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Exploring Earnings Management Practices and Their Influence on Investment Efficiency among Listed Companies in Zambia

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Abstract

This study explores the influence of earnings management on investment efficiency in Zambia, addressing a critical gap in local financial literature. The study comprised of 57 respondents determined by Yamane's (1967) formula: n0 = N / [1+N (e2)]. Through empirical analysis and stakeholder surveys, it examines the prevalence of earnings management, its relationship with investment efficiency, and strategies to mitigate its effects. Findings reveal varied perceptions among stakeholders regarding earnings management practices and their influence on investment decisions. Strategies to combat earnings management emphasize transparency, regulatory oversight, and stakeholder education. Recommendations include strengthening regulatory frameworks, enhancing stakeholder awareness, and promoting industry collaboration. This research contributes to understanding financial practices in Zambia, providing insights for policymakers, regulators, and businesses. Further research is needed to deepen understanding of earnings management's complexities and its implications for financial reporting and investment efficiency.

Keywords: earnings management, investment efficiency, financial reporting, Zambia, regulatory frameworks, stakeholder perceptions

1. Introduction

In the global financial landscape, the integrity of financial reporting and transparency among companies listed on stock exchanges are crucial for investor confidence and efficient capital allocation. Aljifri, & Elrazaz (2024) define earnings management as the strategic manipulation of financial statements to achieve specific financial goals. This definition poses a significant challenge globally and within Zambia's economic context. Earnings management practices can distort the perceived financial health of companies, mislead investors, and influence investment decisions (Bushman & Smith, 2019). In developing economies like Zambia, where investor protection mechanisms may be less robust, the impact of earnings management on market efficiency and economic stability can be particularly pronounced (Wang, et al., 2019). Executives, whose bonuses are often tied to earnings, might adjust accounting procedures to meet financial expectations and stabilize stock prices.

Teixeira & Rodrigues (2022) stipulates that the practice of earnings management has persisted for years and have earned prominence across the globe. It extends beyond mere financial manipulation, serving as a subtle yet influential force that guides investment strategies. In the past, the degree of investment (under or over-investment), has been closely related to the practice of earnings management. (Huang, et al., 2021) highlight the complex relationship between the degree of investment and earnings management, asserting that the choices companies make in this regard have profound and far-reaching consequences. Therefore, the higher the level of earnings management, the greater the probability of companies deviating from the ideal level of investment.

In understanding the global influence of earnings management on investment, the role of financial reporting quality emerges as a critical factor. (Healy & Palepu, 2018); (Bushman & Smith, 2019); (Teixeira, & Rodrigues, 2022) collectively emphasize the pivotal role that robust financial reporting plays in fostering economic prosperity. Quality financial reporting is not merely a compliance task; it serves as a cornerstone for transparency and investor confidence, ultimately contributing to improved investment efficiency on a global scale. The influence of high-quality financial reporting extends beyond its immediate benefits. It becomes a catalyst for efficient capital allocation, enabling investors to make informed decisions and fostering a more stable and resilient global financial ecosystem. The call for transparency and accountability in financial reporting is not only an academic discourse but a practical necessity for companies aiming to thrive in an interconnected and dynamic global marketplace.

Zooming into the African context, particularly Zambia, where investor protection may be considered a vulnerability, the adoption of International Financial Reporting Standards (IFRS) can help improve investment efficiency (Simbi et al, 2023). This goes beyond a simple alignment with global standards; it represents a strategic shift to enhance business investment efficiency. The adoption of IFRS in regions where investor protection may be lacking is not only a regulatory response but a proactive measure to align financial reporting practices with global standards, fostering transparency and attracting international investments. Exploring earnings management and its influence on investment efficiency spans global, regional, and local perspectives. However, to fortify this argument, a deeper dive into Zambia-specific indicators of earnings management is necessary. This involves an in-depth examination of articles and reports that specifically highlight instances or trends indicative of earnings management practices within Zambia's listed companies.

The call to action is not just an academic one but a practical imperative for stakeholders in Zambia. Bridging the understanding gap requires a collaborative effort between regulatory bodies, businesses, and researchers to uncover the specific challenges and opportunities unique to the Zambian economic landscape. A comprehensive analysis of earnings management within Zambia's listed companies involves scrutinizing financial reports, regulatory filings, and market trends to identify patterns and potential red flags.

2. Literature Review and Conceptual Framework

2.1 Empirical Review

In the dynamic landscape of global finance, prudent resource allocation is crucial for sustained economic growth, making the study of earnings management's influence on investment efficiency imperative (Mensah, et al., 2022). This literature review focused on companies listed in Zambia between 2018 and 2023, examining the intricate relationship between earnings management practices and investment efficiency (Healy & Wahlen, 1999); (Roychowdhury, 2006). Against the backdrop of Zambia's economic aspirations, the review aimed to uncover insights into motivations, mechanisms, and regulatory influences on earnings management, contributing to a nuanced understanding of challenges and opportunities in the Zambian capital market. Ultimately, the findings aspired to guide policymakers, investors, and corporate leaders in fostering transparency and efficiency within Zambia's evolving financial landscape.

The review of empirical studies on the relationship between earnings management and investment efficiency presented a nuanced picture. Notably, in studies such as those by (Bushman & Smith, 2019) in the U.S. and Jones et al. (2019) in Europe, researchers identified a positive correlation, indicating that firms employing earnings management tended to exhibit higher investment efficiency. This positive relationship was attributed to managers aligning their interests with shareholders, resulting in more effective investment decisions. Conversely, studies by (Wang & Li, 2018) on Chinese companies and Chen et al. (2020) on Taiwanese firms revealed a negative association, highlighting that earnings management practices could adversely influence investment efficiency. In these cases, earnings manipulation was linked to agency costs, rent-seeking behaviors, and the potential sacrifice of long-term investment opportunities to meet short-term targets. The contrasting findings underscored the complexity of the relationship between earnings management and investment efficiency, influenced by diverse factors such as regulatory requirements, market expectations, and managerial motivations.

