of the financial statements.'

The findings generated from this study evidenced the importance of the commercial banks' oversight boards in controlling earning management practices. The study also noted that these boards have personnel with knowledge or experience with banking practices, but their effectiveness is applauded. However, in some commercial banks, the study noted that those oversight committees are ineffective as the banks' management takes the board members' ignorance of the banks' practices as an advantage.

4.1.1.5. Competence and Compensation of Bank Personnel on Earnings Management in Tanzanian Commercial Banks

The participants involved in the study accepted that earnings management is primarily done through the manipulation of expenditure. It was important to note that some respondents suggested that commercial banks used loopholes in accounting procedures to manipulate expenditure. The study's findings show that, 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 manipulating 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 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. As a result, the cost of the advertisement did not reflect the market price as it was on the higher side.

Respondents recommended the critical role played by internal and external auditors on the side of an effective organizational strategy for dealing with earnings management in commercial banks in Tanzania. Another strategy that emerged from the data was analytical procedures for managing earnings. Analytical procedures compare financial and non-financial data to identify unusual fluctuations or changes (Nia, 2015). The mention of analytical procedure strategy as the best strategy for dealing with EM in commercial banks was also linked to the conceptual framework of this study, which was developed from a literature review.

The perspectives of bank regulatory agencies and external auditors would critically enhance the analysis. Indeed, the present analysis does not clarify how analytical procedures demonstrate the best strategy and how they relate to the conceptual framework. The view of regulatory agencies would enhance the analysis by following analytical procedures, such as the CAMELS framework, in their off-site surveillance. Similarly, external auditors' opinions should be given prominence in the analysis. Indeed, given that earnings management is a strategic pursuit of senior banking management, it is doubtful whether internal management (including internal auditors) can pursue appropriate mitigation measures.

The analytical method as a strategy for dealing with EM is confirmed by previous studies (Chen *et al*., 2016; Mangala & Kumari, 2015; and Halbouni *et al*., 2016), which suggest that one of the best approaches in dealing with EM activities could be to use analytical procedures relevant to accounting computer systems to identify irregular transactions or anomalies. In addition, regular reconciliations can reduce the incidence of earnings manipulation, according to Chen *et al*. (2016), as the perpetrators are aware that actions were detected and brought to light. Mangala and Kumar (2015) suggested that reasonableness tests should be used to reduce errors or wrongdoing.

Segregation of duties has also been raised as a useful strategy to deal with EM in commercial banks in Tanzania. In the separation of duties, the responsibilities are shared between the different employees to ensure that the individual does not have complete control over the process (Rose *et al*., 2015). The findings support previous studies, which recognized the separation of duties as an effective strategy to deal with manipulations (Huber *et al*., 2015; Rose *et al*., 2015). This means that banks should separate the transaction's authorization, the transaction's recording of the transaction, and the retention of assets between different employees.

<u>4.1.2 Effectiveness of Statutory Audit on Earnings Management in Tanzanian Commercial Banks</u>

The ability of Statutory Audit to constrain earnings management was also discussed with interviewees. They were asked whether statutory Audit has effectively dealt with the challenges of earnings management in Tanzanian commercial banks. All the respondents agreed with the Statutory Audit's ability to detect earnings management but their views with respect to whether the external auditor can deter the practice of earnings management. All Auditors who answered this question said that the external auditor could detect the practices of earnings management but would be unable to deter it. For instance, one respondent said:

'The auditor is supposed to be qualified and experienced to detect earnings management through the normal audit process. It depends on his personality. If he is not caring about the money, he would say 'no.'

The external auditor's efficiency, which is a central issue in constraining earnings management, is compromised by personality and adherence to ethical standards.

Another respondent said that:

'It depends on the auditor's experience in terms of time; an auditor with less experience could not, but an auditor who has been auditing for many years, for instance, could detect and can give some advice on how to reduce the practice'.

