

**2017 Business Plan**

# African Journal of Business Management

Volume 11 Number 1 14 January, 2017

ISSN 1993-8233



*Academic  
Journals*

## ABOUT AJBM

The African Journal of Business Management (AJBM) is published twice monthly (one volume per year) by Academic Journals.

African Journal of Business Management (AJBM) is an open access journal that publishes research analysis and inquiry into issues of importance to the business community. Articles in AJBM examine emerging trends and concerns in the areas of general management, business law, public responsibility and ethics, marketing theory and applications, business finance and investment, general business research, business and economics education, production/operations management, organizational behaviour and theory, strategic management policy, social issues and public policy, management organization, statistics and econometrics, personnel and industrial relations, technology and innovation, case studies, and management information systems. The goal of AJBM is to broaden the knowledge of business professionals and academicians by promoting free access and providing valuable insight to business-related information, research and ideas. AJBM is a weekly publication and all articles are peer-reviewed.

### Contact Us

**Editorial Office:** [ajbm@academicjournals.org](mailto:ajbm@academicjournals.org)

**Help Desk:** [helpdesk@academicjournals.org](mailto:helpdesk@academicjournals.org)

**Website:** <http://www.academicjournals.org/journal/AJBM>

**Submit manuscript online** <http://ms.academicjournals.me/>

## Editor-in-Chief

### **Prof. Wilfred Isioma Ukpere**

*Department of Industrial Psychology and People Management,  
Faculty of Management,  
University of Johannesburg,  
South Africa.*

### **Editors**

#### **Dr. Amran Awang**

*Faculty of Business Management,  
02600 Arau, Perlis, Malaysia*

#### **Prof. Giurca Vasilescu Laura**

*University of Craiova, Romania  
13, A.I. Cuza, 200585, Craiova, Dolj,  
Romania.*

### **Associate Editors**

#### **Dr. Ilse Botha**

*University of Johannesburg  
APK Campus PO Box 524 Aucklandpark 2006  
South Africa.*

#### **Dr. Howard Qi**

*Michigan Technological University  
1400 Townsend Dr., Houghton, MI 49931,  
U.S.A.*

#### **Dr. Aktham AlMaghaireh**

*United Arab Emirates University  
Department of Economics & Finance  
United Arab Emirates.*

#### **Dr. Haretsebe Manwa**

*University of Botswana  
Faculty of Business  
University of Botswana  
P.O. Box UB 70478  
Gaborone Botswana.*

#### **Dr. Reza Gharoie Ahangar**

*Islamic Azad University of Babol,  
Iran.*

### **Dr. Sérgio Dominique Ferreira**

*Polytechnic Institute of Cavado and Ave  
Campus IPCA, Lugar does Aldão, 4750-810. Vila  
Frescainha,  
Portugal.*

### **Prof. Ravinder Rena**

*Department of Economics  
University of the Western Cape  
Private Bag: X17  
Modderdam Road  
Bellville 7535  
Cape town, South Africa*

### **Dr. Shun-Chung Lee**

*Taiwan Institute of Economic Research  
No. 16-8, Dehuei Street, Jhongshan District,  
Taipei City 104,  
Taiwan.*

### **Dr. Kuo-Chung Chu**

*National Taipei University of Nursing and Health  
Sciences No. 365, Min-Te Road, Taipei,  
Taiwan.*

### **Dr. Gregory J. Davids**

*University of the Western Cape  
Private Bag x17, Bellville 7535,  
South Africa.*

### **Prof. Victor Dragotă**

*Bucharest Academy of Economic Studies, Department  
of Finance  
Bucharest, Sector 1, Piata Romana no. 6, Room 1104,  
Romania*

### **Dr. Maurice Oscar Dassah**

*School of Management, IT and Governance  
University of KwaZulu-Natal  
Post Office Box X54001  
Durban  
4000  
South Africa.*

**Prof. Joseph Offiong Udoayang**

*University of Calabar  
P.M.B 1115, Calabar. Cross River State, Nigeria.*

**Prof. Robert Taylor**

*University of KwaZulu-Natal  
Varsity Drive, Westville  
South Africa.*

**Dr. Nazim Taskin**

*Massey University - Albany  
Quad Building A, Room 3.07  
Gate 1, Dairy Flat Highway (State Highway 17)Albany,  
New Zealand*

**Prof. João J. M. Ferreira**

*University of Beira Interior (UBI)  
Estrada do Sineiro, Pólo IV 6200 Covilhã,  
Portugal.*

**Dr. Izah Mohd Tahir**

*Universiti Sultan Zainal Abidin  
Gong Badak Campus, 21300 Kuala Terengganu,  
Terengganu, Malaysia.*

**Dr. V. Mahalakshmi**

*Panimalar Engineering College  
7-A,CID Quarters, Mandaveli,Chennai-600028,  
Tamilnadu,  
India.*

**Dr. Ata Allah Taleizadeh**

*Iran University of Science and Technology  
Faculty of Industrial Engineering,  
Iran University of Science and Technology,  
Narmak, Tehran, Iran.*

**Dr. P.S. Vohra**

*Chandigarh Group of Colleges, Landran, Mohali, India  
#3075, Sector 40 D  
Chandigarh, Pin code 160036*

**Dr. José M. Merigó**

*University of Barcelona  
Department of Business Administration, Av. Diagonal  
690, Spain.*

**Prof. Mornay Roberts-Lombard**

*Department of Marketing Management,  
C-Ring 607, Kingsway campus, University of  
Johannesburg, Auckland Park, Johannesburg, 2006,  
South Africa*

**Dr. Anton Sorin Gabriel**

*Carol I Boulevard, No. 11, 700506, Iasi,  
Alexandru Ioan Cuza University Iași,  
Romania.*

**Dr. Aura Emanuela Domil**

*31 Horia Creanga, zip code 300253, Timisoara,  
West University from Timisoara,  
Faculty of Economics and Business Administration, Romania.*

**Dr. Guowei Hua**

*NO. 3 Shangyuancun, Haidian District, Beijing 100044,  
School of Economics and Management,  
Beijing Jiaotong University, China.*

**Dr. Mehdi Toloo**

*Technical University of Ostrava,  
Ostrava, Czech Republic*

**Dr. Surendar Singh**

*Department of Management Studies, Invertis University  
Invertis village, Bareilly -  
Lucknow Highway, N.H.-24, Bareilly  
(U.P.) 243 123 India.*

**Dr. Nebojsa Pavlovic**

*High school "Djura Jaksic"  
Trska bb, 34210 Raca, Serbia.*

**Dr. Colin J. Butler**

*University of Greenwich  
Business School, University of Greenwich, Greenwich, SE10  
9LS,  
London, UK.*

**Prof. Dev Tewari**

*School of Economics and Finance  
Westville Campus University of Kwa-Zulu  
Natal (UKZN) Durban, 4001  
South Africa.*

**Dr. Paloma Bernal Turnes**

*Universidad Rey Juan Carlos  
Dpto. Economía de la Empresa  
Pº de los Artilleros s/n  
Edif. Departamental, Desp. 2101  
28032 Madrid, España*

**Dr. Jurandir Peinado**

*Universidade Positivo  
Rua Silveira Peixoto, 306  
Zip 80240-120 Curitiba – PR – Brazil*

# African Journal of Business Management

Table of Contents: Volume 11 Number 1 14 January, 2017

## ARTICLES

- Is gender diversity in ownership structure related to private Italian companies' propensity to engage in earnings management practices?** 1  
Simone Poli
- Assessment of ethical behaviour on organizational performance** 12  
Henry Kiptum Yatich and Richard Musebe

*Full Length Research Paper*

# Is gender diversity in ownership structure related to private Italian companies' propensity to engage in earnings management practices?

Simone Poli

Department of Management, Università Politecnica delle Marche, Italy

Received 1 November 2016; Accepted 24 December, 2016

The study investigates whether and how gender diversity in ownership structure (here intended as female ownership) is related to private (unlisted) Italian companies' propensity to engage in earnings management practices, specifically in "earnings minimization" (EM) and "earnings change minimization" (ECM). Companies practice EM when they manage earnings to bring them close to zero. They practice ECM, instead, when they manage earnings to avoid large earnings changes or, in other words, to "smooth" company earnings. Companies that engage in such practices are detected by adopting the earnings distribution approach. The results of chi-square tests for equality of distributions show that the earnings frequency distributions and the earnings change frequency distributions, conditional on the portion of equity held by female owners, are significantly equal from a statistical point of view, demonstrating that gender diversity in ownership structure and private Italian companies' propensity to engage in EM and ECM are not related. Logit analysis models confirm these findings. The main contribution this study brings to the literature consists in the fact that it is the first study that investigates the relationship between gender diversity in ownership structure and earnings management practices.

**Key words:** Earnings management, earnings minimization, earnings change minimization, gender diversity, private companies, Italy.

## INTRODUCTION

A large body of research has addressed the issue of the relationship between the type and characteristics of shareholders on one side and earnings management practices on the other, analyzing whether and how the former influences the latter. Previous studies have focused on specific types of owners, such as institutional

investors (Almazan et al., 2005; Bange and De Bondt, 1998; Bushee, 1998; Chung et al., 2002; Claessens and Fan, 2002; Cornett et al., 2008; Duggal and Millar, 1999; Ebrahim, 2007; Koh, 2003; Porter, 1992; Pound, 1988; Sundaramurthy et al., 2005), public authorities (Aharony et al., 2000; Capalbo et al., 2014; Chen and Yuan, 2004;

E-mail: [s.poli@univpm.it](mailto:s.poli@univpm.it). Tel: +39 071 2207258.