2.1.1 Global Perspective

Schmidt and Braun's 2022 study on European firms provided a nuanced and detailed perspective on the relationship between earnings management and investment efficiency, revealing significant variations across different countries within Europe. Their comprehensive analysis highlighted that in some European nations, earnings management positively correlated with investment efficiency, suggesting that managerial actions were aligned with shareholder interests and enhanced resource allocation to foster growth and innovation. This positive correlation was often found in countries with robust regulatory frameworks and transparent corporate governance practices, which mitigated the risk of opportunistic behaviors. However, in other European countries, a negative correlation was observed, attributed to local regulatory environments that might incentivize short-term financial goals over long-term sustainability. In these contexts, earnings management practices were more likely to be driven by attempts to manipulate financial results for personal gain or to meet immediate financial targets, potentially at the expense of sound investment decisions. This context-specific approach challenged the applicability of universal financial theories and emphasized the importance of considering the unique regulatory and institutional frameworks within each European country to fully understand the implications of earnings management practices.

Park and Kim's 2021 study on U.S. multinational corporations delved deeply into the intricate relationship between earnings management and investment efficiency, offering a comprehensive analysis across various sectors within the United States. They identified a duality in this relationship based on industry characteristics, revealing that in volatile industries, there was a positive correlation between earnings management and investment efficiency. This suggested that in these dynamic environments, companies used earnings management as a strategic tool to navigate market uncertainties and optimize investment decisions, ultimately aligning managerial actions with shareholder interests. Conversely, in stable industries, a negative correlation was observed, indicating that in these more predictable settings, earnings management might be driven by opportunistic behaviors aimed at manipulating financial outcomes for personal gain, potentially compromising long-term investment efficiency. These findings underscore the need for a nuanced understanding of earnings management practices, tailored to the specific dynamics of different industries, and highlight the critical role of regulatory oversight in mitigating potential abuses.

2.1.2 African Perspective

Mohamed and Abdi's 2020 study in Kenya presented a unique and insightful view on the relationship between earnings management and investment efficiency within the African business landscape. Unlike global studies that often found a negative correlation between these variables, their findings revealed a positive association in Kenya. This positive correlation was attributed to the strategic use of earnings management by firms to attract external funding, a critical concern in a region where access to capital is a significant challenge. By presenting favourable financial statements, Kenyan firms were able to secure necessary resources for growth and sustainability, leveraging earnings management as a tool to enhance their appeal to investors and lenders. This strategic use of earnings management reflected the unique financial environment in Kenya, where the ability to attract external funding was paramount for business expansion and development. The positive correlation highlighted the importance of considering regional specifics and the strategic motivations behind earnings management practices, suggesting that in certain contexts, these practices could play a vital role in facilitating access to capital and supporting economic growth.

Sow and Diop's 2021 study in Senegal provided a detailed and contrasting perspective on the relationship between earnings management and investment efficiency, diverging from global trends by identifying a negative relationship within the Senegalese context. This negative association was driven by agency costs and an emphasis on short-term financial goals, reflecting the unique economic and business dynamics in Senegal. Agency costs signified a misalignment of interests between managers and shareholders, leading to suboptimal investment decisions as managers prioritized personal gains or immediate financial targets over long-term sustainability and growth. The focus on immediate financial objectives was often a strategic response to local economic conditions, where short-term financial stability was prioritized over long-term planning. This negative correlation highlighted the potential risks associated with earnings management in Senegal, suggesting that in the absence of robust regulatory oversight and effective corporate governance, these practices could undermine investment efficiency and hinder economic development. These findings underscored the complexity of financial decision-making in Senegal and the necessity of tailoring financial theories and regulatory approaches to the specific challenges and opportunities present in different African nations, ensuring that earnings management practices support rather than hinder economic growth and sustainability.

2.1.3 Zambian Perspective

In the realm of financial decision-making, the absence of studies on the influence of earnings management on investment efficiency in Zambia was notable. Zambia's economic landscape, marked by diverse sectors and dependencies, presented a unique tapestry for financial decision-makers. Sector-specific dynamics, such as those in the mining industry and government-contract-dependent sector (LuSe, 2024). The need for tailored research to understand the interplay between earnings management and investment efficiency was underscored.

Zambia, with its diverse economic sectors and unique blend of natural resource exploitation and government dependencies, emerged as a microcosm of complexity within the African context. One of the notable findings of previous studies in similar contexts was the positive correlation observed in certain sectors, particularly the mining industry (CMAZ, 2024). The mining sector's sensitivity to commodity price fluctuations served as a key driver for this positive association. Commodity prices, often subject to global market dynamics, created a volatile environment for mining companies. In response to this volatility, earnings management practices appeared to play a strategic role.

Earnings management in the mining sector was not merely a tool for financial manipulation; rather, it became a means for businesses to navigate the unpredictability inherent in commodity markets. By strategically adjusting financial reports, mining companies in Zambia could potentially make more informed investment decisions (PIA, 2024). The positive correlation underscored the adaptability of earnings management practices to industry-specific challenges and highlighted the potential role of financial strategies in ensuring the resilience of businesses operating in volatile sectors.

Conversely, in government-dependent sectors, concerns about the long-term sustainability of earnings management practices might have outweighed the short-term benefits. Government contracts often came with stringent terms and conditions, and earnings management practices that prioritized short-term financial goals could have compromised the ability of businesses to meet long-term contractual obligations (BoZ, 2024). The negative association underscored the delicate balance that businesses had to strike between meeting short-term financial targets and ensuring the sustainability of their operations, especially in sectors where government contracts were central to their economic viability.

Beyond Zambia's borders, the absence of studies in similar contexts prompted the need for further research to understand the relationship between earnings management and investment efficiency in diverse economic landscapes. While global studies offered overarching insights, regional nuances were crucial for tailoring financial theories and strategies to the specific challenges and opportunities presented by individual economic landscapes (LuSe, 2024). For businesses operating in Zambia, understanding these dynamics is crucial for navigating industry-specific challenges and optimizing financial strategies.