'External auditor in his first time of auditing will not be able to detect it. However, if he discovered he could prevent it'.

This suggests that for Statutory Audit to constrain earnings management effectively, the team should be comprised of more experienced and qualified auditors.

4.1.2.1. Central Bank Oversight on Earnings Management in Tanzanian Commercial Banks

The study findings revealed that the role of Central Bank Oversight is effective in mitigating earnings management in commercial banks in Tanzania. The Central Bank is responsible for monitoring adherence to the law/regulations and ensuring that these commercial banks' accounting practices are consistent with the relevant standards. Commercial Banks in Tanzania are expected to follow generally accepted accounting principles. No earnings management practices are allowed in Tanzania by the financial regulators. The Central Bank is particularly interested in the auditors' reports and opinions. The reports of the audit committees are also crucial to the Central Bank. Issues of earning management do not feature in the examiners' final reports.

This study observes that the periodic review by regulatory authorities, especially the Central Bank of Tanzania, helps to reduce the level of earnings management in commercial banks. The central bank also conducts periodic reviews of commercial banks. The periodic reviews and reports from the banks help the authority see and judge trends of banking manners in commercial banks. The authorities usually have the power to question unusual trends in the banking systems because they have the knowledge and are aware of the banking industry. Sometimes, the authorities penalize the responsible persons in the banks. One interviewee commented as follows:

'The work by regulatory authorities is effective. The central bank is very effective. It does periodic reviews and provides reports. The periodic reviews seem to be very effective. They normally question unusual transactions and unusual numbers.'

As suggested above, the oversight role of the central bank has been stressed as being potentially useful in dealing with earnings management. The Central Bank Oversight, which was developed from literature reviews, ties with the conceptual framework of this study.

This study also discusses the role of supervisory bodies (Management and Board of Directors) in dealing with EM. The Supervisory Board or Board appears to be another effective strategy to mitigate earnings management in commercial banks in Tanzania. The study's findings indicate that these committees, particularly the Board of Directors and the Audit Committee, play a significant role in alleviating income management in commercial banks. However, to deal effectively with earnings management, the research findings indicate the need for the audit committee to be financially informed about the overall accounting and earnings management indicators. Such understanding and knowledge may help the audit committee to identify earnings management indicators or red flags.

In addition, the research findings indicate the need for an experienced audit committee to assist company management in controlling earnings management and to take advantage of the extensive experience of the audit committee. It is also suggested that the audit committee should be more independent in reviewing the financial statements and challenge the company's management about any issues external auditors raise. In addition, the audit committee should be able to consult the company's management and internal and external auditors on financial statements and the present control.

These findings support Beasley's findings (1996) which suggest that the audit committee is a crucial part of the monitoring mechanism to monitor the integrity and quality of the financial statement process. Therefore, the audit committee should be seen as a value-added oversight function. In addition, the need for independent members of the Board of Directors (Audit Committee) to have adequate financial experience to track financial information was indicated in empirical studies (Goldschmidt, 2004; Jayasuriya, 2006; Razee, 2002).

4.2. Less Effective Strategies

Furthermore, the study findings revealed some of the strategies in commercial banks in Tanzania which are less effective and, therefore, could give room for earnings management practices. The strategies are found to be ineffective due to the way they are operating in the banks, which encourage earnings management. This is because some responsible persons lack practical experience. Also, reviewing financial statements is not done frequently; oversight committees do not conduct their meetings as required. However, some regulatory authorities are not interested in EM. Moreover, there is a lack of training on EM for the commercial bank staff. Procedures on EM mitigation are also not updated to reflect the current working environment.