Authors agree that this article remain permanently open access under the terms of the [Creative Commons Attribution License 4.0 International License](https://creativecommons.org/licenses/by/4.0/)

Ding et al., 2007; Liu and Lu, 2007; Roodposhti and Chashmi, 2011; Wang and Yung, 2011), or foreign investors (Beuselinck et al., 2013). Although the findings of previous studies are not conclusive, in most cases the existence of a relationship between the type and characteristics of shareholders and earnings management practices has been discovered.

Despite the fact that the relationship between the type and characteristics of shareholders and earnings management practices constitutes a vast area of research, to the best of our knowledge, the issue of whether and how gender diversity in ownership structure (here intended as female ownership) influences earnings management practices has not yet been studied. This could be due to the fact that the influence of gender diversity in ownership structure should be investigated in smaller companies in which equity is held only by individuals. Instead, most of the studies that have investigated whether and how the type and characteristics of shareholders influence earnings management practices, in fact, have focused on public (or listed) companies (e.g. all the studies cited earlier).

To contribute to filling the knowledge gap thus identified, this study investigates whether and how gender diversity in ownership structure is related to private (unlisted) Italian companies' propensity to engage in earnings management practices, and specifically, in "earnings minimization" (EM) and "earnings change minimization" (ECM). Companies practice EM when they manage earnings to bring them close to zero (Coppens and Peek, 2005; Marques et al., 2011; Poli, 2013a, b, 2015a). They practice ECM, instead, when they manage earnings to avoid large earnings changes or, in other words, to smooth earnings (Coppens and Peek, 2005; Poli, 2013a, 2015a).

## LITERATURE REVIEW AND RESEARCH HYPOTHESES

Whether and how the behavior of individuals is influenced by gender in different contexts has been widely investigated in the literature. Byrnes and Miller (1999), for example, have found that women show a greater aversion to risk and are less likely than men to be overconfident. Dwyer et al. (2002), Graham et al. (2002), Jianakoplos and Bernasek (1998), Olsen and Cox (2001), Sunden and Surette (1998), Watson and McNaughton (2007) and Watson and Robinson (2003) have reported similar findings in the field of accounting and finance. Barber and Odean (2001), Bliss and Potter (2002), Johnson and Powell (1994) and Schubert (2006) have found that women seem to be less overconfident on financial matters than men. Ford and Richardson (1994), in their review of the literature, have shown that some studies have found that women behave more ethically than men, while other studies have found that there are no differences between women and men with respect to

ethical behavior. Eynon et al. (1997), Khazanchi (1995) and Ruegger and King (1992) have found that women are more ethical in a business context. Bernardi and Arnold (1997) and Betz et al. (1989) have found that women are less likely to engage in unethical behavior in the work place to gain financial rewards.

The fact that the differences highlighted earlier between women and men, especially those related to ethical judgments and behavior, suggests that gender diversity in ownership structure may be related to companies' propensity to practice earnings management. Because women are more risk averse and they behave more ethically than men, female owners may be less willing to practice earnings management than male owners. It is therefore plausible to assume that female owners should be inclined to contrast earnings management practices both directly, when they are involved in the management of the company (which frequently occurs in smaller companies when female owners hold the requisite portion of equity), and indirectly, when they appoint or influence the appointment of managers that are less inclined to practice earnings management or when they monitor managers' behavior. Therefore, the research hypotheses that will be tested are the following:

*H<sub>1</sub>: Gender diversity in ownership structure is related to companies' propensity to engage in EM.*

*H<sub>2</sub>: Gender diversity in ownership structure is related to companies' propensity to engage in ECM.*

## RESEARCH DESIGN AND SAMPLE SELECTION

The methodology used to detect the presence of EM and ECM is the earnings distribution approach suggested by Burgstahler and Dichev (1997). Although, it has been criticized by some scholars (Beaver et al., 2007; Dechow et al., 2003; Durtschi and Easton, 2005, 2009; Holland, 2004; Lahr, 2014; McNichols, 2003), it has been widely used in the literature (Baber and Kang, 2002; Beatty et al., 2002; Brown and Caylor, 2004; Collins et al., 1999; Coppens and Peek, 2005; Daske et al., 2006; Degeorge et al., 1999; Easton, 1999; Gore et al., 2007; Hamdi and Zarai, 2012; Hayn, 1995; Holland and Ramsay, 2003; Huang and Hsiao, 2011; Jacob and Jorgensen, 2007; Kerstein and Rai, 2007; Marques et al., 2011; Moreira, 2006; Phillips et al., 2004; Poli, 2013a, b, 2015a; Revsine et al., 2009).

In adopting this approach, EM is signaled by the presence of discontinuities between the first negative earnings interval and the first positive earnings interval and between the first positive earnings interval and the second positive earnings interval of the earnings frequency distribution (Coppens and Peek, 2005; Marques et al., 2011; Poli, 2013a, b, 2015a). ECM, on the other hand, is signaled by the presence of discontinuities between the second negative earnings

change interval and the first negative earnings change interval and between the first positive earnings change interval and the second positive earnings change interval of the earnings change frequency distribution (Coppens and Peek, 2005; Poli, 2013a, 2015a). A discontinuity emerges if the number of the observations falling in a given interval of the frequency distribution is significantly higher than expected and if the number of the observations falling in one or both of the immediately adjacent intervals of the frequency distribution is significantly lower than expected. To verify the existence of discontinuities, the type of graphical and statistical analysis suggested by Burgstahler and Dichev (1997) is used.

The graphical analysis consists in the construction and exploration of the earnings frequency distribution and the earnings change frequency distribution. To this end, histograms are used, in which the x-axis and the y-axis show earnings or earnings change intervals and frequencies (percentages of the observations falling in each interval), respectively.

The statistical analysis consists in the use of a statistical test in order to verify the statistical significance of the discontinuities that emerge in the graphical analysis.

$$Z_i = \frac{na_i - ne_i}{\sigma_i} = \frac{n_i - \frac{n_{i-1} + n_{i+1}}{2}}{\sqrt{N \times p_i \times (1 - p_i) + \frac{N \times (p_{i-1} + p_{i+1}) \times (1 - p_{i-1} - p_{i+1})}{4}}} \quad (1)$$

where  $Z_i$  is the statistical test referring to interval  $i$  with approximately normal distribution;  $na_i$  is the actual number of observations falling in interval  $i$ ;  $ne_i$  is the expected number of observations falling in interval  $i$ , equal to the average of the number of observations falling in the two adjacent intervals ( $na_{i-1}$  and  $na_{i+1}$ );  $\sigma_i$  is the standard deviation of the differences between the actual and the expected number of observations falling in interval  $i$ ;  $n_i$ ,  $n_{i-1}$  and  $n_{i+1}$  are the actual number of observations falling in intervals  $i$ ,  $i-1$  and  $i+1$ , respectively;  $N$  is the total number of observations;  $p_i$ ,  $p_{i-1}$  and  $p_{i+1}$  are the portions of actual observations falling in intervals  $i$ ,  $i-1$  and  $i+1$ , respectively.

To test the research hypotheses, the earnings frequency distribution and the earnings change frequency distribution, conditional on the portion of equity held by female owners (FEM), are constructed and analyzed in the way described earlier. If FEM is not related to the companies' propensity to engage in EM and ECM, the conditional frequency distributions will be statistically equal. To verify this, the chi-square test is used.

The study is conducted on the basis of the assumptions that follow: earnings are computed as the net income of the current fiscal year, scaled to the total assets at the end of the previous fiscal year; earnings changes are computed as the difference between the net income of the current fiscal year and the net income of the previous fiscal year, scaled to the total assets at the end of the

second previous fiscal year; the earnings interval amplitude is 0.005; the earnings change interval amplitude is 0.0025. They are the assumptions that are normally made in the literature.

To construct the frequency distributions conditional on FEM, FEM is divided into two intervals: up to 0.50 (0.50 is included) and more than 0.50. To test the research hypotheses, logit analysis models are also adopted. They are the following:

$$EM1_i \text{ (EM2}_i) = \beta_0 + \beta_1 FEMD_i \text{ (}\beta_1 FEM_i) + \beta_2 SIZE_i + \beta_3 BANK_i + \beta_4 ATR_i + \beta_5 EM1_{previous_i} + (\beta_5 EM2_{previous_i}) + \beta_6 SECTOR_i \quad (2)$$

All the variables are analytically described in Table 1.

To test the research hypothesis  $H_1$ , the dependent variable is EM1. To test the research hypothesis  $H_2$ , it is EM2. The independent variable is, alternatively, FEMD and FEM. Our attention is focused on the statistical significance of its coefficient. The research hypotheses will be confirmed if this coefficient is statistically significant.

A set of control variables is included in order to control for the influence of those factors that previous studies have found to affect companies' propensity to engage in EM and ECM (Baralexis, 2004; Burgstahler and Dichev, 1997; Marques et al., 2011; Moreira, 2006; Poli, 2013b, 2015a): company size (SIZE), financial incentives (BANK), fiscal incentives (ATR), previously displayed behavior (EM1previous and EM2previous), and industry sector (SECTOR). Consistent with the findings of previous studies, it is expected that the coefficients of all the control variables are positive and statistically significant.