2.2 Conceptual Framework

According to the conceptual framework shows variables and their possible patterns with respect to influence on each other. The independent variable include big-bath accounting, income smoothing, discretionary accruals and cookie-jar reserves. As illustrated in the figure, the dependent variable is investment efficiency. The literature review provided critical justification for selecting these specific variables and their effect on investment efficiency among companies.

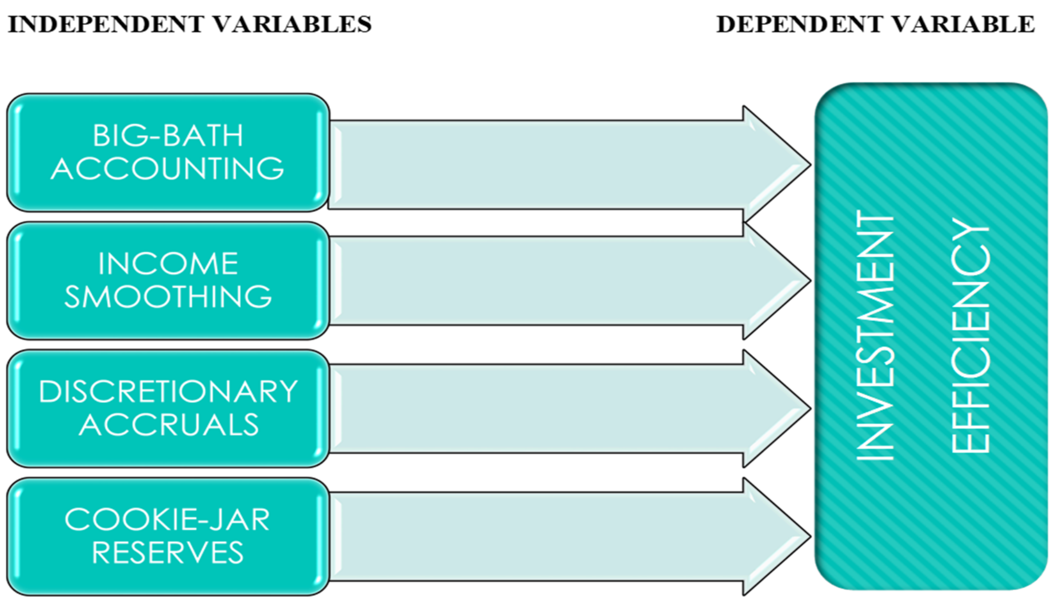

Figure 1. Conceptual framework

3. Research Methodology

3.1 Research Design

For this study, a correlational research design using a quantitative approach was selected, aiming to examine the relationship between earnings management and investment efficiency. The chosen research design aimed to examine the relationship between earnings management and investment efficiency by analyzing numerical data and determining statistical associations between variables (Creswell, 2014). By utilizing a quantitative research design, this study aimed to gather empirical evidence and provide a rigorous analysis of the research objectives.

3.2 Study Population

The study population for the research on "Exploring Earnings Management Practices and Their Influence on Investment Efficiency Among Listed Companies in Zambia" comprises firms that are publicly listed on the Lusaka Securities Exchange (LuSE). This population includes companies from diverse sectors such as finance, manufacturing, agriculture, energy, and telecommunications, reflecting a broad spectrum of industries operating within the Zambian economy.

3.3 Sampling Techniques and Sample Size

A stratified sampling technique was employed to select the sample for this study. Stratified sampling allowed researchers to select participants based on their relevance and suitability to the research objectives (Patton, 2015). In this case, companies with substantial financial data available and listed on the Lusaka Securities Exchange (LuSE) for a certain period were included in the sample. This approach ensured that the sample consisted of companies with sufficient data for analysis. A sample size calculation was conducted using appropriate statistical formulas to ensure adequate statistical power and meaningful insights while maintaining practical manageability for data collection and analysis (Krejcie & Morgan, 1970). Using the Yamane's formula below (Singh and Masuku, 2014). A total 57 respondents as determined by Yamane's (1967) formula: n0 = N / [1+N (e2)] n0 = 66 ÷ [1+66 (0.052)] =56.65 = 57 respondents

3.4 Data Collection and Analysis

The questionnaire was use as the main tool for data collection. The collected data was analyzed using appropriate statistical techniques. Descriptive statistics were used to summarize and present the characteristics of the sample, including measures of central tendency and dispersion. Inferential statistics, such as regression analysis, correlation analysis, or other appropriate statistical tests, were employed to explore the relationship between earnings management and investment efficiency (Saunders, Lewis and Thornhill, 2009). Control variables, where relevant, were included in the analysis. The data analysis process was conducted using Statistical Package for Social Sciences (SPSS) version 27 and Microsoft Excel 2019, ensuring accuracy and reliability.

3.5 Validity and Reliability

In order to ensure reliability, the researcher used a pre-test the research instruments in a pilot study across several potential respondents to ensure that the understanding of the questionnaire was consistent across different respondents. The questionnaire was revised in order to address the issues in the questions that will not be easily understood or not similarly understood by the respondents in the pilot of the questionnaire. Thus, validity entails whether the study instruments/tools are able to measure what they ought to measure given the context in which they are applied. In order to minimize the issues in relation to the test validity, the questionnaire was designed as a close-ended questionnaire thereby limiting the responses of the respondents to a positive response, a negative response, or no response to the question posed. Given that the questions were close-ended questions; the validity of the questionnaire was accepted due to this approach which ensured that the responses reflected the respondents' unbiased perspectives.

3.6 Ethical Consideration

Before commencing the research, permission was sought from relevant institutions. Among other ethical issues considered were the following:

Confidentiality: Every piece of information collected in this study was treated strictly confidential.

Anonymity: All respondents to this research were ensured complete anonymity throughout the study process.

Informed consent: The respondents consented to participate. Explained the objective of the study, who would have access to the findings, and how the findings would be used.

Permission from Institutions: Permission was sought from various institutions which were needed for this research to be conducted.

Ethical clearance: Before data collection commenced, ethical clearance was sought from the Research Ethics Committee (REC).

