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REVIEW

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Firm level and country level determinants of earnings management in emerging economies: a systematic framework-based review

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Abstract

The present paper reviews the extant literature on Earnings Management (EM) in emerging economies using the integrated 'Antecedents Decisions Outcomes (ADO)–Theory, Context, and Methods (TCM)' framework to identify the firm-level and country-level factors influencing EM practices in these economies. Considering the increasing share of emerging economies in global Foreign Direct Investment and their unique institutional settings and opaque reporting environment, this review seeks to identify the key perspectives of EM studies in these economies. This review analyses 96 articles from 50 journals published between the period 2003 and 2021. Concentrated ownership structures at the firm level, weak regulatory mechanisms for investor protection, low level of enforcement, and culture at the country level are identified as key determinants influencing EM practices in emerging economies. The review finds a dearth of studies integrating the agency, institutional, and organizational theories which will help in better understanding the phenomena of EM in emerging economies. The review also identifies a contextual gap in terms of the need for more multi-country studies within the emerging economies which will provide a better insight into the diverse formal and informal institutions that shape incentives for EM in these economies. Similarly, there is a need to adopt a qualitative and mixed methods approach to study this phenomenon which helps strengthen the theoretical framework for studying EM in emerging economies.

Keywords Emerging economies, Earnings management, Earnings quality, Accounting manipulations, Framework based review, ADO–TCM-framework

Introduction

The financial statements of a business entity are required to provide a true and fair view of the underlying economic realities of the business to enable the stakeholders to make informed decisions based on them. As per International Accounting Standard (IAS)-I on Presentation of Financial Statements, "The Objective of general-purpose financial statements is to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users in making economic decisions." The importance of earnings as a metric for decision-making is underlined by their value relevance and predictive ability to forecast value variables like cash flow, dividends, and stock returns [16]. In corporate business entities characterized by separation of ownership from management, the quality of financial reporting becomes all the more relevant in reducing the information asymmetry between the insiders (management) and key outside stakeholders (Owners and

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creditors). However, the usefulness of financial reporting for the stakeholders will depend upon its timeliness and quality. The Quality of financial reporting is dependent on the fundamental financial performance driven by the business environment, the ability of the accounting system to measure the performance, the regulatory requirements relating to the disclosure of financial information, and their effective enforcement. However extant literature has also evidenced several managerial motives/incentives which influence the reported outcomes. One of the most common ways to achieve the desired financial outcomes is the use of accounting discretion provided by the accounting standards. The use of this accounting discretion is termed as 'Earnings Management' (EM) [49]. The phenomenon of EM originates from managerial incentives and opportunities available for its practice (strength or otherwise of monitoring mechanisms in the form of governance structures) and its rationalization stemming from the ethical orientation of the managers. The proliferation of research in this domain underlines its relevance for academia and practice. While, this complex phenomenon has been widely researched for over more than 2 decades, prior reviews on EM have been limited in their scope. The studies have assessed the impact of CSR activities, Governance mechanisms, and regulations on EM practices. There is a Bibliometric study focusing on analyzing the evolution of the term 'EM' through 'keyword occurrences' over time. The methodology adopted by the prior reviews is majorly thematic /conceptual or bibliometric.

A recent review by Bansal [10] assumes a temporal approach to study the evolution of EM literature over three distinct time periods—prior to the implementation of the Sarbanes–Oxley (SOX) Act (2002–2012), post-SOX implementation (2002–2012), and post-adoption of International Financial Reporting Standards (2013–22). Their study adopts a quantitative bibliometric and thematic analysis methodology and tracks the thematic evolution of EM research across different time periods, identifying the major themes on EM constructs, trade-offs between EM strategies, and corporate governance and EM in emerging markets that require further research due to the extant mixed empirical findings, and emerging themes revolving around technology, sustainability, cross-cultural and behavioral aspects, and cross-national studies. The present study is distinct from the above study in the following ways. First, it adopts the contextual setting of emerging economies to review the literature on EM, thereby confining the scope of the review to the articles discussing EM in emerging economies. Secondly, it employs an integrated framework-based approach (ADO–TCM) to ascertain the institutional and firm-level factors shaping the EM practices in these economies and identify the key theoretical, methodological, and contextual research gaps for future research on EM in emerging economies.

Thus, while the existent reviews consolidate the EM literature in limited specific contexts, they fail to systematize the literature on EM practices from a region-wise (developed vis a vis emerging economies) perspective. Considering the significance of regional and country level demographics in determining the quality of financial reporting, the empirical studies in cross country context focus on country level formal and informal institutions to understand the differences in developed and emerging economies (Please refer to Table 1). However, they fail to recognize importance of—organizational and behavioral differences between firms in emerging and developed economies [36]. Thus a region-wise standpoint to organize the EM literature is essential to integrate the country level diversity with firm level heterogeneity as institutions—formal and informal will have a bearing on firm level—managerial incentives, opportunities, and validation of EM practices [15, 63, 64].

Table 1 provides the details of prior reviews/cross country empirical studies in this domain.

Table 1 Prior Reviews/Cross country studies on EM

Type of study	Authors	Discussion/scope of the studies	Limitations/research gaps
Literature reviews—thematic, and bibliometric reviews	[9, 17, 43, 44, 93]	Consolidated literature on EM in specific contexts such as Ethics, CSR, or Corporate Governance. Bibliometric analysis was conducted to understand the evolution of EM	Limited to specific contexts, did not acknowledge the region-specific (developed vis a vis emerging) institutional differences while analyzing the EM literature
Cross country studies—empirical studies (developed vis a vis emerging economies)	[7, 22, 31, 35, 47]	Analyzing the role of country-level—formal institutions like accounting standards, judicial systems culture, investor protection laws	The studies assessed the cross-country differences in formal and informal institutions and their impact on EM practices but did not consider their interaction with firm-level antecedents like Ownership structures and governance structures at the firm level in their analysis

Emerging economies with their unique institutional settings [64] and distinct governance practices [106], transitory nature, increasing importance in terms of global FDI inflows to these economies (66% as per World Investment Report UNTCAD- 2021) provide a relevant setting to consolidate prior literature on EM practices in these economies.