The sample of companies was extracted from the "Analisi Informatizzata Delle Aziende" (AIDA) database supplied by Bureau van Dijk (the date of extraction is 3rd May 2016). The AIDA database provides financial statement data for a vast set of private Italian companies operating in sectors other than the financial one.

It was selected on the basis of the criteria that follow: limited liability companies; active companies; unlisted companies; (non-consolidated) financial statements prepared in ordinary form according to Italian legislation and generally accepted accounting standards in each year of the period 2011 to 2014; number of employees comprised between 10 and 249 in each year of the period 2011 to 2014; balance sheet total of more than € 2 million and up to € 43 million in each year of the period 2011 to 2014; turnover of more than € 2 million and up to € 50 million in each year of the period 2011 to 2014; positive total shareholders' equity in each year of the period 2011 to 2014; companies that are owned only by individuals.

The number of companies that meet the aforementioned selection criteria amounts to 6,501. To these sample companies, we subtracted (1) the observations with incomplete or invalid data (15), (2) the observations with outlier value of ATR (402), and (3) the



**Table 1.** Definitions of the variables.

Variable	Definitions
$NI_i$	Net income of fiscal year t, scaled to total assets of fiscal year t-1, of company i.
$EC_i$	Difference between the net income of fiscal year t and the net income of fiscal year t-1, scaled to total assets of fiscal year t-2, of company i.
$EM1_i$	Dummy variable that holds a value of 1 if NI of fiscal year t of company i assumes a value between 0 and 0.005 (0 is included, 0.005 is excluded), of 0 otherwise.
$EM2_i$	Dummy variable that holds a value of 1 if EC of fiscal year t of company i assumes a value between -0.0025 and 0.0025 (-0.0025 is included, 0.0025 is excluded), of 0 otherwise.
$FEMD_i$	Dummy variable that holds a value of 1 if the portion of equity held by female owners of company i in fiscal year t is higher than 0.50, 0 otherwise.
$FEM_i$	Portion of equity held by female owners of company i in fiscal year t.
$SIZE_i$	The natural logarithm of total assets of company i at the end of fiscal year t.
$BANK_i$	The ratio between bank loans and total assets of company i at the end of fiscal year t.
$ATR_i$	The difference between the income before taxes and the net income, scaled by the absolute value of the income before taxes, all referring to company i and fiscal year t.
$EM1_{previous_i}$	Dummy variable that holds a value of 1 if the reported earnings of fiscal year t-1, scaled to total assets of fiscal year t-2, of company i assumes a value between 0 and 0.005 (0 is included, 0.005 is excluded), of 0 otherwise.
$EM2_{previous_i}$	Dummy variable that holds a value of 1 if the reported earnings change (determined as the difference between the reported earnings of fiscal year t-1 and the reported earnings of fiscal year t-2) of fiscal year t-1, scaled to total assets of fiscal year t-3, of company i assumes a value between -0.0025 and 0.0025 (-0.0025 is included, 0.0025 is excluded), of 0 otherwise.
$SECTOR_i$	Set of dummy variables based on the two-digit ATECO 2007 codes (the Italian system of classification of economic sectors). The base case is the sector that has more observations.

Fiscal year t = 2014.

observations of sectors represented by less than ten observations (105). Subtraction (2) was considered necessary in order to have a more homogeneous sample of companies on which to conduct the analysis. To identify outlier values of ATR, the Tukey method of leveraging the interquartile range is used. The outlier values are the values below the first quartile decreased by 1.5 times the interquartile range and the values above the third quartile increased by 1.5 times the interquartile range. Subtraction (3) was considered necessary to ensure that each sector was represented by the minimum number of observations considered adequate for the analysis. The final sample companies total 5,979. Table 2 reports the sample company process.

Table 3 shows the main descriptive statistics referring to the sample companies. The companies in which

women hold a portion of their equity amount to 33% of the sample.

Those in which they hold the majority of their equity amount to 14% of the sample.

The companies in which men hold the majority of their equity, instead, amount to 79% of the sample. Within the sample, then, female entrepreneurship appears restricted. At the level of statistical significance of 0.05, the differences between the means of NI, EC, SIZE, and ATR, conditioned on FEM, are not statistically significant. At the level of statistical significance of 0.01, also the difference between the means of BANK, conditioned on FEM, is not statistically significant.

With reference to the variables considered, therefore, there are no statistically significant differences between the companies that are controlled by women and the

**Table 2.** Sample company process.

Parameter	Observations
Initial observations, according to the selection criteria	6,501
Observations with incomplete or invalid data	-15
Observations with outlier value of ATR	-402
Observations of sectors represented by less than ten observations	-105
Final observations	5,979

**Table 3.** Descriptive statistics (Panel a).

Continuous variable	Observations	Mean	Standard deviation	First quartile	Median	Third quartile
NI	5,979	0.0252	0.0582	0.0024	0.0122	0.0397
EC	5,979	0.0063	0.0442	-0.0039	0.0024	0.0158
FEM	5,979	0.2481	0.2702	0.0000	0.1790	0.4486
SIZE	5,979	16.1806	0.6024	15.7625	16.1861	16.5986
BANK	5,979	0.2178	0.1721	0.0618	0.2021	0.3456
ATR	5,979	0.4812	0.2490	0.3377	0.4362	0.6484

**Table 3.** Descriptive statistics (Panel b).

Dummy variable	Observations		
	Total	0	1
EM1	5,979	4,614	1,365
EM2	5,979	4,651	1,328
FEMD	5,979	5,148	831
EM1previous	5,979	4,632	1,347
EM2previous	5,979	4,706	1,273

**Table 3.** Descriptive statistics (Panel c).

Continuous variable	FEM				MWW-statistic* (p-value)
	FEM ≤ 0.50		FEM > 0.50		
	Observations	Mean (SD)	Observations	Mean (SD)	
NI	5,148	0.2530 (0.0587)	831	0.0248 (0.0550)	1.772 (0.0763)
EC	5,148	0.0064 (0.0453)	831	0.0058 (0.0367)	0.732 (0.4640)
SIZE	5,148	16.1786 (0.6054)	831	16.1930 (0.5836)	-0.424 (0.6717)
BANK	5,148	0.2196 (0.1722)	831	0.2062 (0.1713)	2.163 (0.0306)
ATR	5,148	0.4813 (0.2473)	831	0.4809 (0.2592)	-0.180 (0.8569)

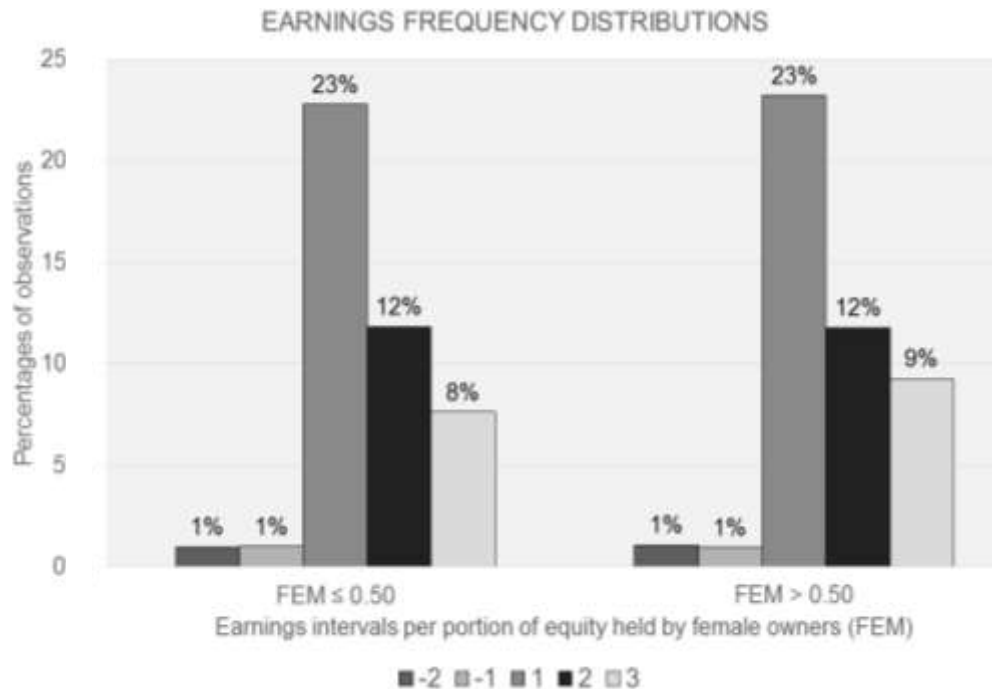
\*Mann-Whitney-Wilcoxon statistic.

companies that are not controlled by women.

## FINDINGS AND DISCUSSION

The earnings frequency distributions conditional on FEM are shown in Figure 1. Each histogram in Figure 1

presents a peak of observations in the first positive interval 1, corresponding to the range [0-0.005) and a marked discontinuity both to the left and to the right of it, that are the typical characteristics of earnings management practices aiming to minimize earnings (Coppens and Peek, 2005; Marques et al., 2011; Poli, 2013a, b, 2015a).



**Figure 1.** Conditional earnings frequency distributions. Each histogram is truncated, showing only the first four intervals of positive (from 1 to 4) earnings and the first two intervals of negative (from -1 to -2) earnings. The percentages of the observations falling in each earnings interval refer to the respective sub-sample (5,148 observations when  $FEM \leq 0.50$ , 831 observations when  $FEM > 0.50$ ).