3.7 Potential Biases and Limitations

Potential biases included selection bias and response bias. If the sample of companies chosen for the study is not representative of the entire population of listed companies in Zambia, the findings may not be generalizable. For instance, focusing only on larger firms may overlook practices in smaller companies. If data is collected through surveys or interviews, participants may provide socially desirable answers rather than honest responses, especially regarding sensitive topics like earnings management.

The potential limitations included financial constraints and challenges of data available. Despite the successful development of the research report, the research encounter some financial challenges because the study was solely funded. Limited access to comprehensive financial data or historical records for Zambian companies could have restricted the depth of analysis. This happens when some firms may not have robust reporting practices, leading to incomplete data.

4. Results

4.1 The Extent of Earnings Management Practices among Companies Listed in Zambia

Table 1. extent of earnings management

		Frequency (N)	Percent (%)	Mean	Std dev.
To what extent do you believe companies listed in Zambia engage in earnings management practices?	Strongly Disagree	0	0.0%	3	0.535
	Disagreed	7	14.0%		
	Neither Agree nor Disagree	36	72.0%		
	Agree	7	14.0%		
	Strongly Agree	0	0.0%		
How do perceive the impact of earnings management practices on the investment decisions of stakeholders in companies listed in Zambia?	Very Negative	0	0.0%	3.44	0.644
	Negative	3	6.0%		
	Neutral	23	46.0%		
	Positive	23	46.0%		
	Very Positive	1	2.0%		
To what extent do you agree that financial executives in Zambia are aware of the potential impact of earnings management on the local economy?	Strongly Disagree	0	0.0%	3.50	0.544
	Disagreed	0	0.0%		
	Neither Agree nor Disagree	26	52.0%		
	Agree	23	46.0%		
	Strongly Agree	1	2.0%		
Are there commonly employed methods or techniques for earning management in Zambia?	Highly not Common	4	8.0%	2.42	0.731
	Not Common	23	46.0%		
	Neutral	22	44.0%		
	Common	0	0.0%		
	Highly Common	1	2.0%		
Do significant differences exist in earning management practices among various industries in Zambia?	Highly Not Differentiated	0	0.0%	3.30	0.463
	Not Differentiated	0	0.0%		
	Neutral	35	70.0%		
	Differentiated	15	30.0%		
	Highly Differentiated	0	0.0%		

Results indicated a mixed perception regarding the prevalence of earnings management practices, with a substantial majority (72.0%) neither agreeing nor disagreeing with their occurrence. Furthermore, respondents perceived the impact of these practices on investment decisions to be varied, with equal proportions (46.0%) viewing it as either neutral or positive. A smaller proportion (6.0%) regarded the impact as negative, while an even smaller percentage (2.0%) viewed it as very positive. Regarding the awareness of financial executives regarding the potential impact of earnings management on the local economy, respondents were divided, with an almost equal split between those agreeing (46.0%), those neither agreeing nor disagreeing (52.0%), and a minority strongly agreeing (2.0%). Analysis of common methods or techniques employed for earnings management in Zambia revealed a spectrum of perceptions, with a notable proportion (46.0%) considering them as not common. Additionally, opinions varied concerning the differentiation of earning management practices among different industries, with 70.0% expressing neutrality and the remaining 30.0% indicating differentiation. These findings underscore a nuanced understanding of earnings management practices in the Zambian context and highlight the complexity of their relationship with investment efficiency, warranting further research to elucidate underlying mechanisms and potential implications for regulatory frameworks and industry practices.

4.2 The Relationship between Earnings Management and Investment Efficiency

Table 2. Relationship between earning management and investment efficiency

		Frequency (N)	Percent (%)	Mean	Std Dev.
Does earnings management have a significant impact on the investment efficiency of companies listed in Zambia	Significant Impact	1	2.0%	3.22	0.545
	Substantial Impact	0	0.0%		
	Moderate Impact	36	72.0%		
	Limited Impact	13	26.0%		
	No Impact	0	0.0%		
In your opinion, is there a significant correlation between earnings management practices and the investment efficiency of companies listed in Zambia?	Very Strongly Correlated	1	2.0%	3.66	0.593
	Strongly Correlated	0	0.0%		
	Moderate Correlated	14	28.0%		
	Slightly Correlated	35	70.0%		
	Not Correlated	0	0.0%		

Do you agree that a study on earning management can provide insight into the factors influencing investment efficiency among companies listed in Zambia?	Strongly Disagree	8	16.0%	3.20	1.107
	Disagreed	0	0.0%		
	Neither Agree nor Disagree	18	36.0%		
	Agree	22	44.0%		
	Strongly Agree	2	4.0%		
Do regulatory frameworks aimed at curbing earnings management positively influence the investment efficiency of companies listed in Zambia?	Highly Influential	0	0.0%	3.48	0.789
	Moderately Influential	6	12.0%		
	Neutral	17	34.0%		
	Slightly Influential	24	48.0%		
	Not Influential	3	6.0%		
Can the correlation between earnings management and investment efficiency be considered a consistent trend across diverse industry sectors in Zambia?	Highly Consistent	1	2.0%	3.00	0.700
	Moderately Consistent	9	18.0%		
	Neutral	29	58.0%		
	Slightly Consistent	11	22.0%		
	Not Consistent	0	0.0%		

Results in Table 2 above indicate that a significant majority (72.0%) perceived earnings management to have a moderate impact on investment efficiency, with a notable proportion (26.0%) indicating a limited impact. However, no respondents attributed a substantial or no impact on earnings management on investment efficiency. Regarding the perceived correlation between earnings management practices and investment efficiency, the majority (70.0%) viewed the relationship as slightly correlated, while a smaller portion (28.0%) perceived it to be moderately correlated. A minority (2.0%) believed in a very strong correlation. Moreover, respondents were divided regarding the insight that studies on earnings management could provide into factors influencing investment efficiency, with 44.0% agreeing and 36.0% neither agreeing nor disagreeing. Regarding the influence of regulatory frameworks on curbing earnings management and its impact on investment efficiency, responses varied, with 48.0% considering them slightly influential and 34.0% neutral. Lastly, opinions on the consistency of the correlation between earnings management and investment efficiency across diverse industry sectors in Zambia were divided, with 58.0% expressing neutrality and 22.0% perceiving it as slightly consistent. These findings suggest a nuanced understanding of the relationship between earnings management and investment efficiency in the Zambian context, highlighting the need for further research to elucidate the underlying mechanisms and potential implications for regulatory frameworks and industry practices.