The present review takes an integrated framework-based approach using the ADO (Antecedents, Decisions, and Outcomes) and TCM (Theory, context, and Methods) [73, 95] to answer the following questions.

(1) What are the key antecedents, decisions, and outcomes of EM practices in emerging economies?
(2) What are the theories, contexts, and methods used in the extant research to study EM in emerging economies?
(3) What possible directions for future research emerge from the current literature, that will advance the knowledge of EM practices in emerging economies?

The findings of the review will help understand the key antecedents (determinants), decisions (type of EM practices), and outcomes (implications of these practices) in the contextual settings of emerging economies by studying the theoretical underpinnings, the context (countries), methods used in the extant research to understand the EM practices in these economies and thereby identify relevant gaps for future studies.

Earnings management

A review of key definitions of the term 'EM' reveals a wide breadth of the context used to define the term. Hepworth [50] first discussed the term 'Income smoothing' done through the use of 'management discretion' over accounting to manage taxes and relations with investors and employees.

Table 2 lists down key definitions of the term 'Earnings management'.

The definitions discuss 3 types of EM—Accrual based EM—using accounting discretion, Real EM—by influencing the operating decisions and classification shifting-deliberate misclassification of items in income statements between core and non-core items, however, the focus of definitions is on accrual-based EM. The definitions also majorly discuss the—opportunistic perspective by using terms like -; 'mislead stakeholders about the underlying economic performance of the company'; 'manipulation of accounting numbers' and 'distorting financial performance', which results in some private benefit for the insiders in the business organization (management, controlling owners). The flexibility offered by accounting standards and 'information asymmetry' arising from the separation of ownership from management in corporate entities provide opportunities for managing earnings to

Table 2 Key Definitions of EM

Author	Year	Definition
Schipper	1989	Purposeful intervention in the external financial reporting process with the intent of obtaining some private gain
Watt and Zimmerman	1990	EM occurs when managers exercise their discretion over the accounting numbers with or without restrictions. Such discretion can be either firm value maximizing or opportunistic
Subramanyam	1996	Managerial discretion (Earnings Management) improves the ability of earnings to reflect economic value
Healy and Wahlen	1999	EM 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
SEC	2000	The practice of distorting the true financial performance of the company
Jackson and Pitman	2001	EM is the manipulation of accounting numbers within the scope of the Generally Accepted Accounting Principles (GAAP)
Klein	2002	EM is defined as 'the practice of distorting the true financial performance of the company'
Kinnunen and Koskel	2003	A small upward rounding of reported net income generates more than expected zeros and less than expected nines as the second digit of the earning number. (Cosmetic EM)
Jiraporn et al	2006	EM is a pattern of agency cost and on average is not opportunistic and perhaps even beneficial
Roychowdhury	2006	Management actions that deviate from normal business practices are undertaken with the primary objective to mislead certain stakeholders into believing that earnings benchmarks have been met in the normal course of operations
Sarah McVay	2006	Deliberate misclassification of items within the income statement
Jones	2011	EM involves using the flexibility within accounting to manage the accounts deliver a pre-determined profit or achieve a specific objective
Hong and Andersen	2011	EM reduces the quality of financial reporting
Chen	2015	EM refers to the choices made by corporate decision-makers using accounting methods offered by law and regulations to influence a firm's reported earnings

mislead the stakeholders about the economic realities of the business for private gains or influencing contractual outcomes. It can also impact the market prices of the stock owing to earnings mispricing by the investors. Two seminal papers discuss the 'efficient' or 'informative' perspective of EM, where managers use EM to communicate inside information to the outside stakeholders and thereby enable them to make efficient decisions by reducing information asymmetry [58, 94]. Thus, the definitions bring out two extreme perspectives of EM—from being opportunistic and destroying the wealth for the stakeholders to being informative with the intention to maximize wealth/value for the stakeholders.

Emerging economies

The classification of economies was important before the conduct of the review. Given no formal definition for 'Emerging Economy' in the extant literature, multiple dimensions have been used for their classification. Emerging economies are usually identified as 'low-income, rapidly growing countries using economic liberalization as their primary engine of growth. The World Bank classifies countries based on their GNI per capita calculated using the World Bank Atlas method and classifies 'low-income' and 'lower-middle income' countries as emerging countries(economies). The International Monetary Fund (IMF) classifies countries into advanced economies emerging markets and developing economies based on the 3 criteria- per capita income level, export diversification, and degree of integration into the global financial systems. The IMF World Economic Outlook October 2021 provides a list of 156 countries classified as 'Emerging market and developing economies.' It further divides these countries into five main regions—Emerging and developing Asia, Emerging and developing Europe, Latin America and Caribbean, Middle East and Central Asia, and Sub-Saharan Africa. The countries included in the current review meet the IMF criteria for emerging economies.

Methodology

[71, 73] provide a comprehensive guide concerning types of systematic reviews namely—domain-based, theory-based, method-based, and meta-analytical, and further sub-types of domain-based reviews such as bibliometric, framework-based, thematic, conceptual, and hybrid reviews depending upon the objectives of the review. For the present study, an integrated framework-based approach using the ADO–TCM framework is used, following [72, 73]. Framework-based SLR provides a robust structure to extract important insights, analyze the extant relationships between different constructs, identify the research gaps, and provide an agenda for future research [62, 83]. The integration of the ADO–TCM framework enables a comprehensive review of the extant knowledge (What do we know?) -ADO framework [82]; and the underlying theories, contexts, and methods used in the existent literature (How do we know?)—TCM framework [85]. The integration of both these framework help ascertain the future directions for research.