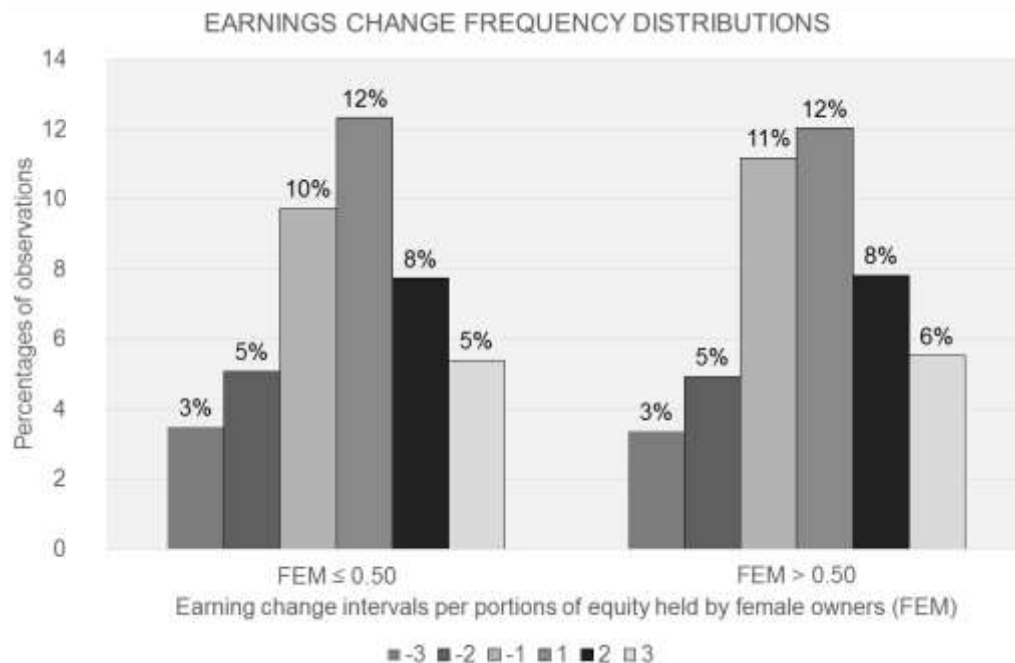
**Table 4.** Statistics  $Z_i$  referring to the earnings frequency distributions.

Earnings intervals	$na_i$	$ne_i$	$\sigma_i$	$Z_i$ (p-value) two-tailed
<b>FEM <math>\leq 0.50</math></b>				
-2	51	57.5	8.8692	-0.7329 (0.4639)
-1	52	611.5	16.8746	-33.1563 (0.0000)
1	1,172	330	32.3978	25.9894 (0.0000)
2	608	782	28.4409	-6.1180 (0.0000)
3	392	466	23.5232	-3.1458 (0.0017)
<b>FEM <math>&gt; 0.50</math></b>				
-2	9	10.5	3.7443	-0.4006 (0.6887)
-1	8	101	6.7932	-13.6902 (0.0000)
1	193	53	13.0880	10.6968 (0.0000)
2	98	135	11.4896	-3.2203 (0.0013)
3	77	69.5	9.9400	0.7545 (0.4505)

Table 4 shows the test statistics suggested by Burgstahler and Dichev (1997). It shows that, with reference to both histograms in Figure 1, the difference between the actual and the expected number of observations is positive and statistically significant (at a level of 1%) with reference to interval 1, it is negative and statistically significant (at a level of 1%) with reference to interval -1 and with reference to interval 2. Thus, the test

statistics confirm the presence of a discontinuity both to the left and to the right of interval 1.

The earnings change frequency distributions conditional on FEM are shown in Figure 2. Each histogram in Figure 2 presents peaks of observations in correspondence to the first negative interval -1, corresponding to the range (-0.00250-0), and to the first positive interval 1, corresponding to the range (0-0.0025) and a marked



**Figure 2.** Conditional earnings change frequency distributions. Each histogram is truncated, showing only the first three intervals of positive (from 1 to 3) and negative (from -1 to -3) earnings changes. The percentages of the observations falling in each earnings interval refer to the respective sub-sample (5,148 observations when  $FEM \leq 0.50$ , 831 observations when  $FEM > 0.50$ ).

**Table 5.** Statistics  $Z_i$  referring to the earnings change frequency distributions.

Earnings intervals	$na_i$	$ne_i$	$\sigma_i$	$Z_i$ (p-value) two-tailed
<b>FEM ≤ 0.50</b>				
-3	180	201.5	16.3330	-1.3164 (0.1880)
-2	261	340.5	19.8941	-3.9962 (0.0001)
-1	501	447.5	25.2492	2.1189 (0.0341)
1	634	449.5	27.2380	6.7736 (0.0000)
2	398	456	23.5630	-2.4615 (0.0138)
3	278	318.5	20.0703	-2.0179 (0.0436)
<b>FEM &gt; 0.50</b>				
-3	28	35	6.5637	-1.0665 (0.2862)
-2	41	60.5	8.0512	-2.4220 (0.0154)
-1	93	70.5	10.5764	2.1274 (0.0334)
1	100	79	10.9524	1.9174 (0.0552)
2	65	73	9.4870	-0.8433 (0.3991)
3	46	50.5	8.1015	-0.5555 (0.5786)

discontinuity both to the left of the first negative interval and to the right of the first positive interval, that are the typical characteristics of earnings management practices aiming to minimize earnings changes (Coppens and Peek, 2005; Poli, 2013b, 2015a).

Table 5 shows the test statistics suggested by

Burgstahler and Dichev (1997). It shows that, with reference to the histogram to the left of Figure 2 ( $FEM \leq 0.50$ ), the difference between the actual and the expected number of observations is positive and statistically significant (at a level of 5%) with reference to interval -1, it is positive and statistically significant (at a

**Table 6.** Results of the logit analysis.

Variable	Expected signs	Coefficients (standard errors)			
		Dependent variable: EM1		Dependent variable: EM2	
		Model 1	Model 2	Model 3	Model 4
Constant	?	-13.8088*** (1.3895)	-13.8092*** (1.3897)	-7.8145*** (0.9878)	-7.8120*** (0.9881)
FEMD	?	-0.0272 (0.8446)	-	0.0841 (0.0997)	-
FEM	?	-	0.0428 (0.1763)	-	0.0248 (0.1287)
SIZE	+	0.3739*** (0.0837)	0.3730*** (0.0837)	0.2750*** (0.0603)	0.2753*** (0.0603)
BANK	+	1.1127*** (0.3015)	1.1214*** (0.3015)	0.8216*** (0.2129)	0.8166*** (0.2130)
ATR	+	10.1344*** (0.3052)	10.1317*** (0.3051)	3.2273*** (0.1537)	3.2293*** (0.1538)
EM1previous	+	1.1175*** (0.0998)	1.1175*** (0.0998)	-	-
EM2previous	+	-	-	1.0516*** (0.0753)	1.0514*** (0.0753)
SECTOR		INCLUDED	INCLUDED	INCLUDED	INCLUDED
N		5,979	5,979	5,979	5,979
Adjusted R <sup>2</sup>	-	0.5198	0.5198	0.1464	0.1462
Correctly predicted results (%)	-	90.9	91	80.5	80.5

\*\*\*, \*\* and \* indicate significance at 1%, 5% and 10%, respectively. For the meaning of the variables, see Table 1.

level of 1%) with reference to interval 1, it is negative and statistically significant (at a level of 1%) with reference to interval -2, it is negative and statistically significant (at a level of 5%) with reference to interval 2. Thus, the test statistics confirm the presence of a discontinuity to the left of interval -1 and to the right of interval 1. Table 5 also shows that, with reference to the histogram to the right of Figure 2 (FEM>0.50), the difference between the actual and the expected number of observations is positive and statistically significant (at a level of 5%) with reference to interval -1, it is positive and statistically significant (at a level of 10%) with reference to interval 1, it is negative and statistically significant (at a level of 5%) with reference to interval -2, it is negative and statistically not significant with reference to interval 2. Thus, the test statistics confirm the presence of a discontinuity to the left of interval -1, but they do not confirm the presence of a discontinuity to the right of interval 1.

To verify whether the two histograms of each figure are or are not equal from a statistical point of view, the chi-square test is applied. The test statistic assumes value  $\chi^2_{(4)}=1.8323$  (p-value=0.7666) with reference to the two histograms in Figure 1, value  $\chi^2_{(5)}=1.4327$  (p-value=0.9207) with reference to the two histograms in Figure 2. Thus, the two histograms in each figure are statistically significantly equal. In other words, the frequency distributions of earnings and the frequency distributions of earnings changes are independent from FEM. Thus, both research hypotheses are rejected.

Table 6 shows the results of the logit analysis used to test the research hypotheses. It shows that statistically significant relationships between each configuration of the independent variable (FEMD and FEM) and the companies' propensity to practice EM and ECM do not exist. Thus, the rejection of both research hypotheses is

confirmed. Table 6 also shows that the coefficients of all the control variables are positive and statistically significant, as expected.

The analysis conducted to verify whether the models suffer collinearity issues, that are not reported, has shown that these problems do not exist.