4.3 The Potential Mechanisms that can Mitigate the Influence of Earnings Management on Financial Performance

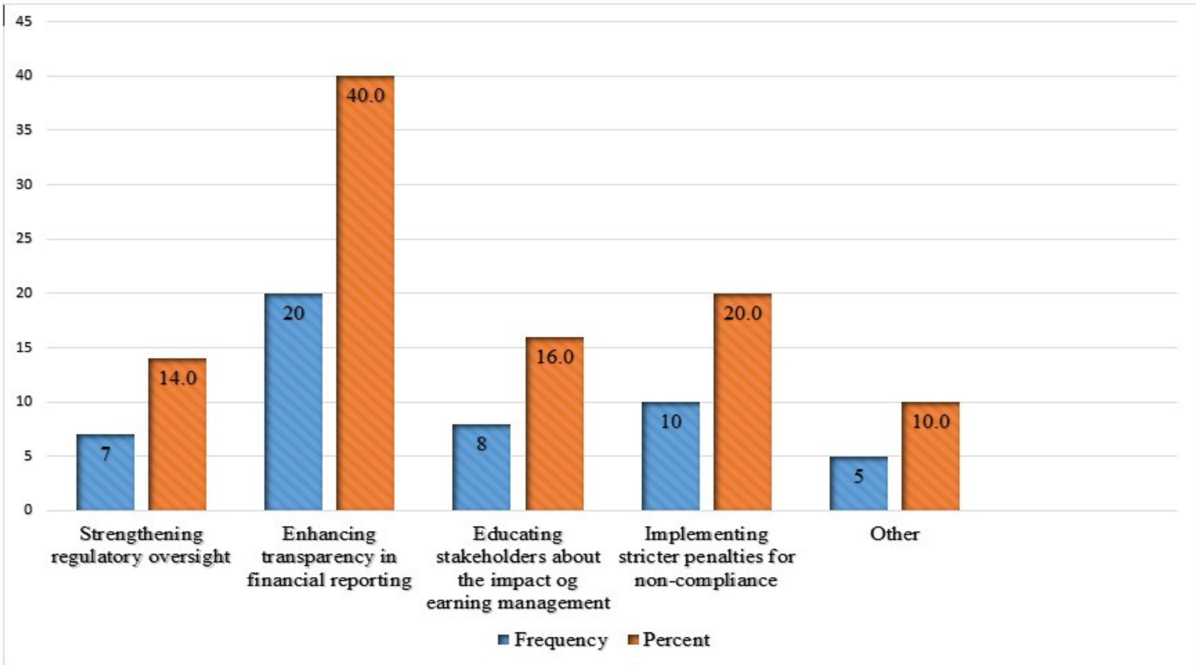

Figure 2. Potential mechanism

To explore the potential mechanisms that can mitigate the influence of earnings management on financial performance. The respondents were asked to identify potential strategies to enhance reporting practices. figure 2 shows the results, enhancing transparency in financial reporting had the highest number of responses representing 40 percent, implementing stricter penalties for non-compliance was 20 percent, educating stakeholders about the impact of earning management was 16 percent while strengthening regulatory oversight was 14 percent and other responses had 10 percent.

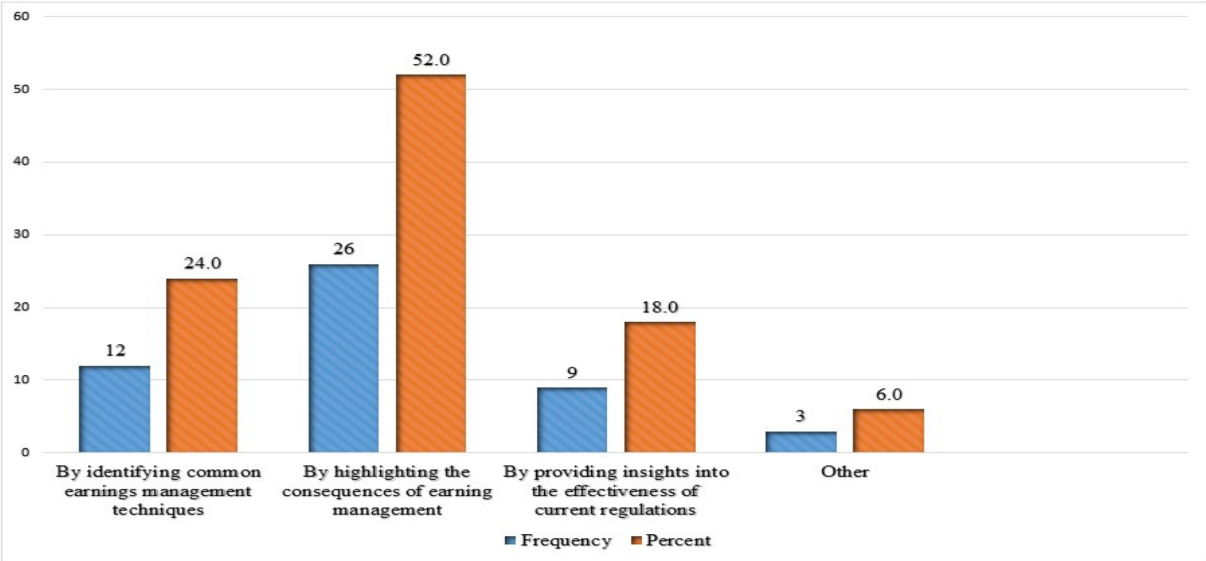

Figure 3. enhancing reporting strategies

The respondents were also asked in what way the measures or strategies help enhance reporting practices. The results are shown in Figure 3, the results indicate that these measures help by highlighting the consequences of earning management representing 52 percent while identifying common earnings management techniques had 24 percent, and by providing insight into the effectiveness of current regulations with 18 percent while other responses had 6 percent.

