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EARNING MANAGEMENT AND FINANCIAL DISTRESS AMONG COMMERCIAL BANKS IN GHANA

By

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MSC ACCOUNTING AND FINANCE

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DECLARATION

I hereby declare that this submission is my own work towards the award of MSc, Accounting and Finance; and that to the best of my knowledge, it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the University or any other institution, except where due acknowledgement has been made in the text.

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ABSTRACT

The focus of this study was evaluating how earning management influences the financial distress of listed commercial banks in Ghana. Using a purposive sampling approach, 10 commercial banks in Ghana were selected and their financial statements and annual reports within the period of 2011 and 2020 were obtained from their respective websites. With the aid of the SPSS version 24 software, both descriptive and inferential statistics including panel regression using the stepwise ordinary least square regression were done on the data obtained. It was realized that firm size and profitability (ROA) were significant ($p<0.05$) determinants of earning management. Firm size, asset tangibility and profitability (ROA) were significant ($p<0.05$) determinants of financial distress. Earning management has a significant ($p<0.05$) effect on the financial distress of the listed commercial banks. The positive correlation indicates that an upsurge in the firm earning management will necessitate an increase the financial distress of the commercial banks and the other way round. The findings of this study demonstrate how earnings management affects value relevance. Additionally, the management of earnings via long-term discretionary accruals has a greater impact on the value-relevance of earnings and book value than management of earnings via short-term discretionary accruals. Therefore, the management of the listed commercial banks should put up more rigorous and internally standard schemes and strategies to manage their earnings effectively so as not to avert distress of finances among the commercial banks.

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DEDICATION

I dedicate this work to Almighty God and His Lovely son Jesus Christ. I also dedicated to my beloved husband, parent Mr. and Mrs. Atsrima and siblings who have been very supportive to me throughout and will continue to be as long as I live. You have in many ways enriched my life. Thank you for the thoughtfulness, the well wishes and the prayers. I deeply appreciate you all.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial soundness and stability is the primary goal of every organization in order to remain competitive in the market. The fittest firms would endure in a competitive and globalized economic climate, while the quantity of enterprises facing financial difficulties would experience corporate collapse and complete halt from business (Thim *et al*., 2011; Wu *et al*., 2020). However, the situation where a company is not capable of generating its own revenue or income which is sufficient enough to cater for its financial obligations is regarded as financial distress (Mihalovic, 2016). When an enterprise's fixed expenditures are huge, assets are not easily converted into cash, or revenues are particularly susceptible to fiscal recessions, the potentials of generating economic hardship upsurge (Khalik *et al*., 2014). Any company experiencing financial problems may have additional expenses as a result of the situation, including more expensive finance, opportunity costs for project, and fewer motivated employees. The cost of borrowing additional cash for the business will normally rise, rendering it more problematic and overpriced to acquire the much-needed resources (Rahman *et al*., 2021). Management may operate longer-term profitable projects in order to realize short-term obligations.

Financial distress is frequently associated with poor financial management and increasing business risk (Inekwe *et al*., 2018). When a corporation has significant leverage, managers typically have a lesser voice in management, which results in agency costs and, in turn, makes managers more likely to make risky choices (Agostini, 2018). Business managers now understand the significance of the degree of financial distress as a result of the financial crisis (Wu *et al*., 2020). Companies can use effective ways to solve financial distress situations (Hotchkiss *et al*., 2008). Debt reorganization, calisthenics, and familiar reforms in the capital and real asset industry are examples of alternative procedures or methods (Assagaf, 2017). Furthermore, putting in place excellent corporate governance systems can help to lower the pedigree of distress within the finances of the company (Luqman *et al*., 2018). Ultimately, the proper management of the earnings of the company have proven to be the best solution in alleviating institutions from financial distress (Habib *et al*., 2012; Sayidah *et al*., 2020).

Earning management, also known as accounting fraud, is described by Kjaerland *et al*. (2021) as taking place when managers consciously use judgments in financial reporting and financial transaction structuring to alter financial reports in order to deceive some stakeholders about the firm's actual economic performance. Earnings management has drawn a lot of attention in the discipline of accounting and has been a significant and ongoing concern for practitioners and regulators. There are several motives and methods for managing earnings, and the majority of them serve the management's objectives (Bassiouny, 2016). Due to the drawbacks associated with accrual earnings management, the earnings manipulations are most likely to be implemented through actual operational procedures, as stipulated by Abdullahi *et al*. (2020). The predictors of earning management include firm leverage, audit quality and profitability (Wijaya *et al*., 2020). Earnings management, contrarily, is regarded legitimate as long as the intended amount of earnings is achieved in accordance with established accounting rules (Younas *et al*., 2021). Interestingly, within the banking industry of Ghana, the management of earnings is a bit problematic which then affects the profitability of the bank (Boakye, 2016). Thus, this thesis is fixated on evaluating the influence of earning management on financial distress in the Ghanaian industry of banking.

1.2 Problem Statement

Banks across the globe are mostly focused on managing their earnings so as to remain competitive within the industry at both the local and international level. However, the earning target of most commercial banks in Ghana are not realized, hence, making such firms to resort to options of debt financing which then affect the banks. Companies undergoing fiscal mismanagement have a habit of carrying out appropriate management procedures of their earnings (Bisogno & Luca, 2015). Again, the commercial banks within the financial sector of Ghana seem not to do proper management of earnings hence the collapse of several commercial banks in 2017 due to financial distress.

Moreover, several studies have been carried out on earnings management and financial distress in China and Indonesia (Li *et al*., 2020; Sayidah *et al*., 2020). In the study carried out by Li *et al*. (2020), because companies in financial crisis frequently control their accrual earnings more so than their real earnings. This study offers more information about internal control and earnings management in financially troubled businesses, particularly from the standpoint of a developing economy. On the part of the study carried out by Sayidah *et al*. (2020), state-owned enterprises' financial distress was unaffected by earnings management or subsidies, and SOE management performed earnings management within a specific range to avoid affecting financial distress. Internal control restrains both accrual and real earnings management, which moderates the relationship between financial distress and earnings management.

However, these studies did not concentrate on commercial banks and findings from China and Indonesia might differ from that of a developing country like Ghana due to the differences in market dynamics. It is evident that financial distress and earnings management can be firm specific (Choy *et al*., 2011), however, most studies did not consider the influence of firm's characteristics on the management of earnings and fiscal distress. Finally, the studies on financial distress and earning management in the Ghanaian financial sector is scanty hence affecting policy making and subsequently the performance of the financial sector. Theoretically, none of the studies carried within the Ghanaian jurisdiction considered the use of the liquid asset theory to explain the causal relationship between the variables, hence, this study fills the gap. On the part of methodology, most of the studies considered a five-year panel data which then reduces the observation size and increases bias, consequently, this study increases the observation size via a ten-year panel data to fill the gap existing in previous studies. Thus, this study is primarily focused on determining the influence of earning management on financial distress among commercial banks within the banking industry of a developing country, Ghana.

1.3 Research Objectives

The main objective is to evaluate the effect of earnings management on financial distress among listed commercial banks in Ghana.

The specific objectives are:

i. To assess the determinants of earning management among listed commercial banks in Ghana.

ii. To evaluate the determinants of financial distress among listed commercial banks in Ghana

iii. To ascertain the effect of earnings management on financial distress among listed commercial banks in Ghana.