Although several previous studies (most of which were cited in the second section of our study) have shown that women, in different contexts, display more risk-averse and ethical behaviors than men, our findings show that women and men have the same propensity to practice EM and ECM, which, like other earnings management practices, are considered risky and unethical behaviors (Healy and Wahlen, 1999; Roychowdhury, 2006). It is likely that there are some very strong incentives for both women and men to engage in these practices that affect their behavior in the same way. Previous studies (Coppens and Peek, 2005; Marques et al., 2011), and our findings as well, suggest that these incentives may be of a fiscal nature.

In countries such as Italy (Gavana et al., 2013; Poli, 2015b), where there is a close alignment between accounting and tax rules, if there are no other factors that lead people to manifest different behaviors, companies are likely to engage in EM and ECM practices (Coppens and Peek, 2005; Marques et al., 2011). This is due to the impact of two fiscal incentives that work in opposite directions. On the one hand, companies with negative earnings have incentives to manage them upward to overcome the threshold of zero, thus decreasing the probability of investigations or audits by tax authorities. On the other hand, companies with positive earnings have incentives to manage them downward to bring them close to zero, thus minimizing tax payments. As a result, they tend to report slightly positive earnings.

If adopting behaviors that reduce the risk of tax inspections could be consistent with the fact that women are risk averse, engaging in behaviors that reduce the burden of taxes to be paid is not necessarily consistent with the fact that they are ethical. Fiscal incentives, therefore, may strongly influence the behavior of both women and men.

It has been written that fiscal incentives work with the greatest intensity when there are no other factors that lead to different behaviors. Moreira (2006) suggests that one of these other factors could be financial incentives. He has explored the impact of the degree of bank indebtedness on private Portuguese companies' earnings management practices. He has found that companies with a higher degree of bank indebtedness have a higher propensity to manage earnings upward to avoid losses and a lower propensity to manage earnings downward to minimize tax payments than companies with lower degree of bank indebtedness. He has suggested that "the probability of obtaining the necessary funds at a reasonable cost is positively related to the quality of their accounting numbers, given that bank's credit decisions are based on firms' financial information. Thus, this [...] incentive tends to motivate firms into adopting accounting choices that provoke an impact on reported earnings in the opposite sense to that related taxes". It is as if the bank system acts as a controller of earnings management practices of private Portuguese companies. However, our findings have shown that this does not occur in the Italian context. In fact, in the logit analysis models the coefficients of BANK are always positive and statistically significant, demonstrating that the higher the degree of bank indebtedness the higher the propensity to practice EM and ECM. Thus, in the Italian context, the bank system does not act as a controller of earnings management practices of private Italian companies. Probably, this can be due to the fact that Italian banks do not traditionally rely very much on financial reporting when they are considering whether or not to lend money. This is why, especially with reference to the type of organization under analysis in this study, Italian banks almost always approve financing only on the condition of personal guarantees from shareholders.

## Conclusion

The study has investigated whether and how gender diversity in ownership structure affects private Italian companies' propensity to engage in EM and ECM, showing that it is not associated with both types of earnings management practices. As previously noted, to the best of our knowledge, this is the first study that has investigated such a relationship in the literature, thus filling this knowledge gap.

In addition, our study extends the current knowledge on the relationship between aspects of corporate governance and earnings management practices in private companies,

especially SMEs, and on the earnings quality of Italian companies. These have been under-explored issues in the literature.

The main limitation of our study refers to the method used to detect companies that practice EM and ECM (Dechow et al., 2010). In fact, it is difficult to distinguish companies that report slightly positive earnings and slight earnings changes because of chance circumstances (or as a result of credible alternative explanations including non-accounting issues) from those that report them as a result of earnings management practices. Thus, caution should be used in interpreting the findings. This study notwithstanding, whether and how gender diversity in ownership structure affects earnings management practices remains an insufficiently investigated topic. Therefore, further studies are required to gain a full understanding of this relationship.

## Conflict of Interests

The author has not declared any conflict of interests.

## REFERENCES

- Aharony J, Lee CWJ, Wong TJ (2000). Financial packaging of IPO firms in China. *J. Account. Res.* 38(1):103-126. <http://dx.doi.org/10.2307/2672924>
- Almazan A, Hartzell JC, Starks LT (2005). Active institutional shareholders and costs of monitoring: Evidence from executive compensation. *Financ. Manage.* 34(4):5-35. <http://dx.doi.org/10.1111/j.1755-053X.2005.tb00116.x>
- Baber V, Kang S (2002). The impact of split adjusting and rounding on analysts' forecast error calculations. *Account. Horiz.* 16(4):277-289. <http://dx.doi.org/10.2308/acch.2002.16.4.277>
- Bange M, De Bondt W (1998). R&D budgets and corporate earnings targets. *J. Corp. Financ.* 4(2):153-84. [http://dx.doi.org/10.1016/S0929-1199\(98\)00006-6](http://dx.doi.org/10.1016/S0929-1199(98)00006-6)
- Baralexis S (2004). Creative accounting in small advancing countries: The Greek case. *Manage. Audit. J.* 19(3):440-461. <http://dx.doi.org/10.1108/02686900410524427>
- Barber BM, Odean T (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *Q. J. Econ.* 116(1):261-292. <http://dx.doi.org/10.1162/003355301556400>
- Beatty AL, Ke B, Petroni KR (2002). Earnings management to avoid earnings declines across publicly and privately held banks. *Account. Rev.* 77(3):547-570. <http://dx.doi.org/10.2308/accr.2002.77.3.547>
- Beaver WH, McNichols MF, Nelson KK (2007). An alternative interpretation of the discontinuity in earnings distributions. *Rev. Account. Stud.* 12(4):525-556. <http://dx.doi.org/10.1007/s11142-007-9053-0>
- Bernardi RA, Arnold DF (1997). An examination of moral development within public accounting by gender, staff level, and firm. *Contemp. Account. Res.* 14(4):653-668. <http://dx.doi.org/10.1111/j.1911-3846.1997.tb00545.x>
- Betz M, O'Connell L, Shepard JM (1989). Gender differences in proclivity for unethical behavior. *J. Bus. Ethics* 8(5):321-324. <http://dx.doi.org/10.1007/BF00381722>
- Beuselink C, Blanco B, Garcia Lara JM (2013). The Role of Foreign Shareholders in Disciplining Financial Reporting. Paper retrieved from [http://www.w.w.ieseg.fr/w-p-content/uploads/2013-MAN-07\\_Beuselink.pdf](http://www.w.w.ieseg.fr/w-p-content/uploads/2013-MAN-07_Beuselink.pdf)
- Bliss RT, Potter ME (2002). Mutual fund managers: Does gender matter? *J. Bus. Econ. Stud.* 8(1):1-15.
- Brown LD, Caylor ML (2005). A temporal analysis of earnings manage-