The current review employs the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) protocol to select the articles. The PRISMA protocol is comprehensive [18] and provides a well-defined guideline for the review process [73, 84]. PRISMA consists of 4 steps—identification, screening, eligibility, and inclusion, these are explained as follows:

(1) *Identification*: The articles for review were selected mainly from 2 databases—WOS and Scopus. A keyword search was conducted on publications listed in databases of ScienceDirect/Elsevier and Emerald for the period between 2003 and 2021 identify relevant articles for review. Boolean operators were used for data search as keyword search included ("EM" OR "Earnings Quality" OR "Accruals Quality" OR "Accounting Manipulations" OR "Financial Reporting Quality") AND ("Emerging Econo*" OR "Emerging Market*")
(2) *Screening*: Further screening was done to include articles from subject categories—'Business, Management and Accounting' OR 'Economics, Econometrics, and Finance' and the articles to be included in the review were limited to document type 'Journal' and language 'English.'
(3) *Eligibility*: The 'emerging economies' classification by IMF World Economic Outlook October 2021 was considered for further inclusion of papers in the review. The papers selected were limited to journals in Quartile 1 and Quartile 2 as per SCIMAGO classification for the year 2021.
(4) *Inclusion* Articles for which full texts are available are selected and considered for final review, this consists of 96 articles published between the period 2003 and2021.

Figure 1 indicates the inclusion–exclusion criteria for the articles selected for the review based on the PRISMA protocol.

Publishing trend (based on the country of study and the year of study)

Based on country of study

Figure 2

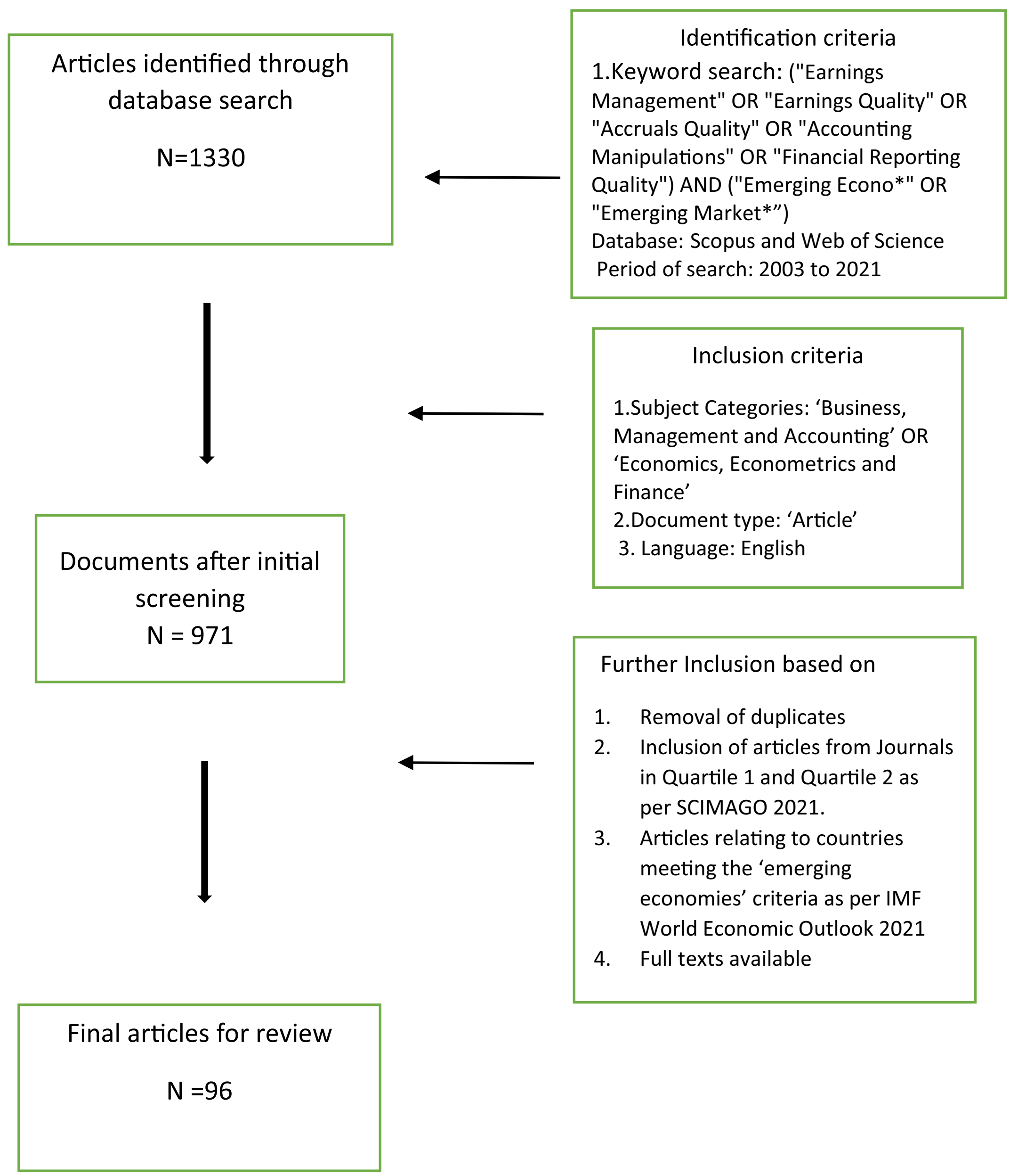

Fig. 1 Article selection process using PRISMA protocol

Based on year of study Figure 3

In terms of context (countries) of studies—the majority of single-country studies are conducted in the context of China (31) followed by multi-country studies (25). This indicates that the literature available on EM in emerging economies is focused on China, considering its unique institutional setting, generalizing the findings to other emerging economies may not be feasible. Multi-country studies will help understand the similarities and diversities in the determinants of EM practices, and their types across different economies and provide relevant direction for future research.

In terms of publication trends, it is observed that almost 60.42% (58 papers) have been published since 2015. This reflects the growing interest of the research community in this domain.