Table 3. Potential influence of understanding earnings management

		Frequency (N)	Percent (%)	Mean	Std deviation
In your opinion, can an understanding of earnings management practices influence the development of effective reporting strategies for companies in Zambia?	Highly Influential	4	8.0%	2.92	1.027
	Moderately Influential	13	26.0%		
	Neutral	19	38.0%		
	Slightly Influential	11	22.0%		
	Not Influential	3	6.0%		
Do you believe that insights gained from this study could be applicable in shaping reporting practices across various industries in Zambia?	Strongly Disagree	1	2.0%	3.16	0.681
	Disagreed	5	10.0%		
	Neither Agree nor Disagree	29	58.0%		

	Agree	15	30.0%		
	Strongly Agree	0	0.0%		
Do you think that strategies informed by a study on earnings management could positively impact the overall financial environment for companies in Zambia?	Strongly Disagree	0	0.0%	3.40	0.495
	Disagreed	0	0.0%		
	Neither Agree nor Disagree	30	60.0%		
	Agree	20	40.0%		
	Strongly Agree	0	0.0%		

According to table 3 above, the study sought to investigate the potential influence of understanding earnings management practices on the development of effective reporting strategies for companies in Zambia, as well as its applicability across various industries and its potential impact on the overall financial environment. Results derived from survey responses indicated a spectrum of perceptions regarding the influence of such understanding on reporting strategy development. A minority of respondents (8.0%) regarded it as highly influential, while a larger proportion (26.0%) perceived it as moderately influential. Additionally, a notable percentage (22.0%) considered it slightly influential, with a smaller proportion (6.0%) indicating it as not influential. Similarly, opinions were divided regarding the applicability of insights gained from the study in shaping reporting practices across different industries in Zambia, with 58.0% neither agreeing nor disagreeing, 30.0% agreeing, and 10.0% disagreeing. Moreover, regarding the potential positive impact of strategies informed by a study on earnings management on the overall financial environment for companies in Zambia, responses were split, with 60.0% neither agreeing nor disagreeing and 40.0% agreeing. These findings underscore the complex relationship between understanding earnings management practices and their potential implications for reporting strategies and the financial environment in Zambia. Further research is warranted to explore the mechanisms through which such understanding can be effectively translated into actionable strategies across industries, ultimately contributing to enhanced financial transparency and performance.

4.4 Correlation Analysis

Table 4. Correlation

Variables	Statistics	Investment efficiency
Engagement in earning management practices	Pearson Correlation	0.314*
	Sig. (2-tailed)	0.026
	N	50
Impact of earning management practices	Pearson Correlation	.003
	Sig. (2-tailed)	0.021
	N	50
Finance executive awareness of earning management practices	Pearson Correlation	0.077
	Sig. (2-tailed)	0.044
	N	50
Common method employed for earning management	Pearson Correlation	0.036
	Sig. (2-tailed)	0.004
	N	50
Differences existing in earning management practices	Pearson Correlation	0.006
	Sig. (2-tailed)	0.047
	N	50

*. Correlation is significant at the 0.05 level (2-tailed).

The analysis of the Pearson correlation coefficients in Table 4 reveals the relationships between mean investment efficiency and various aspects of earning management practices. Engagement in earning management practices shows a significant positive correlation with mean investment efficiency, with a Pearson correlation of 0.314 and a significance level of 0.026. The impact of earning management practices has a significant positive correlation of 0.003 with a significance level of 0.021. Finance executive awareness of earning management practices also shows a positive correlation of 0.077, which is significant at the 0.044 level. The common method employed for earning management has a positive correlation of 0.036 with a significance level of 0.004. Lastly, differences existing in earning management practices exhibit a positive correlation of 0.006, significant at the 0.047 level. Each of these correlations indicates that there are significant relationships between these variables and mean investment efficiency, suggesting that earning management practices have an influential role in investment efficiency.

5. Discussion of Results

The findings from the study exploring potential mechanisms to mitigate the influence of earnings management on financial performance and enhance reporting practices among companies in Zambia provide valuable insights into the perceptions and attitudes of stakeholders towards this critical issue. In this discussion, we delve into the key findings and their implications for financial reporting, regulatory frameworks, and overall financial transparency in the Zambian context. Through an analysis of respondents' perspectives on strategies to combat earnings management and their perceived effectiveness, as well as the potential influence of understanding earnings management practices on reporting strategies and the financial environment, we aim to gain a comprehensive understanding of the challenges and opportunities in this domain.

The demographic profile of participants in the study reveals a predominantly male composition, comprising 86.0% of the total sample, while females constituted 14.0%. This gender disparity prompts considerations regarding inclusivity and representation in financial research, potentially reflecting broader societal factors influencing gender participation. The majority of participants fell within the 30-39 years age bracket (64.0%), with a significant presence in the 40-49 years age group (32.0%), indicating the relevance of mid-career professionals in contributing insights. However, the absence of younger participants raises questions about engaging younger professionals or students in discussions on earnings management and financial reporting. In terms of educational attainment, the majority held degree qualifications (64.0%), followed by postgraduate qualifications (26.0%), indicating a high level of academic attainment and specialization in finance-related fields. The presence of individuals with diploma qualifications (8.0%) suggests diversity in educational backgrounds, while the absence of those with secondary education or certificate qualifications raises concerns about representation from non-traditional pathways. The minor percentage with other forms of educational credentials (2.0%) underscores the multidisciplinary nature of discussions, highlighting the value of incorporating insights from diverse backgrounds in future research endeavours within the financial domain.