1.4 Research Questions

The above listed objectives of the study were realized by addressing the research questions below:

i. What are the determinants of earning management among listed commercial banks in Ghana?
ii. What are the determinants of financial distress among commercial banks in Ghana?
iii. What is the effect of earnings management on financial distress among commercial banks in Ghana?

1.5 Scope of the Study

The study is engrossed on inspecting the consequence of earnings management on financial distress amongst listed commercial banks in Ghana. Additionally, the research is concerned with ascertaining the determinants of earning management and financial distress among listed commercial banks in Ghana. Although the banking industry in Ghana is flooded with several commercial banks across the entire country but this study is limited to only commercial banks listed on the Ghana Stock Exchange. However, commercial banks listed on GSE but not been in operation in Ghana for the period of 2011-2020 were excluded from the study. The period of 2011-2020 was chosen for the study since it provided substantial data to make critical analysis and conclusion on earnings management and financial distress for both before and after the cleaning of the Ghanaian banking industry.

1.6 Significance of the Study

The literature and useful contributions of the study are what really determine its significance. There are three main ways in which this study can contribute to the literature. The study will first give a more thorough test of the signaling theory by analyzing earning management as a mechanism that affects financial hardship through the analysis of the less studied relationship amongst earning management and financial distress using the secondary data approach. Second, the study was an extension of previous studies ((Li *et al*., 2020; Sayidah *et al*., 2020) but directly focusing on the banking industry in a developing country, Ghana. To conclude, the research findings would assist as a basis of evidence for probable researches associated with earning management and financial distress. For the practical contribution of findings of this study, it aided in enhancing management's decision on earning management and financial distress within the selected commercial banks. Consequently, this aided in enhancing the performance levels of commercial banks in Ghana and also make the banking industry in Ghana a more competitive one on the international market.

1.7 Brief Overview of Methodology

This study is a cross-sectional where a quantitative approach is adopted. With recourse to the objectives associated with this study, the applicable source of data is secondary data where the financial statements and annual reports within the period of 2011 and 2020 were obtained from the official websites of the selected listed commercial banks in Ghana. The dependent variable of the study is financial distress which is measured by adopting Altman (1983) Z-score using five ratios (i.e. sales/total assets, earnings before interest and tax/total assets, current assets-current debt/total assets, market value of ordinary and preferred shares/total book value of debt and retained earnings/total assets) and the control variables (bank size, loan share, deposit share, growth of assets and bank ownership). On the other hand, the independent variable is earning management which is measured by the total accruals of the banks (i.e. net income before extraordinary items – cash flow from operating activities). Data was analysed using Statistical Package for Social Sciences (SPSS) version 20 software. This study employed the use of both descriptive statistics and panel or ordinary least square regression methods to evaluate the causal relationship between the firms' characteristics, earning management and financial distress.

1.8 Organization of Thesis

Five major chapters are the disposition of this thesis where each chapter has its focus in realizing the objectives of the study. First chapter offers a brief background of the study which then leads into the problem statement, objectives and questions of the study, scope and significance. For the second chapter, it offers a thorough review of the concepts, theories and empirical evidences related to the subject matter of the study. The methodologies applied in addressing the research objectives and questions were considered in the third chapter. A clear analysis of the data and its interpretation are presented in the fourth chapter. Then, the fifth chapter provides a summarized findings, conclusions and recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part presents a conversation on the different ideas basic this review. Besides, the hypotheses supporting the different connections existing between the ideas were talked about. An observational examination of the different speculative recommendations of this study was completed to grasp the connection between this review and past investigations.

2.2 Conceptual Review

This part gives a concise portrayal of the different subjects and ideas supporting this review. These concepts include: earnings management and financial distress as discussed under the various headings below:

2.2.1 Earnings Management

Earnings are a summary assessment of a company's performance calculated using the accrual accounting method (Haldar *et al*., 2018). A by and large perceived meaning of profit the board is given by Healy and Wahlen (1999): Profit the executives happens when chiefs deliberately use decisions in monetary detailing and monetary exchange organizing to modify monetary reports to mislead a few partners about the company's hidden financial execution or to impact legally binding results in light of revealed bookkeeping numbers. Firms have two options for managing earnings, as stated in the definition. To begin, earnings can be managed by deviating from standard business operations (Chen *et al*., 2015). For example, the company could increase reported profit by reducing explore and expansion, selling properties it would then retain, and reducing staff development.

Importantly, the management of earnings has similar purpose as fraud with regards to affecting a company's conveyed earnings and fiscal reporting superiority. Contrarily, the management of earning does not oppose bookkeeping principles, whereas not seen in fraud (Jacoby *et al*., 2019). Nonetheless, Kim and Youhan (2018) argued that corporations may option for scam if they have used all other options for managing earnings by means of the accruals-based strategy. Companies who have had big frauds have been found to have practiced more profits management in previous years, according to Lazzem and Faouzi (2018). It is not, however, a requirement that a corporation start with the management of earnings beforehand engaging in deceitful tactics.

Factual management of earnings is designated as differing from ordinary business progressions so as to impact reported income (Busirin *et al*., 2015). Subsequent, an enterprise might regulate accruals to realize the suitable pedigree of earnings. Accrual-based earnings management is described as the use of management judgments in financial reporting (Chen *et al*., 2015). Real changes in venture and operational activity are more expensive than bookkeeping gimmicks. As a result, it's acceptable to infer that organizations have a inferior brink for manipulating earnings via accruals as opposed to real activities. The literature has looked into a variety of reasons for managing earnings. Managerial objectives are many, including optimizing firm value (Nega & Hussain, 2016), management buyouts (Al-Jaifi, 2017), initial public offerings (IPO's) (Demirguc-Kunt *et al*., 2018), and matching financial analysts', management's, and investors' expectations, as well as societal and political pressures (Ibor *et al*., 2017; Li & Thibodeau 2019). The flexibility granted to management in presenting their stated earnings is the essence of earnings manipulation (Busirin *et al*., 2015).

Extant literature on earnings management proposes that established atmosphere, audit quality, lop-sided evidence, financing restraints, divergence, and cost of capital, have an impact on firms' earning management practices (Rodrguez-Pérez & van Hemmen 2010; Farrell *et al*., 2014; An *et al*., 2016; Abad *et al*., 2018; Alzoubi ,2018; Habib *et al*., 2019). Earnings management is a difficult topic that has been recognized and interpreted differently in past studies based on the researchers' perspectives on the subject (Callao *et al*., 2014). Earnings management is viewed as an issue that requires immediate attention in some research, while it is viewed as a deliberate intervention to acquire certain private benefits in others (Abad *et al*., 2018). Ali and Kamardin (2018) provided a difference amongst unscrupulous management of earnings (to deceive stockholders) and revealing management of earnings (to project a positive image of a company's performance to stockholders). Such disparities could indicate that earnings management isn't always a negative thing. Overall, the scientific arguments concerning earnings management continue, highlighting the status of the management of earnings in the bookkeeping literature (Baatour & Othman, 2016; Ali & Kamardin, 2018).