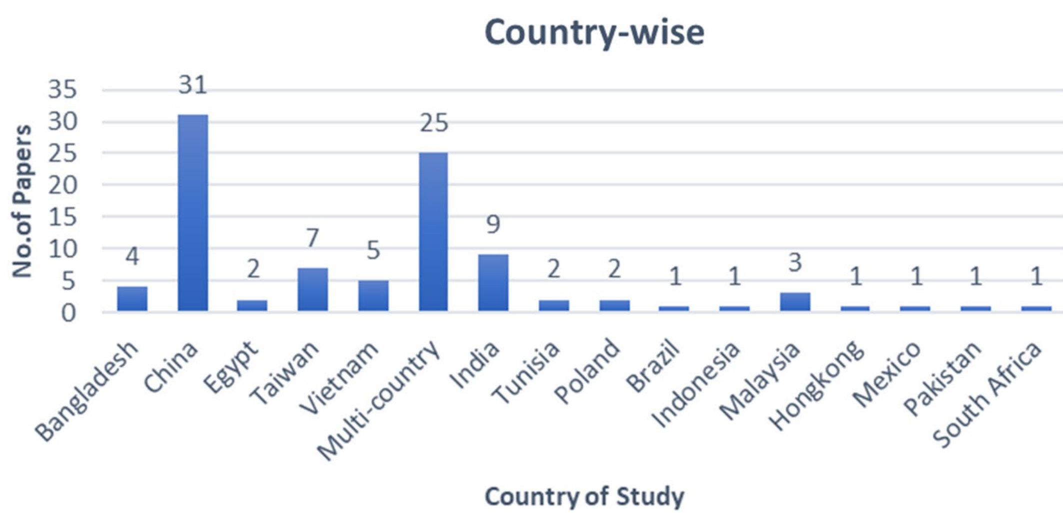

Fig. 2 Publication trend country-wise

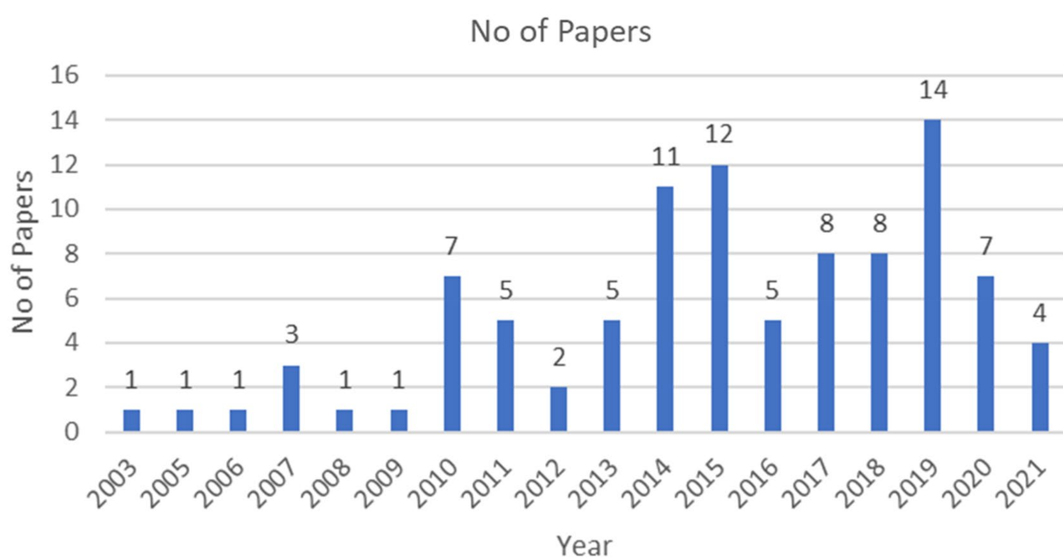

Fig. 3 Publication trend year-wise

Antecedents decisions and outcomes of EM in emerging economies—(What do we know?)

Antecedents

The review identifies key antecedents which can be grouped into firm-level and country-level determinants that provide incentives, opportunities to engage in EM practices or otherwise constrain the EM practices in emerging economies.

Firm level antecedents

(a) Ownership structures

At the firm level- Ownership structures and Governance structures are identified as the key antecedents for EM. Ownership structures in emerging economies are dominated by business groups, family ownerships, and promoter-dominated shareholders' model [41, 79]. While concentrated ownership structures are a fundamental characteristic of the firms in emerging economies, factors such as divergence between control and cash flow rights, type of ownership, business group affiliations, effectiveness of governance mechanisms at firm level and the quality of Institutional environment at country level determine whether the controlling owners drive or deter the EM practices. Family-owned firms with business group affiliations and with greater deviation in cash flow and control rights create opportunities for tunneling resources through related party transactions and use of EM as a tool to conceal these activities, thereby leading to the expropriation of minority shareholders [20, 88, 89]. While the curvilinear relationship between EM and family ownership is observed due to alignment [39] and entrenchment effect [27] and such a relationship holds true only for firms with strong governance mechanisms ([87]). State-owned firms and politically connected private firms have incentives and opportunities in the form of reducing political costs and rent-seeking. 'State Ownership' is a common feature in China and it has a negative impact on the 'quality of disclosures' [45], State-owned firms exhibit higher abnormal accruals [68], and more transitory earnings to hide the expropriation of corporate resources for political purposes [6]. The effectiveness of Institutional ownership in constraining EM practices depends upon the stability of their holdings, the type of institutions (pressure-resistant institutions like pension funds and mutual funds), the level of managerial entrenchment as well as capital market pressures of the firm [59]. For emerging economies characterized by weak enforcement, foreign shareholders have a positive influence on earnings quality due to the knowledge spill-over effect and high standards of corporate governance from home countries [19, 91, 98].