- ment thresholds: propensities and valuation consequences. *Account. Rev.* 80(2):423-440. <http://dx.doi.org/10.2308/accr.2005.80.2.423>
- Burgstahler DC, Dichev I (1997). Earnings management to avoid earnings decreases and losses. *J. Account. Econ.* 24(1):99-126. [http://dx.doi.org/10.1016/S0165-4101\(97\)00017-7](http://dx.doi.org/10.1016/S0165-4101(97)00017-7)
- Bushee B (1998). Institutional investors, long-term investment, and earnings management. Paper retrieved from <http://ssrn.com/abstract=52686> <http://dx.doi.org/10.2139/ssrn.52686>
- Byrnes JP, Miller DC (1999). Gender differences in risk taking: A meta-analysis. *Psychol. Bull.* 125(3):367. <http://dx.doi.org/10.1037/0033-2909.125.3.367>
- Capalbo F, Frino A, Mollica V, Palumbo R (2014). Accrual-based earnings management in state owned companies: Implications for transnational accounting regulation. *Account. Audit. Accountab. J.* 27(6):1026-1040. <http://dx.doi.org/10.1108/AAAJ-06-2014-1744>
- Chen KC, Yuan H (2004). Earnings management and capital resource allocation: Evidence from China's accounting-based regulation of rights issues. *Account. Rev.* 79(3):645-665. <http://dx.doi.org/10.2308/accr.2004.79.3.645>
- Chung R, Firth M, Kim JB (2002). Institutional monitoring and opportunistic earnings management. *J. Corp. Financ.* 8(1):29-48. [http://dx.doi.org/10.1016/S0929-1199\(01\)00039-6](http://dx.doi.org/10.1016/S0929-1199(01)00039-6)
- Claessens S, Fan JPH (2002). Corporate governance in Asia: A survey. *Int. Rev. Financ.* 3(2):71-103. <http://dx.doi.org/10.1111/1468-2443.00034>
- Collins DW, Pincus M, Xie H (1999). Equity valuation and negative earnings: the role of book value of equity. *Account. Rev.* 74(1):29-61. <http://dx.doi.org/10.2308/accr.1999.74.1.29>
- Coppens L, Peek E (2005). An analysis of earnings management by European private firms. *J. Int. Account. Audit. Taxat.* 14(1):1-17. <http://dx.doi.org/10.1016/j.intaccudtax.2005.01.002>
- Cornett MM, Marcus AJ, Tehranian H (2008). Corporate governance and pay-for-performance: the impact of earnings management. *J. Financ. Econ.* 87(2):357-373. <http://dx.doi.org/10.1016/j.jfineco.2007.03.003>
- Daske H, Gebhardt G, McLeay S (2006). The distribution of earnings relative to targets in the European Union. *Account. Bus. Res.* 36(3):137-168. <http://dx.doi.org/10.1080/00014788.2006.9730019>
- Dechow PM, Ge W, Schrand C (2010). Understanding earnings quality: a review of the proxies, their determinants and their consequences. *J. Account. Econ.* 50(2-3):344-401. <http://dx.doi.org/10.1016/j.jacceco.2010.09.001>
- Dechow PM, Richardson SA, Tuna I (2003). Why are earnings kinky? An examination of the earnings management explanation. *Rev. Account. Stud.* 8(2/3):355-384. <http://dx.doi.org/10.1023/A:1024481916719>
- DeGeorge F, Patel J, Zeckhauser R (1999). Earnings management to exceed thresholds. *J. Bus.* 72(1):1-33. <http://dx.doi.org/10.1086/209601>
- Ding Y, Zhang H, Zhang J (2007). Private vs state ownership and earnings management: evidence from Chinese listed companies. *Corp. Gov.* 15(2):223-238. <http://dx.doi.org/10.1111/j.1467-8683.2007.00556.x>
- Duggal R, Millar JA (1999). Institutional ownership and firm performance: The case of bidder returns. *J. Corp. Financ.* 5(2):103-117. [http://dx.doi.org/10.1016/S0929-1199\(98\)00018-2](http://dx.doi.org/10.1016/S0929-1199(98)00018-2)
- Durtschi C, Easton P (2005). Earnings management? The shapes of the frequency distributions of earnings metrics are not evidence ipso facto. *J. Account. Res.* 43(4):557-592. <http://dx.doi.org/10.1111/j.1475-679X.2005.00182.x>
- Durtschi C, Easton P (2009). Earnings management? Erroneous inferences based on earnings frequency distributions. *J. Account. Res.* 47(5):1249-1281. <http://dx.doi.org/10.1111/j.1475-679X.2009.00347.x>
- Dwyer PD, Gilkeson JH, List JA (2002). Gender differences in revealed risk taking: Evidence from mutual fund investors. *Econ. Lett.* 76(2):151-158. [http://dx.doi.org/10.1016/S0165-1765\(02\)00045-9](http://dx.doi.org/10.1016/S0165-1765(02)00045-9)
- Easton P (1999). Security returns and the value relevance of accounting data. *Account. Horiz.* 13(4):399-412. <http://dx.doi.org/10.2308/acch.1999.13.4.399>
- Ebrahim A (2007). Earnings management and board activity: An additional evidence. *Rev. Account. Financ.* 6(1):42-58. <http://dx.doi.org/10.1108/14757700710725458>
- Eynon G, Hill NT, Stevens KT (1997). Factors that influence the moral reasoning abilities of accountants: Implications for universities and the profession. *J. Bus. Ethics* 16(12-13):1297-1309. <http://dx.doi.org/10.1023/A:1005754201952>
- Ford RC, Richardson WD (1994). Ethical decision making: A review of the empirical literature. *J. Bus. Ethics* 13(3):205-221. <http://dx.doi.org/10.1007/BF02074820>
- Gavana G, Guggiola G, Marenzi A (2013). Evolving connections between tax and financial reporting in Italy. *Account. Euro.* 10(1):43-70. <http://dx.doi.org/10.1080/17449480.2013.774733>
- Gore P, Pope P, Singh A (2007). Earnings management and the distribution of earnings relative to targets: UK evidence. *Account. Bus. Res.* 37(2):123-150. <http://dx.doi.org/10.1080/00014788.2007.9730065>
- Graham JF, Stendardi EJ, Myers JK, Graham MJ (2002). Gender differences in investment strategies: An information processing perspective. *Int. J. Bank Mark.* 20(1):17-26. <http://dx.doi.org/10.1108/02652320210415953>
- Hamdi FM, Zarai MA (2012). Earnings management to avoid earnings decreases and losses: empirical evidence from Islamic banking industry. *Res. J. Financ. Account.* 3(3):88-107.
- Hayn C (1995). The information content of losses. *J. Account. Econ.* 20(2):125-153. [http://dx.doi.org/10.1016/0165-4101\(95\)00397-2](http://dx.doi.org/10.1016/0165-4101(95)00397-2)
- Healy PM, Wahlen JM (1999). A review of the earnings management literature and its implications for standard setting. *Account. Horiz.* 13(4):365-383. <http://dx.doi.org/10.2308/acch.1999.13.4.365>
- Holland D, Ramsey A (2003). Do Australian companies manage earnings to meet simple earnings benchmarks? *Account. Financ.* 43(1):41-62. <http://dx.doi.org/10.1111/1467-629X.00082>
- Holland D (2004). Earnings management: a methodological review of the distribution of reported earnings approach. Paper retrieved from <http://ssrn.com/abstract=525242> <http://dx.doi.org/10.2139/ssrn.525242>
- Huang SLCLH, Hsiao HC (2011). Study of earnings management and audit quality. *Afr. Bus. Manage.* 5(7):2686-2699. <http://dx.doi.org/10.5897/AJBM10.1040>
- Jacob J, Jorgensen BN (2007). Earnings management and accounting income aggregation. *J. Account. Econ.* 43(2-3):369-390. <http://dx.doi.org/10.1016/j.jacceco.2007.01.007>
- Jianakoplos NA, Bernasek A (1998). Are women more risk averse? *Econ. Inq.* 36(4):620-630. <http://dx.doi.org/10.1111/j.1465-7295.1998.tb01740.x>
- Johnson JEV, Powell PL (1994). Decision making, risk and gender: Are managers different? *Br. J. Manage.* 5(2):123-138. <http://dx.doi.org/10.1111/j.1467-8551.1994.tb00073.x>
- Kerstein J, Rai A (2007). Intra-year shifts in the earnings distribution and their implications for earnings management. *J. Account. Econ.* 44(3):399-419. <http://dx.doi.org/10.1016/j.jacceco.2007.04.004>
- Khazanchi D (1995). Unethical behavior in information systems: The gender factor. *J. Bus. Ethics* 14(9):741-749. <http://dx.doi.org/10.1007/BF00872327>
- Koh PS (2003). On the association between institutional ownership and aggressive corporate earnings management in Australia. *Br. Account. Rev.* 35(2):105-128. [http://dx.doi.org/10.1016/S0890-8389\(03\)00014-3](http://dx.doi.org/10.1016/S0890-8389(03)00014-3)
- Lahr H (2014). An improved test for earnings management using kernel density estimation. *Euro. Account. Rev.* 23(4):559-591. <http://dx.doi.org/10.1080/09638180.2013.860044>
- Liu Q, Lu ZJ (2007). Corporate governance and earnings management in the Chinese listed companies: A tunneling perspective. *J. Corp. Financ.* 13(5):881-906. <http://dx.doi.org/10.1016/j.jcorpfin.2007.07.003>
- Marques M, Rodrigues LL, Craig R (2011). Earnings management induced by tax planning: the case of Portuguese private firms. *J. Int. Account. Audit. Taxat.* 20(2):83-96. <http://dx.doi.org/10.1016/j.intaccudtax.2011.06.003>
- McNichols MF (2003). Discussion of "Why are Earnings Kinky? An examination of the earnings management explanation". *Rev. Account. Stud.* 8(2-3):385-391. <http://dx.doi.org/10.1023/A:1024486000789>

- Moreira JAC (2006). Are financing needs a constraint to earnings management? Evidence from private Portuguese firms. Paper retrieved from <http://www.fep.up.pt/investigacao/cete/papers/DP0610.pdf>
- Olsen R, Cox C (2001). The influence of gender on the perception and response to investment risk: The case of professional investors. *J. Behav. Financ.* 2(1):29-36. [http://dx.doi.org/10.1207/S15327760JPFM0201\\_3](http://dx.doi.org/10.1207/S15327760JPFM0201_3)
- Phillips JD, Pincus M, Rego SO, Wan H (2004). Decomposing changes in deferred tax assets and liabilities to isolate earnings management activities. *J. Am. Taxat. Assoc.* 26(supplement):43-66. <http://dx.doi.org/10.2308/jata.2004.26.s-1.43>
- Poli S (2013a). Small-sized companies' earnings management: evidence from Italy. *Int. J. Account. Financ. Report.* 3(2):93-109. <http://dx.doi.org/10.5296/ijfr.v3i2.4191>
- Poli S (2013b). The Italian unlisted companies' earnings management practices: the impacts of fiscal and financial incentives, *Res. J. Financ. Account.* 4(11):48-60.
- Poli S (2015a). Do Ownership Structure Characteristics Affect Italian Private Companies' Propensity to Engage in the Practices of "Earnings Minimization" and "Earnings Change Minimization"? *Int. J. Econ. Financ.* 7(6):193-207. <http://dx.doi.org/10.5539/ijef.v7n6p193>
- Poli S (2015b). The links between accounting and tax reporting: the case of the bad debt expense in the Italian context. *Int. Bus. Res.* 8(5):93-100. <http://dx.doi.org/10.5539/ibr.v8n5p93>
- Porter M (1992). Capital choices: Changing the way America invests in industry. *J. Appl. Corp. Financ.* 5(2):4-16. <http://dx.doi.org/10.1111/j.1745-6622.1992.tb00485.x>
- Pound J (1988). Proxy contest and the efficiency of shareholder oversight. *J. Financ. Econ.* 20:237-265. [http://dx.doi.org/10.1016/0304-405X\(88\)90046-3](http://dx.doi.org/10.1016/0304-405X(88)90046-3)
- Revsine L, Collins D, Johnson W, Mittelstaedt F (2009). *Financial reporting and analysis* (4th ed.). New Jersey, NJ: Prentice Hall.
- Roodposhti FR, Chashmi SN (2011). The impact of corporate governance mechanisms on earnings management. *Afr. J. Bus. Manage.* 5(11):4143-4151. <http://dx.doi.org/10.5897/AJBM10.471>
- Roxas M, Stoneback J (2004). The importance of gender across cultures in ethical decision making. *J. Bus. Ethics* 50:149-165. <http://dx.doi.org/10.1023/B:BUSI.0000022127.51047.ef>
- Roychowdhury S (2006). Earnings management through real activities manipulation. *J. Account. Econ.* 42(3):335-370. <http://dx.doi.org/10.1016/j.jacceco.2006.01.002>
- Ruegger D, King EW (1992). A study of the effect of age and gender upon student business ethics. *J. Bus. Ethics* 11(3):179-186. <http://dx.doi.org/10.1007/BF00871965>
- Schubert R (2006). Analyzing and managing risks - on the importance of gender differences in risk attitudes. *Manage. Financ.* 32(9):706-715. <http://dx.doi.org/10.1108/03074350610681925>
- Sundaramurthy C, Rhoades DL, Rechner PL (2005). A Meta-analysis of the effects of executive and institutional ownership on firm performance. *J. Manage. Issues* 17(4):494-510.
- Sunden AE, Surette BJ (1998). Gender differences in the allocation of assets in retirement savings plans. *Am. Econ. Rev.* 88(2):207-211.
- Wang L, Yung K (2011). Do state enterprises manage earnings more than privately owned firms? The case of China. *J. Bus. Financ. Account.* 38(7-8):794-812. <http://dx.doi.org/10.1111/j.1468-5957.2011.02254.x>
- Watson J, McNaughton M (2007). Gender differences in risk aversion and expected retirement benefits. *Financ. Anal. J.* 63(4):52-62. <http://dx.doi.org/10.2469/faj.v63.n4.4749>
- Watson J, Robinson S (2003). Adjusting for risk in comparing the performances of male- and female-controlled SMEs. *J. Bus. Venturing* 18(6):773-788. [http://dx.doi.org/10.1016/S0883-9026\(02\)00128-3](http://dx.doi.org/10.1016/S0883-9026(02)00128-3)