Several studies in recent times have concentrated on various issues and viewpoints of earnings management. The moderating effects of mandated I.F.R.S. acceptance on the link amongst top management education and understanding and management of earnings are the topic of Kouaib *et al*. (2018). Pereira and Gaspar Alves (2017) investigate how bookkeeping ethics and the mandated implementation of I.F.R.S. and I.A.S. in Portuguese listed firms effect earnings management. Bookkeeping guidelines characterize how organizations should keep and report their records to create a typical bookkeeping language that permits organizations and their fiscal summaries to be reliable and trustworthy starting with one firm then onto the next and starting with one country then onto the next (Bartosova et al., 2019). Their discoveries suggest that there are still indications of profit the board in non-monetary recorded organizations keeping the execution of these rules. According to Ugrin *et al*. (2017), post-I.F.R.S. acceptance, management of earnings increased among European businesses, although the relationship amongst I.F.R.S. espousal and management of earnings is not consistent across nations. Godsell *et al*. (2017) investigate management of earnings in nations that begin anti-dumping investigations in order to pursue protectionist duties imposed by a domestic government on foreign goods that it deems are undervalued. The authors claim that earnings management improves when accounting data has a direct impact on the size of tariffs imposed during a trade investigation, but declines as the number of petitioning businesses grows. Utilizing the cross-sectional adjusted Jones model, Astami *et al*. (2017) investigate the effect of culture and review quality on administrative bookkeeping accumulations choices. Paredes and Wheatley (2017) and Ferramosca and Allegrini (2018) both tracked down interrelationships between public culture and bookkeeping strategies.

2.2.2 Financial Distress

Financial distress is frequently regarded as having a bad financial structure and posing a financial risk to businesses (Inekwe *et al*., 2018). Scholars say that when a corporation has a high leverage, managers have a lesser voice in management, which results in agency costs and, as a result, managers are more likely to make high-risk judgments (Agostini, 2018). Similarly, research findings show that inadequate debt structure (typically represented as leverage) and firm performance after failed takeovers have a negative link (Bouslah *et al*., 2018). The financial crisis has made business leaders appreciate the need of determining the extent of financial hardship. During financial crises, businesses are vulnerable (Wu *et al*., 2020). Changes in macroeconomic information, the state's financial status, and overall monetary patterns ought to be reflected by organizations. An exact evaluation of these events can give the association sufficient opportunity and monetary assets to climate the worldwide emergency (Michalkova *et al*., 2018). The near area of the business, on the other hand, should not be overlooked. The underlying foundations of the emergency may not be macroeconomic in beginning; rather, they might be because of poor monetary administration, stressed associations with colleagues, and different variables.

Financial distress, in contrast to cost strength, is anyway challenging to characterize or quantify given the reliance and the many-sided collaborations among various components inside the monetary framework and with the genuine economy. This is additionally confounded when and cross-line aspects of such connection. Essentially, a monetary framework can be portrayed as steady without extreme unpredictability, stress and emergencies (Gadanecz & Jayaram, 2008). Albeit this thin definition is moderately easy to figure out, it neglects to catch the positive commitments of a well-working monetary framework to by and large financial execution. In order to deal with financial distress of organizations or economies, appropriate structures are necessary for the establishment of a stable financial system (Michalkova *et al*., 2018).

Considering this, the European National Bank (ECB, 2007) comprehensively characterized monetary soundness as a condition in which the monetary framework, which contains, monetary delegates, markets and foundation, is equipped for opposing shocks and unwinding likely monetary irregular characteristics, subsequently hosing the possibilities of disturbance in the monetary intermediation process. Likewise, Schinasi (2004) characterized monetary solidness as a state in which the monetary framework can improve financial cycles, oversee gambles and endure shocks with negligible disturbance. Since the more extensive meaning of monetary solidness is more dynamic, most experts will generally zero in on the dangers and weaknesses of the monetary framework as these are less bulky to appreciate and amount. Yet, there are likewise intricacies emerging from the thin definition to the extent that emergency is similarly challenging to characterize. This is on the grounds that various nations have encountered various kinds of emergencies (like cash emergency, banking emergency, value emergency, obligation emergency, and so on) after some time and there are multiple approaches to characterizing an emergency of each kind (Wu *et al*., 2020).

A few methods are utilized to evaluate monetary solidness and each enjoys its benefits, inconveniences and restrictions. In any case, as of late, policymaker and scholastic specialists have focused on different factual markers that typified and depicted weakness of monetary framework to evaluate monetary soundness (Danisman & Tarazi, 2020). Among the generally involved quantitative techniques for monetary strength evaluation are early admonition frameworks, full scale pressure testing, and monetary steadiness files. It is anyway vital for note that the ways to deal with the improvement of these actions has changed over the long run as the locus of worries moved from miniature prudential to full scale prudential element of monetary strength.

Financial distress may be examined less frequently than bankruptcy because it has a defined definition, whereas formal bankruptcy occurs in a court of law and has a set start date. It's difficult to say when financial trouble begins or ends, or even what it is. Furthermore, companies in varying stages of financial crisis exist, ranging from those on the verge of bankruptcy to those that are less distressed. Financial distress has been distinct in a diversity of traditions by researchers. Some are multidimensional, encompassing just severely distressed businesses, whilst others are more strictly defined. Platt and Platt (2006) use a multidimensional approach to financial distress, identifying a company as financially distressed only when it fits certain criteria which include: negative EBITDA interest inclusion, negative EBIT and negative overall gain before unique things. A corporation has to fail all three tests for two years in a row to be classified as monetarily distraught. In the previous two years, companies designated as not financially distressed failed to meet any of the three requirements. Surprisingly, the negative EBITDA to intrigue inclusion and negative EBIT measurements are not as closely linked as one might think.

According to Le Maux and Morin (2011), companies that go bankrupt frequently have comparable financial characteristics a few years before they go bankrupt. Many studies, including those by Pedro *et al*. (2018), Kovacova *et al*. (2019), Kliestik *et al*. (2018), Almamy *et al*. (2016) and Tinoco and Wilson (2013) have shown that fiscal reports scrutiny might be utilised as a practical tactic in recognizing and this is in line with Jones (2017) findings, which found that financial statement ratios are among the best forecasters of business insolvencies, while external influences including macroeconomic pointers, expert commendations, and commerce characteristics are among the worst. The financial proportions utilized in the Z-Score and Zeta models are based solely on statistics from the loss and profit and balance sheet reports, and does not include data from the money flow reports. Additional and more scholars have suggested in recent years that using data from balance sheets and loss and profit reports unaccompanied to forecast fiscal trouble is inadequate. The data in the balance sheet and profit and loss accounts, according to Almamy *et al*. (2016), are vulnerable to manipulation. Businesses are incapable to make numerous alterations in cash flow accounts, according to Podhorska and Misankova (2016), which boosts the data's credibility.

2.3 Theoretical Review

For the purpose of this study, two major theories, thus, institutional theory and liquid asset theory are the major theories underpinning the concept in the study.