(b) Governance structures

Board and Audit committee independence, Board characteristics, CEO duality, and external audit quality are the key determinants for EM in emerging economies. Internal governance mechanisms like Audit committee independence, their voluntary formation and financial and legal expertise of independent directors [37, 74, 100], larger boards [21, 53], structurally and demographically diverse [2],and gender diverse boards [75] act as effective monitors in context of emerging economies. Sarkar et al.[89] studied four proxy measures for 'Board quality' namely busyness, diligence, promoters' influence, and CEO duality, and concluded its 'board diligence' rather than 'board independence' that has an impact in reducing EM. Similar conclusions were drawn by Chatterjee [24] and Banbhan et al. [8] in the context of 'Audit committees due to the signaling hypothesis [27]. However, Yasser and Mamun [103] evidence of no association between board leadership structure and EM, and Hoang et al. [51] conclude that rather than diversity in boards, diversity of boards would improve earnings quality. Other studies evidenced a negative association between EM and the same industry connectedness of Independent directors [92]. Similar conclusions regarding the ceremonial role of audit committees and Independent directors were evidenced by Wu et al. [101], in their qualitative study. In the context of directors' compensation Ye [104] concluded that high monetary incentives for independent directors could have a negative impact on their monitoring role,instead, non-monetary incentives in the form of status or reputation could enhance their supervisory function.

In the context of CEO and top management characteristics, Li et al. [66] evidence of a negative impact of educational level and core function expertise of top management on the EM practices of the firm. Jiang et al. [57] found CEO's financial experience had a positive impact on reducing the real EM but no impact on accruals-based EM. [24] and Lo et al.[74] evidenced a positive association between CEO duality and EM. In contrast to Western economies, no significant differences in earnings quality were observed for firms managed by male vis a vis female executives in China, because of greater barriers to success in the executive position as compared to developed western economies [105].

While governance structures are required to play a monitoring role, concentrated ownership structures weaken the effectiveness of governance mechanisms in controlling EM practices. Jaggi and Leung [55] find that the presence of family members on corporate boards and shared directors in the case of firms with concentrated ownerships, weaken the monitoring effectiveness of the Board.

External auditors enhance the credibility of the financial statements by reducing the information risk of the investors [52]; however, accounting information opacity and the opaque nature of business transactions weaken the impact of auditor as an external governance mechanism as auditing becomes difficult in such an environment [23, 40, 79]. Habib and Jiang [45] evidence state dominance in auditor selection, low litigation risks, lack of presence of big 4 auditors, and high competition among local CPA firms as significant factors reducing the informational value of external audit quality in the context of China.

Country-level antecedents

(a) Formal institutions and regulations

The adoption of International Financial Reporting Standards (IFRS) was expected to bring about uniformity in accounting practices across the world and improve reporting transparency and quality. The adoption of IFRS in emerging economies has been studied in the context of its impact on various earning attributes—EM, value relevance of earnings, accruals quality, earnings smoothing, earnings persistence, loss avoidance, and timely loss recognition. Whereas; Ismail et al. [54], show a reduced level of EM and more value-relevant earnings,Fuad et al. [38] in their panel data study find no conclusive evidence of an increase in accounting quality dimensions of accruals quality, earnings smoothing, timely loss recognition and earnings persistence post IFRS convergence. In legislative law countries like Brazil, full implementation of IFRS had a restrictive effect on EM [86]. 'Incentives' lead 'Accounting Standards' as determinants of financial reporting quality [7]. The degree of variability of EM under a definite set of accounting standards is driven by 'Insider incentives'[107], compatibility of accounting standards with the country's institutional environment [23, 76], degree of enforcement of accounting standards [33, 99] and quality of intermediaries involved in interpretation and implementation of accounting standards [48]. 'Accounting reforms' alone cannot help in achieving the desired goal of accounting convergence; strengthening of domestic institutions, corporate governance systems, and legal systems are likewise important [69]. In their study spanning 38 countries (developed and emerging); Bushman and Piotroski [22] explore the relationship between 'Accounting conservatism' and the country's institutional structure proxied by investors' protection and impartiality of judicial systems. They conclude that 'Accounting conservatism' is higher for firms in countries with high-quality judicial systems and strong public enforcement. Enomoto et al. [35] a cross-country study consisting of 38 countries (developed and emerging) found a substitution effect between accrual-based EM and real EM in the context of strong investor protection regulation. CSR disclosures could act as a 'tool' to reduce the scrutiny of EM practices in a weak institutional and investor protection environment [78].

(b)Informal Institutions

Halabi et al. [46] emphasize studying both formal as well as informal institutions in the context of their impact on EM to draw more definite results. Lewellyn and Bao [65] in their cross-country study (26 countries—12 from developed economies and 14 from developing economies) underscored the role of informal institutions as fundamental in shaping the acceptability of engaging in 'EM'. Yamen et al. [102] find a significant association between cultural values and accounting choices with institutional quality having no impact on accrual-based EM. Real EM is considered more ethical than accrual-based EM in societies characterized by high religiosity, power distance, and social pressures [97].

Prior multi-country studies have evidence that cultural values and differences are relevant in explaining EM behavior [99]. Different cultural dimensions of Hofstede's framework (1980; 2001 and 2010) are used as a proxy for understanding the influence of 'culture' on reporting practices. Similarly, Grays' model (1988) of the influence of culture on accounting is also widely used. Doupnik [31] added a fifth dimension 'stability' to Gray's model and put forth that 'Individualism' and 'uncertainty avoidance' the two dimensions of Hofstede's framework influence the accounting value of 'stability' which in turn influences 'earnings smoothing' a measure of 'EM'. In their cross-country study Han et al. [47] concluded that both cultural values and institutional factors are conditional on each other in the context of their impact on EM across the world.

In a multi-country study (developed and emerging countries) to understand the association between national culture and EM; Viana et al. [97] found contrary results for the dimensions 'Power distance' and 'Masculinity' for developed countries (positive association) and for emerging economies (negative association) in context of EM.