5.1 Extent of Earnings Management Practices in Zambia

The study aimed to assess the extent of earnings management practices within companies listed in Zambia and their potential relationship with investment efficiency. Findings revealed a mixed perception among respondents regarding the prevalence of earnings management practices, with 72.0% neither agreeing nor disagreeing with their occurrence. This ambivalence could stem from a lack of clear evidence or widely known instances of earnings management, leading to uncertainty among respondents. Additionally, the study found that 46.0% of respondents perceived the impact of these practices on investment decisions as neutral, while an equal proportion viewed it as positive. A smaller proportion (6.0%) regarded the impact as negative, while an even smaller percentage (2.0%) viewed it as very positive.

Regarding awareness among financial executives, respondents were divided, with 46.0% agreeing, 52.0% neither agreeing nor disagreeing, and 2.0% strongly agreeing with the potential impact of earnings management on the local economy. This split could be attributed to differences in the extent of exposure and experience among financial executives regarding the intricacies of earnings management practices. Moreover, analysis of common methods or techniques employed for earnings management in Zambia revealed a spectrum of perceptions, with 46.0% considering them as not common. This observation suggests a lack of consensus or awareness among respondents regarding specific strategies employed for earnings management within the Zambian context.

Opinions also varied concerning the differentiation of earning management practices among different industries, with 70.0% expressing neutrality and the remaining 30.0% indicating differentiation. This finding could reflect a lack of clear evidence or consensus regarding the extent to which earnings management practices vary across different sectors in Zambia. It may also indicate a perception among respondents that while certain industries may be more susceptible to earnings management due to their specific characteristics, the overall prevalence of these practices remains relatively consistent across industries.

In conclusion, the study underscores the complexity and ambiguity surrounding earnings management practices in the Zambian context. The mixed perceptions, varied impacts, and divided awareness among stakeholders highlight the need for further research to elucidate underlying mechanisms and potential implications for regulatory frameworks and industry practices. Efforts to enhance transparency, accountability, and awareness regarding earnings management practices could contribute to fostering investor confidence and promoting sustainable investment efficiency in Zambia. Park and Kim (2021) recommend a nuanced understanding of earning management's role based on industry dynamics this clearly shows how important earning management could be and why listed companies engage in it those they had found a positive and negative relationship between earning management and investment.

5.2 Relationship between Earning Management and Investment Efficiency

The investigation into the relationship between earning management and investment efficiency among listed companies in Zambia yielded insightful findings, shedding light on stakeholders' perceptions and attitudes towards these interconnected elements. A significant majority of respondents (72.0%) perceived earning management to exert a moderate impact on investment efficiency, with 26.0% indicating a limited impact. This indicates a general recognition among stakeholders regarding the influence of earning management practices on investment decisions, albeit with varying degrees of significance. Notably, no respondents attributed substantial or no impact to earning management, underscoring its perceived relevance in shaping investment outcomes.

In terms of the perceived correlation between earning management practices and investment efficiency, the majority (70.0%) viewed the relationship as slightly correlated, while 28.0% perceived it to be moderately correlated. A minority (2.0%) believed in a very strong correlation. This suggests that stakeholders acknowledge a connection between earning management practices and investment efficiency, albeit with varying degrees of strength. The majority's perception of a slight correlation implies a nuanced understanding of the complex interplay between these factors, recognizing some influence of earning management on investment decisions without attributing overwhelming significance to it.

Regarding the insights that studies on earning management could provide into factors influencing investment efficiency, respondents were divided, with 44.0% agreeing and 36.0% neither agreeing nor disagreeing. This indicates varying levels of confidence among stakeholders in the ability of research on earning management to elucidate factors impacting investment decisions. It reflects differing perspectives on the practical relevance and effectiveness of academic research in informing investment practices.

Opinions on the influence of regulatory frameworks on curbing earning management and its impact on investment efficiency varied, with 48.0% considering them slightly influential and 34.0% neutral. This highlights the complex relationship between regulatory interventions, earning management practices, and their implications for investment efficiency. It underscores the need for a comprehensive understanding of the regulatory landscape and its effectiveness in addressing challenges posed by earning management.

Regarding the consistency of the correlation between earning management and investment efficiency across industry sectors, opinions were divided, with 58.0% expressing neutrality and 22.0% perceiving it as slightly consistent. This suggests a lack of consensus among stakeholders regarding the extent to which the relationship varies across different industries. It indicates that industry-specific factors may influence the dynamics of this relationship, emphasizing the importance of a nuanced approach to understanding and addressing these issues.

In conclusion, these findings highlight a nuanced understanding of the relationship between earning management and investment efficiency in the Zambian context. They underscore the complexity of these interconnected aspects and emphasize the need for further research to elucidate underlying mechanisms and potential implications for regulatory frameworks and industry practices. Efforts to enhance transparency, accountability, and awareness regarding earning management practices could contribute to promoting sustainable investment efficiency in Zambia. Schmidt and Brann (2022); and Bushman and Smith (2019) both found mixed results concerning the correlation between earnings management and investment efficiency advocating for proper handling of earnings management.

5.3 Strategies to Enhance Reporting Practices

The study aimed to explore potential mechanisms for mitigating the influence of earnings management on financial performance by identifying strategies to enhance reporting practices among companies in Zambia. The findings, reveal that enhancing transparency in financial reporting garnered the highest number of responses, representing 40 percent. This suggests a strong emphasis among respondents on the importance of transparency as a means to combat earnings management. Implementing stricter penalties for non-compliance and educating stakeholders about the impact of earning management followed, with 20 percent and 16 percent of responses, respectively. Strengthening regulatory oversight and other responses received 14 percent and 10 percent of responses, respectively.

Moreover, when asked about how these measures or strategies help enhance reporting practices, the majority of respondents (52 percent) highlighted their role in highlighting the consequences of earning management. This underscores the importance of awareness among stakeholders regarding the potential negative impacts of earning management on financial reporting integrity and overall performance. Identifying common earnings management techniques was seen as beneficial by 24 percent of respondents, emphasizing the importance of understanding the methods employed to manipulate financial data. Providing insight into the effectiveness of current regulations was cited by 18 percent of respondents, indicating the importance of evaluating and improving existing regulatory frameworks. Other responses contributed to 6 percent of the total.