2.3.1 Institutional Theory

John Meyer and Brian Rowan laid out institutional hypothesis in the last part of the 1970s as a method for bettering comprehend how associations fit into, are connected with, and are shaped by their cultural, state, public, and worldwide settings. Institutions, with recourse to Hoffman (1999), are principles, standards, and regulations that describe the reality of an enterprise and explain the organization's do’s and don'ts. Institutions act in 3 separate behavioral magnitudes: cognitive, normative and regulative (Scott, 1995). The regulative magnitude uses compulsion and the risk of sanctions to manage individual activities in the business, although the normative magnitude adopts ethical, suitability, and standards norms to lead stakeholder activities, and the intellectual magnitude manages activities through scopes that are known to them. The importance of institutions in maintaining stability and continuity within organizational activities and processes has been highlighted in numerous studies (Arthur, 1988; Berger & Luckmann, 1967). According to Fogarty (1996), institutional theory depicts an organization as one that is meant to work in order to meet societal prospects as long as the organization's happenings are visible. This was expanded by Fogarty (1996), who stressed the importance of institutional theory in light of the reality that an organization's specific goals and what its structure implies it should achieve are frequently at odds. The effect of official preparations on the authentic and suitable conducts of handling things within an organization is heavily emphasized in institutional theory (Suchman, 1995). It is evident that this theory explains the fact that earning management and financial distress are influenced by institutionally specific characteristics where if any company desire to improve on earning management and financial distress, it should then work on the institutional structures of the company. Therefore, this theory is relevant in explaining the connection existing amongst financial distress and earning management with consideration for the institutional values of the respective organizations.

2.3.2 Liquid Asset Theory

Within the context of a cash flow, the idea explained financial difficulty. This approach is predicated on the idea that the primary benchmark for describing a company's financial difficulty should be net cash flows comparative to current liabilities. In contrast to businesses with negative or insufficient cash inflows, those with positive cash flows can raise capital and borrow from the capital market. They run the danger of default as a result. This theory states that a corporation will file for bankruptcy if its net cash flow or profit for the current year is negative or lower than its debt obligations. This is referred to as procedural liquidation. When an enterprise cannot satisfy its current fiscal requirements due to the nonexistence of liquidity, it's called technical insolvency (Altman & Hotchkiss, 2006).

Under circumstances where the enterprises' indicators (liquidity and profitability) are good, it is regarded as vigorous, but when the indicators are low, it is perceived as ill and at risk of bankruptcy, according to Hashi (1997). These two indications are positive and high, indicating a lesser probability of bankruptcy. According to this hypothesis, a company might fail even if its viability is high. If a company's growth rate is much higher than its internal rate of return, its cash flow may be insufficient to cover expenses, and the company may be unable to meet its requirements if it is heavily in debt. The viability of the company must be higher than its progress rate. Therefore, this theory is relevant in elucidating the determinants of management of earnings and financial distress.

2.4 Empirical Review and Hypothesis Development

This part focuses on developing the study's hypothesis by employing the underlying theory and pertinent empirical data. This discussion is carried out with respect to the specific objectives outlined for the study.

2.4.1 Determinants of Earning Management

The management of earnings entails the usage of accepted bookkeeping standards and processes as well as the avoidance of company activities in order to achieve desired results. The management of earnings via unrestricted accumulations has long been connected with an unprincipled purpose to deceive diverse investors concerning a company's fiscal performance to the benefit of proprietors and directors, according to the literature. The literature, on the other hand, suggested two possible objectives for the management of earnings: an unprincipled, self-centered viewpoint that mirrored the agency delinquent; and a well-organized purpose that uses management of earnings as a signaling device to communicate indications concerning the organization to its investors (Cudia & Cruz, 2018).

A study conducted by Lanouar *et al*. (2013) among Tunisian listed companies identified that the significant determinants of earnings management are firm size, dividend policy, managerial propriety, indebtedness, agglomerate of the administrative and the board chair responsibilities and performance. In related study carried out by Paiva and Lourenco (2016), it was realized that firm characteristics, such as cash flow from processes, incidence of losses, investment opportunities and leverage ratio, are the most important element of the management of earnings in the hotel industry across the globe. On the other hand, issues related to information asymmetry, regulatory and market pressures, and monitoring and reputational concerns are what motivate firm level earnings management activity globally (Lemma *et al*., 2013).

Another study by Priharta and Rahayu (2019) observed that on earnings management, audit superiority has a momentous undesirable consequence, firm size has a large undesirable consequence, corporate governance perception index has an undesirable consequence, leverage has a substantial positive consequence, and firm size has a substantial undesirable consequence. Corporate governance perception index, audit superiority, business size, and leverage all have a substantial impact on the management of earnings at the same time. With recourse to these findings, the business must preserve and expand corporate governance activities, hire auditors who meet six superiority criteria (affiliation, peer review, audit tenure, specialization, independence and competence), communicate positive evidence about the corporation, and use a minimal debt proportion with careful planning. Investors should look for organizations that have strong corporate governance, employ qualified audit services, place a high priority on major companies, and have low leverage. Therefore, this study hypothesizes that:

H1: Firm characteristics are the significant determinants of earnings management.

2.4.2 Determinants of Financial Distress

When a business is unable to meet its debt obligations to its creditors, it is said to be in financial difficulty. Financial issues are regarded to be the primary cause of most business failures. Contrarily, fiscal distress can be defined as a state of significant financial distress that may result in insolvency (Wessa & Otinga, 2018; Enyew *et al*., 2019). According to Thim *et al*. (2011), the importance of size has been discovered, and it has a favorable association with fiscal distress. The interest coverage ratio has an optimistic correlation with fiscal difficulty, whereas the rise of operating profits has an undesirable correlation.

Corporate executives should utilize these indications to spot early signals of financial distress and take proactive measures to avoid it. Other studies conducted by Isayas (2021) among insurance companies in Ethiopia for the period of 2008 and 2019 realized that company age, leverage, business size and profitability were all found to be inversely connected with financial distress, with a considerable negative impact. Asset tangibility and loss ratio, on the other hand, have an encouraging and statistically momentous impact on the fiscal distress of insurance businesses. However, according to Yazdanfar and Ohman (2019), financial distress is influenced by macroeconomic factors (such as the global financial crisis) and, in particular, by a number of firm-specific characteristics (i.e. performance, financial leverage and financial distress in previous year). However, there is no discernible connection between financial distress and firm size or industry affiliation. Therefore, this study hypothesizes that:

H1: Firm characteristics are the significant determinants of financial distress.

2.4.3 Effect of Earnings Management on Financial Distress

The existing literature on how financial catastrophes affect administrative management of earnings conduct is inconclusive. Managers are more prone to falsify incomes throughout a fiscal boom than during a downturn, according to one analytical model. A study carried out by Ghazali *et al*. (2015) among Malaysian public listed companies within the period of 2010 and 2012 revealed that the management of earnings has a momentous effect on the financial distress of firms. Clearly, when a business's finances are strong and its profit margins are high, company executives will participate in the management of earnings. The findings of this study will offer a helpful explanation of the link between elements, as well as pertinent recommendations to regulators for strengthening laws and regulations to increase public confidence in financial reporting's veracity. In a related study carried out by Ranjbar and Amanollahi (2018) in Iran, earning management was realized to have a constructive and momentous influence on fiscal distress of businesses in the Tehran Stock Exchange. Consequently, Organizations in fiscal distress are more complicated in managing earnings than non-distressed corporations. Furthermore, the unpredictably good returns (large positive adjustments) for enterprises in financial difficulties are significantly lower than those that are not affected by unplanned profits. Furthermore, unpredictably negative return adjustments are significantly more often in financially challenged enterprises than in others.