Decisions

The decisions refer to the type of EM practices conducted by the firms in response to the opportunities and incentives provided by the antecedents. Extant literature recognizes 3 types of EM—Accrual which makes use of discretion given by accounting standards to manipulate the accruals for desired outcomes; real EM which relates to the manipulation of real operating activities of the business and classification shifting which relates to classifying operating expenses as non-operating or non-core income as core to exhibit desired operating outcomes. The majority of the papers (74%) demonstrate the use of accrual-based EM strategies by the firms motivated by loopholes provided by accounting standards [81], ineffective implementation of IFRS standards, and weak legal and enforcement environment [48, 60] prevailing in emerging economies. Less detectable real EM is practiced more in family-owned firms and politically affiliated private firms; whereas institutional ownership, strong governance regulations [34], and regional development [30] act as deterrents in curbing the real EM. Classification shifting as an EM strategy has been used by the firms in decline life cycle stage to meet/beat the zero core earning benchmark [80]; also while auditors in emerging economies can detect misclassifications, they are not interested to report the same owing to the weak enforcement and litigation risks [28].

Outcomes

The review identified 2 key outcomes emerging out of EM practices and linked to the type of EM practices adopted by the firms.

(a) *Impact on Financial Reporting Quality (FRQ)*: Accrual-based EM impacts the financial reporting quality for the current period by affecting key attributes such as timeliness, conservatism [7], and comparability [96] leading to greater earning opacity [76] and reduces the value relevance of accounting information [90]. The FRQ will further have implications for contracting and valuation decisions by the stakeholders [89].

(b) *Impact on current and future firm performance*: Real EM which results in discretion over operating decisions impacts the current as well as future financial performance of the firm. This has implications in terms of value destruction [59] for the stakeholders and increasing the likelihood of financial distress [91]; corporate fraud (J. [25])

Theory context and methods (TCM framework)–How do we know?

Theoretical perspectives

Table 3 lists the key theories integrated into the papers reviewed.

The majority of the papers (56.25%) are based on the agency theory which is at the crux of the principal-agent and principal-principal conflicts (Type II agency problems) at the firm level. Type II agency conflicts are more prevalent in emerging economies characterized by concentrated ownership. 23 papers (23.95%) are based on the institutional theory. However, 'EM' is a complex issue not only driven by agency conflict but also several factors at the country and firm level that impact the incentives created by agency conflicts. Hence an integrated approach to study the construct of EM and its implications would be relevant more so in the context of emerging economies; However, only 10.42% (11) of the total papers reviewed use more than one theory to study the phenomenon of EM. Major theories integrated into the reviewed articles are discussed below:

Agency theory

The phenomenon of 'EM' is grounded in the 'Agency theory' put forth by Alchian and Demsetz [4] and Jensen and Meckling [56], Eisenhardt [32]. The agency theory views a firm as a set of contracting relationships among individuals and describes managers as agents of the risk takers—shareholders who are the principals. Agents acting (taking decisions) on behalf of the Principal may not always act in the best interests of the principal to maximize their benefits, the 'value maximizing objective' of the firm may not be achieved. This results in monitoring costs, binding costs, and residual costs. This theory holds in the context of corporations in developed economies where the ownership is dispersed.

However, emerging economies are characterized by concentrated ownership structures [26]; especially business groups, families, and promoters [41, 79] and hence suffer from Principal- Principal conflict where the controlling shareholders may not act in the best interests of the minority shareholders. Thus monitoring mechanisms that function effectively in the context of developed economies may not function as well in emerging economies. Papers in the context of emerging economies specifically explore the association between Ownership structures and EM and focus on the principal-principal conflict and expropriation of minority shareholders by controlling shareholders for private benefits.

Institutional theory

DiMaggio and Powell [29] put forth 3 mechanisms of institutional isomorphic change—Coercive isomorphism—resulting from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent and by cultural expectations in the society within which organizations function,Mimetic processes which state

Table 3 Key theories integrated in the articles

Sr No	Theories Integrated into the Papers	No of papers
1	Agency Theory	52
2	Institutional Theory	23
3	Stakeholder Theory	1
4	Social Psychological Framework—Informal Institutions	4
5	Miscellaneous—Ethics, Signaling theory, Political costs hypothesis	5
6	Integrated—Using more than one theories	11
	Total	96

'uncertainty' as a powerful force that encourages imitation; i.e., when environment creates symbolic uncertainty the organizations may model themselves on other organizations and last but not the least 'normative pressures' stemming from 'Professionalism'. Multi-country studies in the context of emerging economies use the framework of 'Institutional Theory' to understand the role of formal institutions and their impact on 'EM practices'.

Stakeholder theory

The 'Stakeholder theory' was first conceptualized by R Edward Freeman in 1984. In the context of corporate governance; it considers 'firm' as a part of a broader social system within which it exists and influences and is influenced by different stakeholder groups in the society like employees, shareholders, investors, consumers, the general public, etc. According to this theory, the 'corporate disclosure policy' of a firm could be impacted by the expectations of different stakeholder groups. There are only 3 papers that use the 'Stakeholder theory' perspective in understanding the impact of CSR disclosures on earnings quality.

Social psychology perspective/framework

This perspective considers the 'informal institutions' in the form of unwritten and unspoken rules, and a system of beliefs, values, and social norms that influence the actions of individuals in organizations. This framework is used to study the role of informal institutions mainly 'culture 'in influencing the EM practices of the firms.

Context of studies

While the context of studies is emerging economies, the review identified distinct determinants based on the countries under the study. Family-owned firms are a key feature in Asian emerging economies—Bangladesh, India, and Taiwan, while state ownership is common in China. Studies in the context of China also take into consideration the evolving regulatory landscape in the form of accounting and stock market reforms and their impact on EM practices. Multi-country studies consist of cross-country comparative studies between developed and emerging economies; these studies take the institutional perspective to understand the differences in country-level formal regulatory systems—legal and governance laws and informal institutions like culture influencing the EM practices in these countries. There are also comparative studies between different countries within emerging economies. These studies focus on commonalities as well as differences in the EM practices driven by legal environment (code law vis a vis common law), minority protection regulations, implementation of IFRS at country-level, and the type of ownership structures at firm level.