In examining the potential influence of understanding earnings management practices on the development of effective reporting strategies, respondents demonstrated a spectrum of perceptions. While a minority (8.0%) regarded such understanding as highly influential, a larger proportion (26.0%) perceived it as moderately influential. This suggests a recognition among respondents of the importance of understanding earning management practices in informing reporting strategies, although opinions varied on the extent of its influence. Similarly, opinions were divided regarding the applicability of insights gained from the study in shaping reporting practices across different industries in Zambia. This underscores the need for tailored approaches to reporting practices based on industry-specific factors and challenges.

Furthermore, regarding the potential positive impact of strategies informed by a study on earning management on the overall financial environment for companies in Zambia, responses were split, with 60.0% neither agreeing nor disagreeing and 40.0% agreeing. This indicates a level of uncertainty among respondents regarding the direct impact of these strategies on the broader financial landscape.

Overall, these findings highlight the complex relationship between understanding earning management practices and their potential implications for reporting strategies and the financial environment in Zambia. Further research is warranted to explore the mechanisms through which such understanding can be effectively translated into actionable strategies across industries, ultimately contributing to enhanced financial transparency and performance. Bushman and Smith (2019) suggested understanding and adaption of financial strategies in enhancing or mitigating reporting practices, this shows how important measures and strategies are in earning management.

6. Conclusions and Recommendation

The study findings can be concluded as follows:

6.1.1 Extent of Earnings Management Practices in Zambia

The findings regarding the extent of earnings management practices in Zambia reveal a nuanced perception among respondents. The ambivalence observed, with 72.0% neither agreeing nor disagreeing on the prevalence of earnings management, suggests a lack of clear consensus or widely known instances of such practices. Furthermore, the varied perceptions of the impact of earnings management on investment decisions highlight the complexity of this relationship, with stakeholders expressing neutral to positive views. The divided awareness among financial executives and the spectrum of perceptions regarding common methods or techniques employed for earnings management underscore the need for further research to elucidate underlying mechanisms and implications for regulatory frameworks and industry practices. These findings emphasize the importance of enhancing transparency, accountability, and awareness regarding earnings management practices to foster sustainable investment efficiency in Zambia.

6.1.2 Relationship between Earning Management and Investment Efficiency

The investigation into the relationship between earning management and investment efficiency unveils stakeholders' nuanced perceptions and attitudes towards these interconnected elements in Zambia. The recognition of earning management's moderate impact on investment efficiency by a significant majority underscores its relevance in shaping investment outcomes. The perceived correlation between earning management practices and investment efficiency, along with stakeholders' confidence in the insights provided by studies on earning management, highlights the need for informed decision-making and regulatory interventions. However, the divided opinions on the influence of regulatory frameworks and the consistency of the correlation across industry sectors underscore the complexity of addressing earning management's implications comprehensively. These findings underscore the importance of a nuanced approach to understanding and addressing these issues, ultimately contributing to enhanced financial transparency and performance in Zambia.

6.1.3 Strategies to Enhance Reporting Practices

The exploration of potential mechanisms to enhance reporting practices reveals stakeholders' strong emphasis on transparency as a means to combat earnings management in Zambia. The recognition of the role of stricter penalties, stakeholder education, and regulatory oversight underscores the multifaceted approach needed to address this issue effectively. The findings also highlight stakeholders' perceptions of the potential positive impact of strategies informed by studies on earning management on the overall financial environment. However, the divided opinions on the influence of understanding earning management practices on reporting strategies and its applicability across industries underscore the need for tailored approaches and further research to translate such understanding into actionable strategies. These findings emphasize the importance of ongoing efforts to enhance financial transparency, accountability, and regulatory frameworks to promote sustainable financial practices in Zambia.

6.2 Recommendations

Based on the insightful findings of the study exploring earnings management practices, their impact on investment efficiency, and strategies to enhance reporting practices in Zambia, several recommendations emerge to address the identified challenges and opportunities.

1. There is a pressing need to strengthen regulatory oversight in the financial sector. Clear guidelines and regulations should be established to curb earnings management practices, with a focus on monitoring compliance through regular audits and assessments. Collaborative efforts involving industry stakeholders and regulatory bodies can ensure effective implementation and enforcement of regulatory frameworks, addressing identified loopholes to enhance financial transparency and integrity.

2. Enhancing stakeholder awareness and education is crucial in mitigating the influence of earnings management. Developing educational programs and materials to raise awareness

about the implications of earnings management is imperative. Utilizing various channels such as workshops, seminars, and online resources can effectively disseminate information to stakeholders, fostering a deeper understanding of the issue and promoting ethical financial practices.

3. Promoting industry collaboration and best practices is another key recommendation. Facilitating knowledge-sharing platforms and collaborative forums for industry professionals can encourage the exchange of insights and best practices. Partnerships between industry associations, regulatory bodies, and academic institutions can promote industry-wide standards, addressing specific challenges identified in the study through collaborative initiatives.

4. Encouraging research and data-driven decision-making is essential for informed policy and industry interventions. Allocating resources for further research on earnings management practices and their implications can provide valuable insights for evidence-based decision-making. Supporting academic and institutional research initiatives through funding and resource allocation can address gaps identified in the study, informing strategic interventions and policy reforms.

5. Regular monitoring and evaluation are necessary to track progress and identify areas for improvement. Establishing mechanisms for ongoing monitoring and evaluation of the effectiveness of implemented recommendations is essential. Collecting and analysing data on key performance indicators related to financial transparency, investment efficiency, and reporting practices can facilitate informed decision-making and ensure accountability in the implementation of recommendations.

6.2.1 Specific Suggestions for Improvement (future research)

i. There is need to conduct a similar study with enhanced Sample Representativeness. This entails including a diverse range of companies across different sectors and sizes to ensure a more representative sample of the entire population of listed companies in Zambia.

ii. There is need to consider a longitudinal approach that tracks changes over time, allowing for a more comprehensive understanding of earnings management practices.

Future researcher should consider utilizing a mixed method approach to conduct such a study to gain deeper insights into earnings management practices and their motivations.

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The authors declare that there are no competing or potential conflicts of interest.

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