Another study carried out by Sayidah *et al*. (2020) among 19 public-sector corporations getting government subventions and national investment contribution in 2015–2017 in Indonesia observed that strong marketing productivity indicated that SOEs were meeting public demand with high sales. Additionally, the management of earnings and subsidies had little consequence on state-owned firms' fiscal problems. Management of SOEs executed earnings management within a particular range in order to avoid financial distress. With the African economy, Ozili (2021) revealed that earnings management is a significant contributor to the financial distress among 21 countries within the period of 2002 and 2014.

According to Kliestik *et al*. (2021), firms usually do alter earnings, with upward manipulation being the most common. Furthermore, the study revealed the level of profits manipulation in different country samples, emphasizing the significance of company and nationwide principled values as well as managerial actions that affect the quality of corporate financial reporting. To pinpoint the numerous driving forces and incentives that compelled multinational corporations to smooth and inflate earnings in order to increase earnings reported in financial statements and falsify financial results, however, is becoming more challenging. These indicate that even financially distressed organizations can engage in earnings management activities, distorting the quality of reported data and making it difficult for lenders and investors to forecast the true financial position of the companies. Therefore, this study posits that:

H3: Earnings management has positive relationship with financial distress of firms.

2.5 Conceptual Framework

The creation of a conceptual framework is required, with reference to the theories describing the link between the variables examined in this study. In assessing the influence of earnings management on financial distress, a conceptual framework which is illustrated in Figure 2.1 under was used for the study. It is obvious that the independent variable was earnings management whereas the dependent variable was financial distress. This framework shows that earnings management is influenced by varying firm characteristics (H1), financial distress is influenced by varying firm characteristics (H2) and earnings management has an undeviating impact on the financial distress of firms (H3). The firm characteristics considered as determinants of earnings management include asset tangibility, profitability, liquidity, leverage, firm size and firm age.

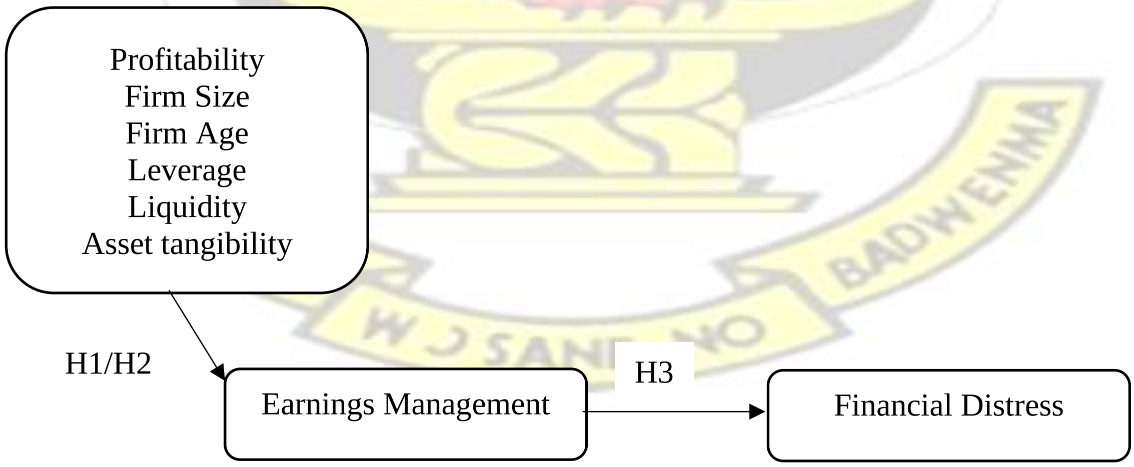

Figure 2.1: Conceptual Framework (Author's own construct, 2021)

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This Chapter explains in detail how the study was conducted utilizing the proper methods and methodologies. In light of this, the chapter is structured into eight main sections, including the following: population and sample selection, data collection methodology, data analysis techniques, and ethical consideration.

3.2 Research Design and Approach

The goals of this study were achieved using a case study technique and a descriptive research design. The study's ability to conceptualize, identify, and evaluate pertinent issues that are crucial to the analysis of the study was made possible by the use of a descriptive research design (Saunders *et al*., 2012; Neumann, 2007). Additionally, the chosen methodology allowed the researcher to gather information on multiple commercial banks operating in the nation as well as take into account simultaneously measuring their earnings management and financial distress (Bryman & Bell, 2013). A quantitative research strategy was used to draw the right conclusions about the study in order for the descriptive research design to be successful in its goal. When conducting quantitative research, data from either primary or secondary sources are analyzed using mathematical models (Saunders *et al*., 2012). This approach was used to measure the effect of the management of earnings on the financial distress of Ghana's listed commercial banks.

3.3 Study Area

Ghana is a country in West Africa, officially known as the Republic of Ghana. It imparts boundaries to the Ivory Coast in the west, Burkina Faso in the north, and Togo in the east, and ranges the Bay of Guinea and the Atlantic Sea toward the south. Following the harsh lessons of the 1980s, the Ghanaian banking system has undergone some adjustments. During that time, Ghanaian banks, including a number of commercial banks, experienced massive losses, prompting the government to take a strategic step and revitalize the banking sector in 1989. In 2017, the banking sector engage in a financial clean-up exercise which then resulted in the elimination of several banks which do not meet the minimum requirement and have reached the bankrupt level due to poor corporate governance structure. The collapse of the commercial banks within the country was predominantly financial distress among the banks as a result of poor management of earnings through appropriate corporate governance systems and practices.

3.4 Population of the Study

The population of this study was all listed commercial banks in Ghana which are in good standing over the period of 2011-2020. Moreover, only commercial banks which are listed on the Ghana Stock Exchange were well-thought-out in the study. In all, there are twenty-three (23) registered commercial banks in Ghana where only ten (10) of the commercial banks are listed on the Ghana Stock Exchange.

3.5 Sample Size and Sampling Technique

In selecting an appropriate sample size for the study, a purposive sampling technique was adopted where all the ten (10) commercial banks listed on the Ghana Stock Exchange were carefully chosen for this study. The conditions utilized in choosing the firms was grounded on commercial banks which were licensed and functioning throughout the time of 2011 and 2020 and commercial banks which have their annual reports for the period of 2011-2020 available on the websites of the firms.

3.6 Data Collection Approach

Secondary data was the only source of data for this study. Hence, the data for the study was obtained from the respective official websites of the selected commercial banks. The data were in the form of annual financial reports for the selected commercial banks for the period of 2011 and 2020. This information contained data on both income the executives and monetary misery which were then figured into the models utilized for the review. The auxiliary information were taken on since it is exceptionally dependable and credible and have minimal chance of being controlled by the specialist (Saunders *et al*., 2012).

Documents on yearly reports for the painstakingly picked business banks over the time of 2011 and 2020 were downloaded from the particular sites of the organizations. Accordingly, the monetary record and pay explanation data from yearly reports of the different business banks were recovered from the yearly report archive. Once more, data in regards to possession and control from the Ghana Stock Trade reports was gotten. Table 3.1 shows the portrayal of factors utilized for the review.