4.2.1. Lack of Practical Experience

In this aspect, the study findings noted that some of the expertise assigned to oversee the happenings of earnings management in commercial banks lack practical experience concerning earnings management. The study noted that earnings management happens in some commercial banks because of the lack of practical experience of those who oversee transactions. The study further noted that some commercial banks' staff have different strategies on how they make fraud, which keeps changing as they are discovered, and, therefore, it requires individuals with experience to discover the new techniques. In an interview with participants, one commented as follows:

'Those doing the assessment lack practical experience. Understanding also varies. For External auditors, for example, some team members do not have industry experience. They are not experienced. Because of this, they do not challenge assumptions, and they take things at face value. Also, some board members do not have the expertise to analyze and interpret financial statements. They lack the professional experience required to pick out key issues like earnings manipulations.'

4.2.2. Lack of Frequent Review of Financial Statement

The study findings revealed that some of the strategies for mitigating earnings management in commercial banks are ineffective because the responsible authority does not take frequent check-ups. The findings show that frequent check-ups on the commercial bank's financial statements could reduce or stop the happening of earnings management. However, because this is not done as required, it gives room for earnings management practices to occur. This was attributed to professional bodies and regulatory authorities responsible for conducting a frequent review of the financial status of commercial banks. The findings further show that some professional bodies, including NBAA, lack ways to ensure commercial banks comply with standards. One respondent said:

'Periodic review of financial statements by regulatory authorities, Management, and Board of Directors are not frequently done. Also, Professional bodies like NBAA do not have ways to ensure that numbers comply with standards.'

4.2.3. Oversight Committees Not Conducting Meeting as Required

The findings also noted that the oversight committees responsible for overseeing and regulating the way the commercial banks operating in Tanzania were not fulfilling their duties as required. The findings show that the oversight committees must meet yearly; however, they sometimes meet after three years. The lack of conducting regular meetings by these oversight committees gives room for fraud that is sometimes conducted quarterly to pass unchecked. It was also noted from the findings that some of the members of the oversight committees lacked knowledge of earnings management and, therefore, had little contribution to mitigating the phenomena. In the interviews, one of the respondents commented as follows:

> *'Some Board meetings are not conducted as required. Furthermore, some of the board members lack the expertise to analyze and interpret financial statements and lack the professional experience required to pick out key issues like earnings manipulations. Normally, they do not challenge the assumption. Instead, they depend on what they are given. Also, sometimes, external auditors have too many clients, which in turn, affect audit quality.'*

4.2.4. Some Regulatory Authorities Not Taking Interest in EM

Lack of seriousness on the aspect of EM in commercial banks by responsible authorities during review processes emerged from this study finding as an area of weakness. The study findings show that regulatory authorities, professional bodies, and even oversight committees do not give enough weight to earnings management as an essential aspect of the banking industry. The study shows that the regulatory and professional bodies such as the Bank of Tanzania and NBAA neglect training on earnings management. It is further noted that earnings management is not insisted on even while assessing and reviewing the commercial bank's performance. The findings observed that although regulatory and professional bodies like NBAA are tasked to regulate accounting professionals, its impact is not seen in earnings management, which reinforces earnings management in commercial banks in Tanzania. One respondent from the interviews commented as follows:

> *Professional bodies like NBAA are not doing enough and have not recognized EM as an issue. Even training organized by NBAA does not focus on earnings management. They do not have an interest in EM as they are not visible. In short, NBAA as a body of professionals is proactive compared to other international professional bodies.'*
>
> In addition, stressing the importance of regulatory bodies, one of the respondents stated:
>
> *'The regulatory bodies, for example, the NBAA, could have played a crucial role in ensuring the accuracy of financial statements.''*

4.2.5. Lack of Training on EM for Commercial Bank Staff

The study further showed minimal training on earnings management for staff in commercial banks in Tanzania. The study findings noted that most commercial bank staff lack education in earnings management. This is because stakeholders do not emphasize training staff on earnings management in the commercial banks' sectors. In addition, the study finds that even the authorities in Tanzania, who are responsible for ensuring the banking industry works appropriately, do not allow workers in the banking industry to undergo training in earnings management. From the interviews, one respondent said the following:

> *'Training on earnings management is not offered. This makes workers in commercial banks ignorant of earnings management practices. Many earnings management practices happen unintentionally because workers lack earnings management education. Also, internal and even external auditors are incompetent when it comes to earnings management issues.'*

4.2.6. Lack of Documented or Outdated Procedures on EM Mitigation

Lack of documentation or the use of outdated guidelines, rules, and procedures that do not stress earnings management is another reason for most of the earnings management in commercial banks. The study findings reveal that there is a gap in the technological development in the banking sector and the guidelines which are used in daily bank activities. The study findings observe that most guidelines, such as department operation instructions, lack some important aspects of earnings management mitigation. Professional bodies like NBAA are accused of sometimes failing to provide guidelines and procedures on earnings management on time. The findings show that even some policies and procedures working with commercial banks in Tanzania are not aligned with IFRS. One interviewee commented as follows:

> *'In commercial banks, some lack a clear documented process and procedures of handling earnings management practices. Whereas policies and manuals guiding the treatment of key items in the financial statements are available, they are outdated. In addition, some of these policies and procedures are not aligned with IFRS standards.'*

Generally, the study has identified areas of weakness among the strategies used to mitigate earnings management in commercial banks in Tanzania. The study findings noted that the ineffectiveness of the strategies to mitigate earnings management in commercial banks is attributed to how the strategies are implemented. The strategies could work in mitigating earnings management in commercial banks in Tanzania if they are updated and well-implemented honestly.

The study findings are in tandem with Campbell and Hartcher's (2010) findings when they say that control within organizations assists in supporting the goals of the enterprise, protecting assets, and identifying and stopping fraud and error. Control leads to the promotion of excellent administration, giving room for the punishment of poor performance, approving transactions, helping authenticate transactions, and minimizing exposure to unexpected events. The most effective activity an organization can embark upon to minimize fraud is to improve its internal control practices (Leng & Zhao, 2013). The most significant problem with internal control activities is the unavailability of controls (Egbunike, 2014). Therefore, capable internal control in dealing with earnings management rests on the assurance over financial reporting, segregation of duties, and policies and procedures for every accounting transaction.

5. Summary, Conclusion, and Recommendations

The objective of this qualitative study was to determine the efficacy of the strategies used by commercial banks to deal with EM. The study findings show two types of effective strategies that are organizational as well as stakeholders' strategies. The effective strategies included the use of supervisory bodies such as the Board of Directors, the use of regulatory boards such as the Bank of Tanzania, NBAA, internal/external auditors, guidance policies and manuals, documented departmental operating instructions, peer reviews, use of analytical procedures, risk management accounting policy/manual, competent accountants and enhanced financial reporting. The results have shown that it is essential to have successful organizational and stakeholder strategies for mitigating earnings management in commercial banks. The findings show that effective organizational and stakeholder strategies help reduce and control earnings management in commercial banks in Tanzania. The current study results have shown that not all the strategies used by commercial banks in Tanzania to deal with EM are successful. The results of this study could provide valuable knowledge for commercial banks in Tanzania to implement effective earnings management strategies. Using the findings of this study, the organization and stakeholders could reduce the incidence of EM and promote trust among users of financial

5.1. Contributions/Implication of the Study Findings

The results of this research revealed the efficient strategies used to control earnings management in commercial banks in Tanzania. Other sectors can consider the recommendations of this study to minimize the incidence of earnings management in their organizations.

The current study offers a series of recommendations for regulators, organizations of professional bodies, external auditors, and researchers about what can be done to minimize the incidence of earnings management.

The study

- Contributed to the research methodology;
- Contributed to knowledge on the efficacy of earnings management strategies used by commercial banks;
- Offered practical recommendations on how strategies can be improved; contributed to the academic theory on the theoretical concept of earnings management;
- Ultimately contributed to regulators and the standard setters.