*Full Length Research Paper*

# Assessment of ethical behaviour on organizational performance

Henry Kiptum Yatich<sup>1\*</sup> and Richard Musebe<sup>2</sup>

<sup>1</sup>Department of Management, School of Business and Economics, Mount Kenya University, Kenya.

<sup>2</sup>Department of Development Studies, School of Human Resource Development, Moi University, Kenya.

Received 6 November 2016; Accepted 23 December, 2016

Ethical behaviour if not practiced has the ability of reducing organization performance; it may cause disagreements, lawsuits, client dissatisfaction, poor service delivery, poor time management, and corruption among others. Some of the unethical behaviours observable that may affect organizational performance include arrogance, ignorance, neglect, absenteeism, alcohol consumption, smoking, and neglect among others. An organization's ability to bring forth ethical behaviour that goes above and beyond the call of duty can be a key asset and one that is difficult for competitors to imitate. The main objective of the study was to assess the influence of ethical behaviour on organizational performance in the Kenyan Public Health Sector. This was for the purpose of proposing appropriate strategies that could cultivate commitment and compliance among health workers in the sector. The study was based on the Social Learning Theory by Albert Bandura (1977). It posits that people learn from one another, by way of observation, imitation, and modeling. The study was carried out in Baringo District Hospital-Kabarnet, Rift-Valley Province. A mixed approach method was used with a survey research design. It applied a census inquiry on all the staff in the facility and 174 returned their questionnaires. Questionnaires were used for primary data collection. Data analysis was carried out using descriptive statistics and content analysis for ordinal and nominal data, respectively. Data presentation was done using tables, frequencies and percentages. The results showed that neglect, absenteeism, poor time management, corruption, disputes, and dishonest were rife in the sector. It was recommended that training of staff, government support and strict enforcement of the Public Officer Ethics Act (2003) be duly implemented to curb these vices. The office of the Ombudsman should put in place mechanisms that enable clients or patients to report any act of malpractice either via social media or text messages for prompt action.

**Key words:** Behaviour, ethics, performance, corruption.

## INTRODUCTION

Behaviour is a function of both the persons and the environment (Lewin, 1943). Unethical behaviour by

employees can affect individuals, work teams, and even the organization (Andrews, 1989). Organizations thus

\*Corresponding author. E-mail: [yatich2002@gmail.com](mailto:yatich2002@gmail.com). Tel: +254-721303105.

depend on individuals to act ethically (Wagel, 1987). Ethical behaviour is acting in ways that are consistent with one's personal values and the commonly held values of the organization and society (Naran, 1992). Unethical behaviour by employees can affect individuals, work teams, and even the organization (Andrews, 1989). Organizations thus depend on individuals to act ethically. An organization's ability to elicit ethical behaviour that goes above and beyond the call of duty can be a key asset and one that is difficult for competitors to imitate. "It's not enough to just show up at 8 o'clock each morning and say, 'oh, I have done a wonderful thing'" (Bolino et al., 2003).

Ethical behaviour in organizations is necessary because business can become unethical, and there are plenty of evidence as in today on unethical company practices. "Irrespective of the demands and pressures upon every organization, by virtue of its existence it is bound to be ethical, for at least two reasons: one, because whatever the business does affects its stakeholders and two, because every moment of action has paths of ethical as well as unethical paths wherein the existence of the business is justified by ethical alternatives it responsibly chooses" (Murphy, 2002).

According to Ackroyd et al. (1999), there are various forms of unethical behaviour that are pervasive and costly problems when encountered by work organizations. Not surprisingly, there is a growing interest among organization scientists and practitioners in the patterns of and in the motivational factors affecting such behaviour, as well as in its consequences for both organizations and their members (Greenberg, 1997; Robinson and Bennett, 1995).

At times, we might ask: is it possible to look at peoples' attitudes, their state of mind? Can we influence the way they think about work? If we could change their attitudes, make them more positive, would they not behave differently? Ethical behaviour is important in all aspects of life because it is an essential part of the foundation on which a civilized society is established. "An organization or society that lacks ethical principles is bound to fail sooner or later" (Posters, 2003).

### **The public health care delivery sector**

According to the research carried out by Kenya Anti-Corruption Commission (KACC, 2010) in the health care delivery sector in February 2010, it identified the following forms of corruptions in the sector which are of ethical nature. There was fraudulent procurement of drugs and medical supplies whereby suppliers offer bribes to procuring entities in order to be awarded contracts unfairly. This caused overpricing and procurement of substandard goods and supplies. There existed outright theft of drugs and medical supplies by public officials responsible for their custody and administration. This

resulted in shortage of drugs and supplies and consequent inability of citizens to access health care services. At times, patients are forced to give unofficial payments (bribes) to enable them access or speed up service delivery. This results in high cost of health care beyond the reach of ordinary citizens. There was use of public health facilities by health care workers to attend and treat their private patients. This was misuse of public facilities for private gain and creation of undue congestion. Theft and diversion of revenue collected at public health facilities by officers who are responsible for the administration of revenue at the health facilities. This caused shortage of drugs, medical supplies and other services at the health facilities. The health care insurance fraud was also cited where health workers and doctors inflated medical bills and prescribed unnecessary procedures and bills were to be paid through medical insurance schemes. This caused unwarranted increase in the cost of health care services. Absenteeism and conflict of interest by health care workers while attending to private or personal matters resulted in inability of patients to access quality health care services as and when required.

Kenya's Public Health Sector is akin to these practices of unethical nature. It is noted that previous studies have continued to report on the increase of unethical practices within the health sector. This is why the research endeavored to identify whether they still existed and what were the likely effects on organizational performance. The research carried out by KACC and TI tried to identify and expose unethical practices existing in the sector, but the study merely attempted to expose the probable effects of such practices and not the actual practices encountered by citizens.

### **MATERIALS AND METHODS**

The study was carried out in Baringo District Hospital-Kabarnet, Rift-Valley Province. It is one of the 19 District Hospitals in Rift Valley Province. This is the largest hospital in the entire district. Kabarnet is the District Headquarters of Baringo, serving three constituencies. The facility boasts of not more than 182 employees, including nurses and health officers furthering their diploma studies at the adjacent Kenya Medical Training College.

#### **Research methodology and design**

The study was carried out in Baringo District Hospital-Kabarnet, Rift-Valley Province. It applied a census inquiry on all the staff in the facility and 174 returned their questionnaires. A census inquiry is a complete enumeration of all items in the 'population' (Kothari, 2004). It can be presumed that in such an inquiry, when all items are covered, no element of chance is left and the highest accuracy is obtained. However, in practice, this may not be true. However, it needs to be emphasized that when the universe is a small one, it is no use resorting to a sample survey (Kothari, 2004). Primary data was collected using questionnaires, while secondary data was obtained from books, journals, previous research reports, government websites, organizational websites and new spapers.

**Table 1.** Unethical behaviours at the workplace (Primary Data).

Unethical practices at the workplace	Frequency	Percent
Disregard/ in-attendance	8	34.8
Lateness	5	21.7
Corruption	4	17.4
Conflict among staff	2	8.7
Drunkenness on duty	1	4.3
Dishonesty	3	13.0
Total	23	100.0

Analysis was carried out using descriptive statistics. These were presented using tables, frequencies and percentages.