Table 3.1 Description of variables

Variables	Description
Dependent	
Financial Distress (FD)	Altman Z-score $Altman\ Z-$ score = 3.25 + 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4 Where: Z" = financial distress score as measured by Altman model, X1 = Working capital/total assets, X2 = Retained Earning/total assets, X3 = EBIT/total assets and X4 = Book value of equity/total debt.
Control	
Profitability (ROA)	Net Income/ Total Asset
Leverage (LEV)	Total debt/total equity
Asset Tangibility (ATN)	Total deposits/Total assets
Firm size (FSz)	Log of Total Assets
Liquidity (LIQ)	Current Asset/Current Liability

Firm age (Fage)	Number of years the firm operated
Independent	
Earnings Management (EM)	ACCR = NI—CFO ACCR = total accruals; NI = net income before extraordinary items; CFO = cash flow from operating activities.

3.7 Data Analysis

Information got were examined utilizing both enlightening and inferential insights with the guide of the Statistical Package for Social Sciences (SPSS) variant 24 programming. The information got was a board information which were then include the pooling perceptions on cross segment of units from a few time spans and gives results that are just not observable in unadulterated cross areas or unadulterated time series studies. Consequently, a regression model was taken on in examining the management of earnings and financial distress among the listed commercial banks.

3.8 Model Specifications

For this study, the dependent variable of the study is financial distress (measured by Altman Z-score) whereas the independent variable is earning management (ACCR = NI—CFO) and the control variables (profitability, leverage, liquidity, firm size, firm age and asset tangibility).

$$FD_{it} = \boldsymbol{\alpha} + \beta 1ROA_{it} + \beta 2LEV_{it} + \beta 3ATN_{it} + \beta 4\ FSz_{it} + \beta 5LIQ_{it} + \beta 6Fage_{it} + \beta 6EM_{it} + \varepsilon_{it} \quad \ldots 1$$

Where

$\boldsymbol{\alpha}$ is the constant

β1, β2, β3, β4, β5, β6, β7 are the coefficients of each independent variable in the model

i is the firm

t is the time

ε_{it} is the random error term

These models were estimated using the fixed effect model

3.9 Reliability and Validity of Data

Information legitimacy alludes to the level of consistency and security that outcomes from a review have previously and are expected to have from here on, still up in the air by forthcoming examinations (Creswell, 2014; Saunders *et al*., 2012). Many wellsprings of proof were assembled to help the review's level of legitimacy. In this review, experts in the field of the subject points being talked about were reached to survey the poll's legitimacy. Inward consistency, or how intently a bunch of items is connected as a group, was estimated utilizing extricate unwavering quality coefficient and the symptomatic and dependability and Haussmann's tests to lay out the information's dependability. Besides, these tests were completed to guarantee that concentrate on blunders and inclinations were dispensed with, as well as that the measurements used to get concentrate on ends were predictable (Saunders *et al*., 2012). The review depends on different notable investigations or writing on the few factors under assessment to guarantee the information's legitimacy.

3.10 Ethical Considerations

Moral contemplations are the rules that are utilized in estimating conduct in research. They help to separate between what is satisfactory and unsuitable in the direct of an exploration. Due to the fact that data that was used for the study is public knowledge, ethics concerning the study is minimal. Names of commercial banks used for the study were not written in the analysis so as to guarantee concealment and discretion of answers. All hard copy files were kept under lock and key, while all electronic data files were protected by password. Finally, none of the participant commercial banks were harmed by the study's findings, which were only used for academic research.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter offers the outcomes of this study. First of all, the descriptive analysis was used in evaluating the profitability, firm size, firm age, leverage, asset tangibility, liquidity, financial distress and earning management of the selected commercial banks. Subsequently, the panel regression analysis was utilized to assess the consequence of earning management on fiscal distress among the selected banks in Ghana and results are presented in this chapter. Moreover, the findings identified in the study were discussed with existing literatures in this chapter as well.

4.2 Descriptive Statistics

From Table 4.1, the mean firm size was 9.42 which shows that the normal logarithm of the worth of complete resources inside the business banks is by and large great and an increment in bank size can build the benefit by then, at that point, permitting the companies to acknowledge economies of scale. For firm age, an average of 36 years was recorded, signifying that the banks are have stayed in business for long in order to know how to manage earnings even in the midst of financial distress over the years. Again, it was realized that the companies were showing an average profit of 90% from its assets in generating their revenue. A leverage of 5.2 shows that much of the capital of the banks were not generated from debts. Asset tangibility of .07 indicates that the fair market value of tangible assets were slightly high than the fair market value of total liabilities. The liquidity ratio of the banks were above 1, therefore, the banks can be regarded to be in good standing and not encountering bankruptcy. The average financial distress of 49.20 indicates that the banks were capable of generating sufficient revenues or income so as to meet its financial obligations. The average earning management recorded shows that the banks were making some financial gains through their operational activities.

Table 4.1 Descriptive statistics on variables

Variables	Obs	Min.	Max.	Mean	Standard Deviation	Kurtosis	Skewness
Firm size	100	8.27	10.20	9.42	.44	-.01	-.536
Firm Age	100	2.00	67.00	36.31	19.00	-1.37	-.031
Profitability (ROA)	100	.02	5.91	.90	1.15	3.98	1.95
Leverage	100	.00	12.82	5.22	2.20	1.85	.16
Asset Tangibility	100	.00	.30	.07	.04	17.37	2.78
Liquidity	100	.00	115.38	3.67	11.65	87.80	9.14
Financial Distress	100	11.37	337.17	49.20	49.66	12.37	2.98
Earning Management	100	3.71	736.9	171.16	18.85	.97	.74

Field data, 2022

4.3 Diagnosis and Stability Test

Diagnostic tests including functional form, normality, heteroscedasticity (Breusch Pagan Test) and serial correlation were performed on the data sets to guarantee that the outcomes of the various constructs assessed in the study are unwavering and vigorous. Table 4.2 clearly reveals that at the 5% significance level, was statistically insignificant (F=0.919, p=0.248), confirming the nonexistence of serial correlation amid the data sets' residuals. Furthermore, while no significance (F=1.442, p=0.482) at the 5% significance level, no heteroscedasticity was found amid the terms for the errors. Because there was no statistically significant difference (F=1.995, p=0.262), there were no concerns with the functional form of the model, indicating that it was correct. Lastly, because the normality test based on the Jacque-Bera test was negligible, this connotes that the data sets employed were dispersed in a normal manner.

Table 4.2 Diagnostic and Stability Test Results

Test	F-Statistic	p-values
Serial Correlation	0.919	0.248
Heteroscedasticity (Breusch Pagan Test)	1.442	0.482
Normality	0.189	0.084
Functional Form	1.995	0.262

Field data, 2022

On the premise that the data sets were highly suitable for ordinary least square regression analysis, it was highly essential to evaluate the suitability of either a random effect or fixed effect model for the regression analysis. With recourse to this, no test was relevant other than the Haussmann test to approximate whether it is appropriate to either use random or fixed effect model for the analysis of the data (Table 4.3). Due to the realization that the data show some level of random effect in its model, the hypothesis was then accepted that the data follows a fixed effect model with recourse to the fact that some higher level of significance ($p < 0.05$) was observed for the test.