Methods

Out of the total 96 studies 94% (90 papers) are empirical (87 are quantitative studies, 1 is a qualitative study and 2 studies use the mixed method approach). 2 papers are experimental studies; 3 are reviews and 1 paper is proposition based. 1 Qualitative study uses the technique of in-depth interviews; the majority of the empirical papers are longitudinal /panel studies and use the technique of Multivariate Regression analysis. Only 1 study uses PLS PLS-based SEM technique for analysis. In the case of 2 integrated studies using firm-level as well as country-level variables, the technique of hierarchical Linear modeling is used (Fig. 4).

Summary of findings

Table 4 below provides an overview of the number of articles discussing the association between firm-level and/or country-level antecedents and the decisions (i.e., accrual-based or real EM).

Following Lim and Kumar [70] and Mukherjee et al. [77], we synthesize and interpret the findings of the publication trends, content analysis of the papers included in the review, supplemented by the tabular representation of article count based on the type of antecedents and decisions. The year-wise publication trend indicates growing interest in the EM domain. China dominates in the terms of number of studies published, however the findings in context of China cannot be generalized to other economies owing to its distinct institutional settings. Existing literature has mainly focused on antecedents of, and decisions (type) of EM (Table 4); however research on understanding outcomes (implications) of EM practices is under-represented. Agency theory is the underlying theory used to explain the antecedents and type of EM for majority of papers (52) (Table 3). This can be corroborated from Table 4 which also documents 52 articles discussing firm level antecedents in context of EM. Further 'Institutional theory' is under-applied and limited to 23 articles discussing EM practices (Table 3) and 23 papers discuss EM in context of country level antecedents (Table 4). Majority of studies discuss accrual-based EM (75). Within the firm level antecedents, the studies are skewed toward analyzing the association between governance structures and accrual-based EM (29). EM is a complex phenomenon and is an outcome of interactions between within -firm level and country-level antecedents and also interactions between firm-level and country-level interactions. However, there are only 6 articles each discussing the interaction between ownership and governance structure and the interaction between formal

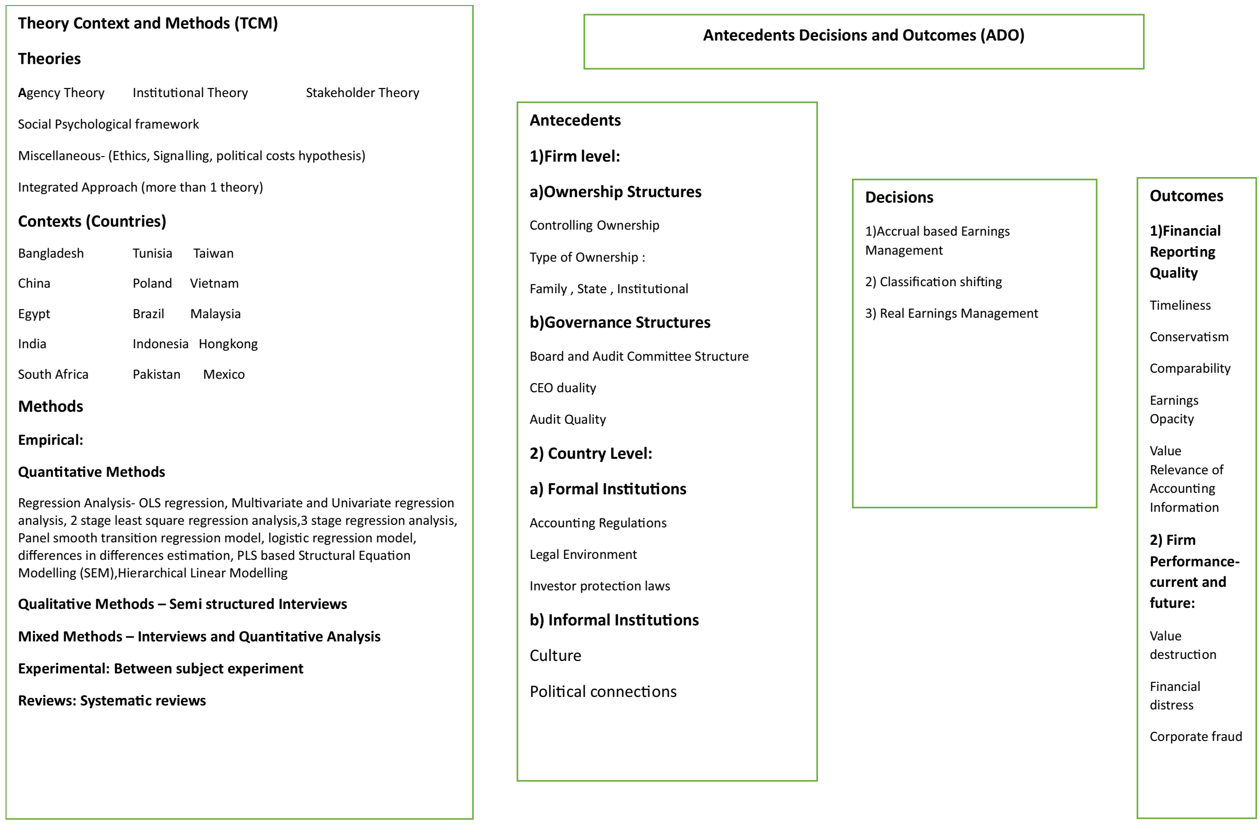

Fig. 4 Integrated ADO–TCM Framework (adopted from Paul and Benito [82], [85] and Lim et al. [73])

and informal institutions. There are 21 studies discussing the interaction between firm-level and country-level antecedents and their impact on EM. As mentioned in Table 1 the cross country empirical studies mainly discuss country level formal and informal institutions in the context of EM practices. There is only one study included in the present review [15] which takes an integrated approach- firm-level (Ownership structures) and country level (formal institutions) to study EM in multi-country emerging markets analysis. Thus, the analysis points to a dearth of integrated studies exploring the complex interactions between firm-level and country-level antecedents to identify the key determinants of EM in emerging economies. The methodology used for analysis is skewed toward empirical studies (90) out of which 87 studies take a quantitative approach. The future research directions emerging from the analysis of findings are discussed in the next section.