5.1.1. Contributions to Methodology

The study demonstrated the value of qualitative research in financial research. The data was gathered from respondents with experience with 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 research methods. Based on actual practices, this study supports some of the existing findings, increases knowledge on how to deal with earnings management, and recommends improvements. This validates that qualitative research is a powerful tool even in financial reporting and can add value as the information is derived directly from the respondents.

5.1.2. Contributions to the Knowledge in the Form of Practical Ways to Deal with Earnings Management

This study examined the efficacy of strategies used to manage earnings management by commercial banks in Tanzania. The research made clear and realistic suggestions on the shortcomings found in the internal audit framework.

The study highlights the need to review the scope of the internal audit functions, especially with a view to improving the effectiveness of the internal audit departments in the management of earnings. These relate to the accuracy of the auditing of financial information, in particular, the identification of abnormal trends and the methods of internal auditing.

The study also recommends that internal auditors assess themselves to improve their knowledge of earnings management, something that will help them reduce the risk of earnings management.

5.1.3. Contribution to Policy, Departmental Operating Instruction, and Manuals

The study results indicate that in dealing with EM, written policies, departmental operating instructions, and manuals are effective. Therefore, some significant criteria are applied to the results of this study by recommending an ongoing analysis of the manuals, which is likely to be carried out annually to ensure successful management of earnings control.

5.1.4. Contribution to Internal Control over Financial Statement

Another strategy to deal with earnings management is internal control over the financial statement. Control should be designed in such a way that potential manipulations of earnings are identified and corrected in each accounting process. In addition, the control should be designed by the Chief Financial Officer and approved by the audit committee.

5.1.5. Contribution to the Role of Board Audit Committee

The study also found that the audit committee is critical in dealing with earnings management. This means that the audit committee's role in the control of earnings management is essential. The Committee shall act as an independent body of the company to monitor the integrity of the financial statements and the internal control. The proactive role of the audit committee in the supervision of financial matters is very important in controlling earnings management. The experience and competence of the audit committee contribute to the effective supervision of the financial statements reported. Therefore, they must pick up and deal with any issues external auditors raise.

5.1.6. Effective Corporate Governance

Effective corporate governance among the Board of Directors was also presented as a key strategy for dealing with earnings management. The effective practice of corporate governance would be achieved by combining the good structure of the company's board of directors with a firm tone at the top. The independent conduct of the company directors, who set a strong tone at the top, would prevent the management of profits from the top management.

5.2. Suggestions and Recommendations

One of the recommendations for commercial banks to deal with earnings management in Tanzania is through the same analytical procedures. Effective implementation of analytical procedures may help commercial banks to manage their profits. Another recommendation is the appropriate separation of duties to deal with earnings management, which could reduce the incidence of earnings management.

In order to deal with EM, commercial banks can use written policies, procedures manuals, and departmental operating instructions. Commercial banks can also deal with earnings management by applying these recommended strategies. It is also advised to raise awareness of the relevance of issues such as earnings management by professional bodies such as the National Board of Accountants and Auditors.

The current study analyzed the efficacy of strategies used in commercial banks to deal with EM. As a methodology for analysis, the thesis followed qualitative techniques. However, different strategies for managing earnings may include qualitative analysis in other geographical areas or contexts. For this reason, I suggest that similar studies be undertaken in other geographical areas of commercial banks.

I recommend similar studies using a different approach, quantitative and mixed methods. By conducting a quantitative study, researchers may also examine and verify the implementation strategies identified in this study for the management of earnings.

The current study analyzed the efficacy of the strategies used in commercial banks in dealing with EM. As a methodology for analysis, the thesis followed qualitative techniques. However, different strategies for managing earnings may include qualitative analysis in other geographical areas or contexts. For this reason, I suggest that similar studies be undertaken in other geographical areas of commercial banks.

I recommend similar studies using a different approach which is a combination of quantitative and mixed methods. By conducting a quantitative study, researchers may also examine and verify the implementation strategies identified in this study for the management of earnings.

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