Table 4.3 Hausman test

Test	Chi-Square	p-value
Hausman test	5591.06	0.000

Field data, 2022

4.4 Correlation Matrix of Variables

An inferential statistic is a way of looking at the prevailing correlations or effects amongst two or several variables so as to draw conclusions concerning a particular phenomenon being measured. A correlation analysis was executed to determine the causal linkages amid the variables under investigation in this study. Subsequent to confirming the legitimacy and consistency of the study's variables, as well as the detail that the property of the mathematical relationship assumptions was not fragmented, a correlation analysis was executed so as to see the direction of the causal associations between the variables considered within the study (Table 4.4). The independence of variable quantities between the linked variables were within -0.621 to 0.464, showing that the constructs were not multicollinear. Hair *et al*. (1998) found that a correlation coefficient more than 0.80 indicated the presence of multicollinearity. Interestingly, none of the coefficients were close to the 0.80 mark indicating that the model is not multicollinear and can further be used for analysis deem fit for the study. The positive relationships observed signifies that as one variable upsurges, the other variable upsurges as well whereas the negative relationships show that as one element upsurges, the other element declines.

Table 4.4 Correlations existing among the variables

Items	1	2	3	4	5	6	7	8
1. Firm size	1							
2. Firm Age	.169	1						
3. Profitability (ROA)	-.621*	-.122	1					
4. Leverage	.464*	-.054	-.510*	1				
5. Asset Tangibility	.069	.419*	-.278*	-.055	1			
6. Liquidity	.023	.148	-.040	-.053	.178	1		
7. Financial Distress	-.411*	-.006	.439*	-.205*	-.251*	-.024	1	
8. Earning Management	.263*	.047	.294*	-.008	-.121	-.022	.130*	1

*p<0.05

4.5 Determinants of Earning Management

With the aim of assessing the determinants of earning management of the banks, a simple linear regression analysis was conducted among them where control variables were the independent construct and earning management was the dependent construct (Table 4.5). From Table 4.5, a positively significant connection ($p < 0.05$) was observed between the determinants and earning management. Firm size and profitability (ROA) were significant ($p<0.05$) determinants of earning management. This means that the earning management of the banks are impacted by the size and viability of the banks. The R^2 value of .415 entitles that there will possibly be 41.5% of complete discrepancy in the earning management of the commercial banks under various situations where the adjustment of the element in the control variables levels occur.

Table 4.5 Determinants of earning management

Model	B	SE B	T	Sig
(Constant)	-2898.91	4.34	-6.67	.000
Firm size	3.09	4.56	6.76	.000
Firm Age	49.95	8.90	.06	.955
Profitability (ROA)	1.29	1.88	6.88	.000
Leverage	5.39	8.32	.65	.519
Asset Tangibility	2.79	5.03	.56	.580
Liquidity	-2.17	1.31	-.17	.868

Model Summary
R = .644
R^2 = .415
Adjusted R^2 = .377
Dubin-Watson stat = 2.032
F = 10.993*

Dependent Variable: Earning management
*Significant at 5%
Field data, 2022

4.6 Determinants of Financial Distress

With the aim of assessing the determinants of financial distress of the banks, a simple linear regression analysis was conducted among them where control variables were the independent construct and financial distress was the dependent construct (Table 4.6). From Table 4.5, a positively significant connection ($p < 0.05$) was observed between the determinants and financial distress. Firm size, asset tangibility and profitability (ROA) were significant ($p<0.05$) determinants of financial distress. This signifies that the managing of earning of the banks are impacted by the size, asset tangibility and profitability of the banks. The R^2 value of .275 entitles that there will possibly be 27.5% of complete discrepancy in the financial distress of the commercial banks under various situations where the adjustment of the element in the control variables levels occur.

Table 4.6 Determinants of financial distress

Model	B	SE B	T	Sig
(Constant)	362.9	127.47	2.85	.005
Firm size	-34.28	13.39	-2.56	.012
Firm Age	.46	.26	1.74	.084
Profitability (ROA)	10.06	5.52	1.82	.001
Leverage	1.15	2.44	.47	638
Asset Tangibility	334.31	147.78	-2.26	.026
Liquidity	.05	.38	.13	.901

Model Summary
R = .524
R^2 = .275
Adjusted R^2 = .228
Dubin-Watson stat = 1.995
F = 5.866*

Dependent Variable: Financial distress
*Significant at 5%
Field data, 2022

4.7 Effect of Earnings Management on Financial Distress

In using an ordinary least square model, earning management was considered as the independent variable, financial distress was considered as dependent variable and the control variables were firm age, firm size, profitability, leverage, asset tangibility and liquidity (Table 4.7). In terms of the second model which then considered the firm size, sales growth and long-term debt, the low R^2 value of 0.294 signifies that a moderate predictive value of 29.4% of the disparity in the financial distress of the commercial banks is explained by the earning management in the model. The Dubin-Watson statistic of 2.005 indicates that there is a positive autocorrelation inside the residuals in the model, hence, it does not affect the panel data and analysis for the study. The F-statistic is 5.462 was significant at 5% significance level. The positive correlation indicates that an upsurge in the firm earning management will necessitate an increase the financial distress of the commercial banks and the other way round.

Table 4.7 Relationship between earning management and financial distress

Model	B	SE B	T	Sig
(Constant)	500.63	153.78	3.26	.002
Firm size	-48.94	16.22	-3.02	.003
Firm Age	.45	.26	1.75	.084
Profitability (ROA)	3.91	6.72	.58	.562
Leverage	.89	2.43	.37	.713
Asset Tangibility	-347.59	146.86	-2.37	.020
Liquidity	.06	.38	.15	.879
Earning Management	4.75	.056	1.57	.009

Model Summary
R = .542
R^2 = .294
Adjusted R^2 = .240
Dubin-Watson stat = 2.005
F = 5.462*

Dependent Variable: Financial distress
*Significant at 5%
Field data, 2022

4.8 Hypothesis Testing

This study was focused on testing three major hypotheses where the first one was that firm characteristics are the significant determinants of earnings management, the second hypothesis was that firm characteristics are the significant determinants of financial distress, the third hypothesis was that earnings management has positive relationship with financial distress of firms. A summary of the relationships established is shown in Table 4.8. From Table 4.8, all the three-hypothesis tested were supported.

Table 4.8: Hypothesis testing

Hypothesis	Direct Relationships	Path Coefficients	T - Statistics	P - Values	Decision- Support or Not Supported
1	**FC ----------> EM**	2.79	6.88	0.000	Supported
2	**FC ----------> FD**	1.15	5.52	0.001	Supported
4	**EM -------------> FD**	4.75	1.57	0.009	Supported

Source: Field Survey, 2023

FC – firm characteristics, EM – earnings management and FD – financial distress

4.9 Discussions of Findings

Firm size and profitability (ROA) were significant ($p<0.05$) determinants of earning management. Finding was similar to that identified in the studies carried out by Lanouar *et al*. (2013) and Priharta and Rahayu (2019). To begin, earnings can be managed by deviating from standard business operations (Chen *et al*., 2015). Managerial objectives are many, including optimizing firm value (Nega & Hussain, 2016), management buyouts (Al-Jaifi, 2017), initial public offerings (IPO's) (Demirguc-Kunt *et al*., 2018), and matching financial analysts', management's, and investors' expectations, as well as societal and political pressures (Ibor *et al*., 2017; Li & Thibodeau 2019). The management of earnings entails the utilization of accepted bookkeeping standards and processes as well as the avoidance of company activities in order to achieve desired results. Disregarding various stakeholders' perceptions of a company's financial performance in order to benefit owners and managers has long been associated with earnings management through discretionary accruals (Chen *et al*., 2015). Earnings management is viewed as an issue that requires immediate attention in some research, while it is viewed as a deliberate intervention to acquire certain private benefits in others (Abad *et al*., 2018). The literature, on the other hand, suggested two possible objectives for the management of earnings: an unprincipled, self-centered viewpoint that mirrored the agency problem; and a well-organized purpose that uses the management of earnings as a signaling device to communicate indications concerning the organization to its investors (Cudia & Cruz, 2018).