## RESULTS AND DISCUSSION

Ethical behaviours differ from one organization to the other, depending on the nature of their activities, though some may share some similarity. In the public health sector, they pay little attention to patient's plight (34.8%) (Table 1).

It is not unusual in a public hospital to find a frustrated patient having waited for long hours, while others remain queuing, simply because the nurses did not notice whether the patient deserved emergency treatment or not. This attitude was evidenced when a patient died in Nyanza Provincial Hospital recently. "A patient who died unattended to after five hours at the Nyanza Provincial General Hospital was left lying on a bench for another three hours, the patient, claimed that medical staff on duty ignored them and kept them waiting unattended to for hours. "The nurse was arrogant. She said they were only dealing with emergency cases, which were not there at the time," she added. This brings out an element of neglect and dishonest (The Standard Newspaper, Tuesday, 7th July, 2009: 2). "I brought him to the hospital at 8am while walking in pain. He was not attended to until 11pm when he succumbed while lying on the bench". Posters (2003) recommended that ethical behaviour should be considered as an important pillar in all aspects of life because it is an essential part of the foundation on which a civilized society is established.

Nurses or hospital staffs frequently have gone on go-slows or strikes accusing the hospital management and administrators of lack of accountability. The management on the other hand are known to accuse the striking staff of client neglect. Most staff report on duty as they like..." (The Sunday Nation, Sunday, 13th June, 2010: 21). All these issues remain a challenge in our Public Health Facilities today and much has to be done to curb such vices and ensure patient satisfaction, better use of scarce

resources, and provision of drugs. Unethical behaviour negates any efforts towards improving organizational performance. With such occurrences, such behaviours should not be encouraged at all cost since they can be costly to the organization and also to the clients it serves (Ackroyd et al., 1999).

Posters (2003) argue that such organizations are bound sooner or later. As such, the health sector in Kenya should not be allowed to exhibit such behaviours since it plays a pivotal role in health provision to the citizens of Kenya.

There was a strong indication that managing unethical behaviour has enormous contribution towards improving organizational performance. This is an indication that ethical behaviours should be practiced by employers and organizations that want to achieve customer satisfaction and promotes their organizational performance (Table 2). This finding agrees with Murphy (2002) who noted that ethical behaviour affects its stakeholders and that every moment of action has paths of ethical as well as unethical paths wherein the existence of the business is justified by ethical alternatives it responsibly chooses". It is worth noting that organization's employees are obligated to act ethically at all times so as to promote better organizational performance and its image (Wagel, 1987).

As highlighted by the management group, lack of enough resources and facilities by the hospital, lack of commitment by employees, are the most leading causes of unethical behaviour in the Health Sector. These factors are deterrent to the performance of duties effectively and efficiently (Table 3). Poor remuneration was also cited as a causative factor of unethical behaviour. This finding may attest to the KACC report, which stated that theft of drugs, absenteeism, unnecessary referrals, charging illegal fees and soliciting for bribes are main unethical forms of corruption in the Public Health Sector in Kenya, (Kenya Anti-Corruption Commission Report, 2010). This finding reveals that such behaviours by employees can affect individuals, work teams, and even the organization negatively (Andrews, 1989).

**Table 2.** Frequency of the importance of addressing unethical behaviour workplace (Primary Data).

<b>Managing unethical behaviour increases organization performance</b>	<b>Frequency</b>	<b>Percent</b>
Yes	149	98.7
No	2	1.3
Total	151	100.0

**Table 3.** Frequency of causes of undesirable behaviour (Primary Data).

<b>Causes of undesirable behaviour</b>	<b>Frequency</b>	<b>Percent</b>
Lack of resources	9	39.1
lack of commitment	7	30.4
Poor remuneration	5	21.7
Stress	2	8.7
Total	23	100.0

**Table 4.** Frequency of benefits of ethical behaviour.

<b>Benefits of behaviour management</b>	<b>Frequency</b>	<b>Percent</b>
Better service delivery	66	43.7
Attainment of objectives	31	20.5
Harmony at work	15	9.9
Prudent resource use	17	11.3
Reduced conflict	7	4.6
United workforce	15	9.9
Total	151	100.0

### **Benefits of behaviour management in organizations**

The fifth objective of the study was to establish the benefits accruing from ethical behaviour in organizations. To achieve this objective, respondents were asked to identify the benefits that accrue to the organization when ethical behaviour is put in place. The results were captured as shown in Table 4.

Better service delivery was cited by most respondents as the benefit accruing from behaviour management (43.7%). This implies client satisfaction and improved organizational performance, (Table 4). All the managers agreed unanimously that behaviour management was essential and should be adapted to tame unethical practices.

### **Conclusion**

Ethical behaviour among employees is crucial and imperative. From the research findings, there is a strong inclination that these vices are inherent in the public sector organizations. Transparency International (TI) in 2006 recognized embezzlement, theft, and corruption in

procurement, corruption in payment systems as some practices existing in the health sector. This evidence shows the kind of problematic issue in this sector even in the 21st Century. Leadership in these firms should not be overlooked, since it provides a sense of direction to the junior staff. Failure to take action on errant employee shows other employees that there are no punishments to these vices, hence, the breeding of the said behaviours at the workplace. The study found that organizations do not have clear guidelines on how to punish or keep in check unethical behaviours. The Government of Kenya (2003) introduced the Public Officer Ethics Act (2003), which stipulates the ethical principles to be adhered to by all government employees as well as the resultant punishment to be meted on offenders. However, considering the ethical occurrences in the health sector, it can be argued that rarely do employees adhere to the act or that they may have not read the Act. When cases of theft of newborns, theft of government drugs, neglect of patients, and other unethical practices cases are reported the umbrella body does not act or is just slow in addressing the issues. In most cases the issues remain pending, forgotten or unresolved in unclear circumstance.

Public scrutiny should be facilitated by transparent and democratic processes, oversight by the legislature and access to public information. Transparency should be further enhanced by measures such as disclosure systems and recognition of the role of an active and independent media in reporting unethical practices in the sector (Transparency International Report, 2006).

The Public Health Sector should facilitate an environment where high standards of conduct are encouraged by providing appropriate incentives for ethical behaviour, such as adequate working conditions and effective performance assessment. Managers have an important role in this regard by providing consistent leadership and serving as role models in terms of ethics and conduct in their professional relationship with political leaders, other public servants and citizens.

The Governance, Justice, Law and Order Sector (GJLOS) which is based under the office of the president should also intervene and investigate the issues concerning unethical practices in the Public Health Sector. In managing unethical behaviour, challenges are bound to emerge but through the law, conscience, accountability and responsibility, appropriate measures should be taken to contain undesirable unethical behaviours.

## RECOMMENDATIONS

The study makes the following key recommendations:

(1) that the Public Officer Act (2003) which spells out the ethical requirements for all public sector employees is to be fully enforced and those found to have contravened the act be dealt with by the law. Employees should also have training sessions to discuss the Act and other relevant ethical principles.

(2) that the government through Governance, Justice, Law and Order office initiate the use of social media platform, and short text messaging services to enable patients and citizens report any form of misconduct as soon as possible for prompt action.

3) Finally, the Kenya Anti-Corruption Agency (KACC) should be roped into investigating any form of corrupt practices as soon as it is reported using the aforementioned communication channels.

**Abbreviations:** **KMTC**, Kenya Medical Training College; **KACC**, Kenya Anti-Corruption Commission; **TI**, Transparency International.

## Conflict of Interests

The authors have not declared any conflict of interests.

## REFERENCES

- Ackroyd P, Thompson P (1999). Organizational Misbehavior. London: Sage.
- Andrews KR (1989). Ethics in practice. Harvard Business Review.
- Bolino T, Bloodgood JM (2002). Citizenship Behaviour And The Creation Of Social Capital In Organizations. Academy of Management Review.
- Government of Kenya (2003). Public Officer Ethics Act (2003). Retrieved from: [www.kenyalaw.org](http://www.kenyalaw.org)
- Greenberg J, Pyszczynski T, Solomon S, McGregor H, Harmon-Jones E, Simon L (1997). Terror management theory and self-esteem: Evidence that increased self-esteem reduces mortality salience effects. *J. Pers. Soc. Psychol.* 72(1):24-36.
- KACC (2010). Kenya Anti-Corruption Commission (KACC) in the health care delivery sector in February 2010. Nairobi. KACC.
- Kothari CR (2004). Research Methodology. Methods And Techniques. India: New age publisher.
- Lewin K, Leeper RW (1943). Topological and Vector Psychology. University of Oregon.
- Murphy PE (2002). Marketing Ethics at the Millennium.
- Naran F (1992). Your Role in Shaping Ethics, Executive Excellence.
- Posters (2003). Importance of Ethics in Business. San Diego: CA.
- Robinson SL, Bennett RJ (1995). Development of a Measure of Workplace Deviance. *J. Appl. Psychol.* Columbia. University of British Columbia.
- Wagel WH (1987). A New Focus on Business Ethics at General Dynamics, Personnel.

**2017 Business Plan**

# African Journal of Business Management

## Related Journals Published by Academic Journals

- Journal of Geography and Regional Planning
- Journal of Economics and International Finance
- Journal of Hospitality Management and Tourism
- International Journal of Sociology and Anthropology
- Journal of Public Administration and Policy Research
- African Journal of Marketing Management

**academicJournals**