Directions for future research

The present review integrates the ADO–TCM framework to understand the current strand of research on EM practices in emerging economies. The paper sets the direction for future research based on the identified research gaps:

Theoretical gaps

Firm-level determinants are considered in isolation to study the phenomenon of EM in emerging economies. According to Li et al. [67] country-level institutions impact firm-level behaviors and hence are equally relevant in understanding the reporting incentives of firms. Bao and Lewellyn [15] in their study on 24 emerging economies, followed the institutionalized agency perspective and integrated the agency theory and the institutional theory to understand the governance phenomenon in emerging markets. They concluded that similar firm-level governance mechanisms may have different outcomes in different institutional contexts. Kury [63] finds the focus on the micro-behavior of firms insufficient to comprehend the complexities of EM and calls for the merger of agency and institutional theory to gain a more complete understanding of the EM behavior of the firm. Present review evidence only 11 studies that integrate more than one theory in their research. Bansal [11] integrates the institutional theory and agency theory and finds that the EM practices of the firms are influenced by their institutional equivalents (industry and local peers). Thus, an integrated approach of institutional, agency, and organizational theories to study the

Table 4 Overview of a number of articles discussing the association between the antecedents and the Decisions

Sr No	Antecedents	Decisions		
		Accrual-based EM	**Real EM**	**Other forms—classification shifting/ financial frauds**
I	Firm level			
(A)	Ownership Structures Concentrated Ownership Type of Ownership (Promoter, State, Family, Institutional, Managerial,Foreign)	7	4	-
(B)	Governance Structures Board and Audit committee Structure CEO duality/Characteristics Audit Quality Management team	29	5	1
(C)	Integrated—Interaction between Ownership and Governance Structures	3	1	2
	TOTAL (A + B + C)	39	10	3
II	Country level			
(A)	Formal Institutions Regulations—Accounting and Governance Legal environment Investor protection laws	13	1	–
(B)	Informal Institutions Culture Political connections	3	–	–
(C)	Integrated—Interaction between formal and informal institutions	4	2	–
	TOTAL(A + B + C)	20	3	–
III	Integrated—Interaction between Firm level and country level factors	16	2	3
IV	TOTAL (I + II + III)	75	15	6

complex phenomenon of EM in emerging economies is important to understand the diverse factors determining EM practices.

Methodological gaps

94% of the articles in the present review take a quantitative approach to studying the EM phenomenon. Future studies could focus on qualitative [1] and mixed methods approaches [42] combining focus group, grounded theory, and case study approaches with quantitative methods to enrich the understanding of this complex phenomenon in equally complex settings of emerging economies.

Contextual gaps

Future studies on EM practices in emerging economies should focus on multi-country studies; this will help bring out the distinct similarities and differences across the emerging economies and provide theoretical refinement in terms of understanding the complex interaction between country-level and firm-level determinants of EM and provide relevant direction for framing policies and regulations for governance and reporting in these economies. Studies on understanding the outcomes of EM in emerging economies will help in determining the association between antecedents (firm level and country level), decisions (type of EM), and implications of these decisions and thereby provide relevant guidelines for the users of the financial statements. A recent study by Bansal and Ali [13] in the context of the emerging economy of India analyses the pricing impact of real EM on stock returns and proposes investment strategies by exploiting the real EM anomalies. Similarly, with the implementation/ convergence of IFRS in emerging economies, the firms may switch to less detectable real EM, future research can focus on empirically testing this strand of literature. The majority of studies in the review discuss the antecedents in the context of accrual-based EM; however, 'classification shifting,' another discrete form of EM, is under-represented in empirical research; only 6 out of 96 studies in the present study discuss this form of EM. Few topical studies evidence classification shifting as an EM strategy undertaken by firms in emerging economies to avoid violation of debt covenants [9] and to meet the industry's average gross margin benchmark [14]. Future research can be directed toward detecting this other form of EM and its antecedents. As evidenced, a large number of studies in emerging economies focus on governance structures at the firm level to understand their association/impact on EM practices with inconclusive/mixed findings. Bansal [12] applies the social-role theory in institutional settings of an emerging economy, India, traditionally and culturally dominated by men, to understand the governance effectiveness of women directors having financial expertise in curbing EM. Thus, future research can also add the institutional context at a country level and ownership structure at the firm level to understand the impact/association of governance structures concerning EM practices [3, 61]. Similarly, extant research in the context of concentrated/type of ownership structures and EM provides mixed results; a recent study by Attia et al.[5] evidences a nonlinear relationship between ownership structure and EM, thus future research should integrate the institutional factors to decipher optimal threshold for different types of firm ownerships that can help curb EM. This will provide definite directions for framing policies in these economies.

Conclusion

Using an integrated framework-based approach, the review comprehensively consolidates the literature on EM practices in emerging economies. The review identifies key firm-level and country-level antecedents in the form of concentrated ownership structures, weak governance structures at the firm level, and formal (Regulations and legal environment) and informal institutions (culture, political connections) at the country level that provide incentives and opportunities or otherwise constrain EM practices in these economies, the types of EM practices and the implications for financial reporting quality and firm performance in these economies. The research contributes to the EM domain by identifying the need for studies using an integrated theoretical approach to study this phenomenon in these economies. The present study also identifies a contextual gap in terms of the need for more multi-country/regional studies to comprehend the similarities and diversities in terms of formal and informal institutions within the emerging economies that shape the incentives for EM practices in these economies. Lastly, the study also identifies a methodological gap in terms of the dearth of qualitative and mixed methods studies that can contribute in developing and refining the theoretical and conceptual framework for studying EM in these economies.

Abbreviations

ADO–TCM	Antecedents decisions outcomes–theory, context, methods
FDI	Foreign direct investment
EM	Earnings management

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Author contributions

All the authors contributed to the study conception and design. Literature search and data analysis was performed by MG; inclusion/exclusion criteria for the papers to be included in the final review was deliberated and decided by MG and DP. The first draft was prepared by MG and it was critically reviewed by DP and subsequently revised and finalized by MG and DP.

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