Firm size, asset tangibility and profitability (ROA) were significant ($p<0.05$) determinants of financial distress. Finding was consistent with other studies carried out in different jurisdictions (Wessa & Otinga, 2018; Enyew *et al*., 2019). Most of business disappointments are believed to be because of monetary hardships. All in all, monetary misery is considered as a condition of critical monetary trouble that might bring about fiscal insolvency (Wessa & Otinga, 2018; Enyew *et al*., 2019). According to Thim *et al*. (2011), the importance of size has been discovered, and it has a favorable association with financial distress. On the other hand, Yazdanfar and Ohman (2019) uncovered that monetary pain is impacted by macroeconomic circumstances (for example the worldwide monetary emergency) and, specifically, by different firm-explicit qualities (for example execution, monetary influence and monetary pain in earlier year). The fiscal predicament has made business leaders appreciate the need of determining the extent of fiscal hardship. During financial crises, businesses are vulnerable (Wu *et al*., 2020). An exact evaluation of these events can give the association sufficient opportunity and monetary assets to climate the worldwide emergency (Michalkova *et al*., 2018).

Earning management has a direct influence on the financial distress among the commercial banks. Findings were similar to that identified in the studies carried out by Sayidah *et al*. (2020) and Kliestik *et al*. (2021). With the African economy, Ozili (2021) revealed that earnings management is a significant contributor to the financial distress among 21 countries within the period of 2002 and 2014. Nonetheless, it is turning out to be more challenging to distinguish the many elements and motivating forces that constrained global firms to smooth and swell profit to support income announced in fiscal summaries and distort monetary outcomes. These indicate that even financially distressed organizations can engage in earnings management activities, distorting the superiority of informed data and making it problematic for lenders and stockholders to forecast the true financial position of the companies (Ranjbar & Amanollahi, 2018). Fiscal distress, in contrast to cost dependability, is anyway challenging to characterize or gauge given the association and the complex connections among various components inside the monetary framework and with the genuine economy. In order to deal with financial distress of organizations or economies, appropriate structures are necessary for the establishment of a stable financial system (Michalkova *et al*., 2018). Clearly, when a business's finances are strong and its profit margins are high, company executives will participate in earnings management.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings, draws conclusions, and offers suggestions for managerial practice and future studies. The chapter is broken into four sections as a result where the first section introduces the chapter. The study's key findings are summarized in section two, while the study's conclusion is presented in section three, and the study's suggestions are outlined in section four.

5.2 Summary of Findings

The study focused on evaluating the effect of earnings management on financial distress among listed commercial banks in Ghana. The collection and analysis of the data were done in fulfillment of the specific objectives of the study which were: to ascertain the determinants of earning management, evaluate the determinants of financial distress and ascertain the effect of earnings management on financial distress of listed commercial banks in Ghana.

5.2.1 Determinants of Earning Management

It was realized that firm size and profitability (ROA) were significant ($p<0.05$) determinants of earning management. This signifies that the earning management of the banks are impacted by the size and profitability of the banks.

5.2.2 Determinants of Financial Distress

Firm size, asset tangibility and profitability (ROA) were significant ($p<0.05$) determinants of financial distress. This signifies that the earning management of the banks are impacted by the size, asset tangibility and profitability of the banks.

5.2.3 Effect of Earning Management on Financial Distress

Earning management has a significant ($p<0.05$) effect on the financial distress of the listed commercial banks. The positive correlation indicates that an upsurge in the firm earning management will necessitate an increase the fiscal distress of the commercial banks and the other way round.

5.3 Conclusion

Banks are primarily focused on ensuring that they manage their operations very well in order to avoid financial distress that will make them bankrupt and take them out of business. In view of this, banks establish various means in order to ensure that their earnings, thus, net income prior to unexpected items and cash flow from operating happenings are managed effectively. Using income the executives permits banking endeavors to show more steady benefits many months, a large number of quarters, many years. Enormous vacillations in pay and costs might be a normal component of a business' tasks, however financial backers who need to see security and improvement might be worried by the changes. The size of the firm permits it to raise the entrance barriers for possible competitors, as defined by economic theory, which results in incremental advantages in earnings. Larger businesses are able to take advantage of economies of scale at the same time to increase their profitability. Financial distress was significantly positively impacted by the firm size variable, consequently, the likelihood of a corporation experiencing financial difficulties increases. Additionally, although the banks were not in financial distress, earnings management had a significant impact on financial distress among the listed commercial banks. As a result, the banks' management keeps earnings management within a certain range in order to prevent financial distress. The results of this study show that esteem significance is influenced by profit the executives. Besides, contrasted with income the executives through momentary optional gatherings, profit the board by means of long haul optional accumulations strongerly affects the worth significance of income and book esteem. Future researchers may be able to improve this study's limitations. The scope of the current study is restricted to a sample of Ghana's publicly traded commercial banks. In order to determine the impact of earnings management on financial hardship, future studies are anticipated to increase the sample size and include more different industrial sectors.

5.4 Recommendations

In order to conceptualize the findings of the study and conclusions derived so as to propose suitable recommendations for managerial practices and prospective studies, the researcher recommends the following:

i. Due to the fact that the effect of earning management on financial distress was with a low predictive value, this suggests that other factors such as corporate governance in managing the earning management play a crucial role in the financial distress portfolio of the firms. Therefore, the management of the listed commercial banks should put up more rigorous and internally standard schemes and strategies to manage their earnings effectively so as not to prevent the banks from experiencing financial distress. This can be possible by ensuring the establishment of proper corporate governance schemes so as to minimize or eliminate if possible the rate of misappropriation of funds which might affect the profitability and in turn the stability of the listed commercial banks.

ii. Since earning management have a significant influence on the financial distress of the firms, it is recommended that the commercial banks should mount up strategies and systems to minimize their debt portfolios to increase or grow their respective equity and asset portfolios. It primarily known that the banking institutions predominantly depend on debts for its operations. This can be done by the institutions entering into different investment packages and portfolios other than engaging in debt portfolios. This would enable the banks to maximize their return on equity and ensure that the business is profiting and remaining in business and not collapse due to the insurgency of debts.

5.4.1 Further Recommendations

Further studies should be carried out using the same concept of earning management and financial distress within the entire banking industry in Ghana by considering several variables such as net interest margin, capital adequacy, debt to equity ratio etc. This would then aid in properly understanding the dynamics of earning management and financial distress within the banking sector of the Ghanaian economy.

5.5 Limitations

The determination of cause and effect would be problematic and the timing of the snapshot is not guaranteed to be representative. Data for this study was limited to a single primary data source instead of using multiple sources of data. Moreover, the study is limited to only commercial banks in Ghana while several financial institutions exist within the banking industry in Ghana.

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