



AN IN-DEPTH STUDY ON EARNING ADMINISTRATION OF SELECTED PUBLIC SECTOR ENTERPRISES IN INDIA

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ABSTRACT

Public Sector undertakings are grouped into Maharatna, Navratna and Miniratna based on their capital, total assets, income and benefit. This paper provides a comparison about earnings administration within these companies by employing agency costs as substitution. The study involves the usage of secondary data, which was collected from the Prowess database, and the websites of individual companies. The study finds that each of these groups suggest the existence of earnings management techniques in their results. The point of interest is that it is the mid-sized companies that appear to practice earnings management most among the three. Myriad reasons could explain this and it is suggested this be explored further in later research.

KEYWORDS : Performances, Profitability, Public Sector Enterprises and Earning Administration,

INTRODUCTION

This paper provides a comparison about the earnings management trends in Maharatna, Navratna and Miniratna companies in India. Public Sector undertakings are predominantly separated into Maharatna, Navratna and Miniratna based on their money related execution, total assets, income and benefit. Earnings management is the usage of bookkeeping processes to create money associated reports that represent an exceptionally positive perception of an organization's business exercises and monetary position. Earnings management is facilitated by information asymmetry among stakeholders of the firm, which then leads to agency costs. Due to constraints in employing measures of earnings management such as earnings smoothing, loss avoidance etc. this paper employs measures of agency costs as proxy. The premise is higher agency costs indicate greater potential for earnings management within those companies. Thus, studies also describe about the legal provision to protect investors which deals with the right to discipline insiders i.e., to replace managers, also to implement contracts to fence insider's private control benefit (La Porta et al., 1998). Therefore, it is proposed that earnings management should be present in countries where legal provisions are weak as the insiders get many private control benefits.

Profitability of any business organization has a greater impact on its goodwill and standing. Apart from various service motto organizations, profit maximization is the ultimate objective of every business organization. It is because of profit earning; a company can survive and think about growth and development as well. Profit earning is not as easy as anything, it takes a lot of exertion from each and every related to the organization including top level management up to ultimate workers. In order to accomplish the objective of profitability, every member should make possible effort in this respect. This research paper is an attempt by the researchers to discuss the importance of Profitability and explain various elements that affect its existence.

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Literature Review

In the recent past, studies have been mainly conducted to ascertain the link between various activities of the firms and earnings management. The research which talks about CSR reporting and earnings management (Yip, Van Staden and Cahan, 2008) is one of such instances. This study gives information regarding the connection between CSR reporting and earnings management and this is affected by the political surroundings and not by ethical considerations. Ethics literature acknowledges that the firms should be ethically responsible.

A study (Chen, Cheng, Wang, 2015) considered the impacts of indirect changes. Their findings were quite interesting. Compliant firms on an average were compared to non-compliant ones which results an experienced a fall in earnings management. With data of the acquisition cost, the non-compliant company were considered to be diminishing. It shows that, increment in board independence alone cannot produce a reduction on earnings management, a large resource data can assist the supervision of independent directors that can produce an outcome of reduction in earnings management.

The study analyzes orderly variation in earnings management over 31 countries. The study shows that the company proposes an explanation for variation in earnings management based on the ideas of the insiders, they use the earnings management to cover the firm's performance from the outsiders, to protect their private control benefits. Findings of the study is reliable with this estimate and propose an indigenous relation between commercial governance and the excellence of reported earnings.

Research Methodology

The study involves the usage of secondary data, which was collected from the Prowess database. The Prowess database is one of the largest databases by the Prowess consisting more companies and their financial data consisting of listed and non-listed companies in NSE and BSE. Financial and non-financial data were collected for selecting the sample on the basis of various levels of the companies, i.e., Maharatna, Navaratna and Miniratna companies. Asset utilization ratio is calculated as total annual revenue divided by total annual assets. Expense ratio is calculated as operating expenses divided by annual sales.

Research Objectives

1. To analyse the Earning Administration selected

- "Maharatna", "Miniratna" and "Navratna" companies.
- To analyse the Asset Utilization selected "Maharatna", "Miniratna" and "Navratna" companies.

Data Collection

This study is based on secondary data. The relevant Sources of secondary data are books, journals, magazines, newspapers, brochures and websites of select companies. All the relevant data is being collected from moneycontrol.com for year 2017-18 to year 2019-20.

Data Analysis And Interpretation

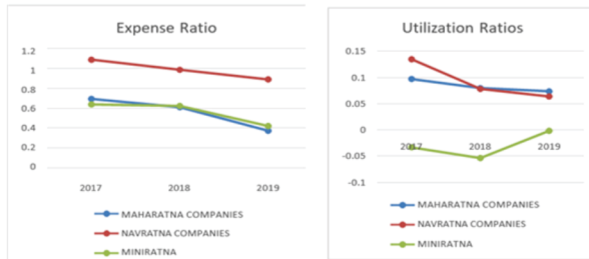


Figure 4.1 Expense Ratio And Utilization Ratio

The Asset Utilization ratios and expenses ratios were found out from the data analyzed on the various groups of companies. The expense ratio the ratio of operating expenses of the companies to gross operating income. The values of expense ratio over the years 2017-18, 2018-19 and 2019-20 are explained with respect to Maharatna, Navaratna and Miniratna companies.

Overall, the expense ratio is falling over the years. This indicates that all three groups are reducing the agency cost in their companies. Among them, Miniratnas seem to be reducing earnings management the most (as measured by this proxy). Navaratna companies seem to be reducing the extent of earnings management but are still the opaquet. Interestingly, the first (Maharatna) and last (Miniratna) seem to have lower extent of earning management than the middle tier of companie i.e. (Navaratna). This could be due to legislation common to the Maharatnas and Miniratnas, or perhaps their ownership structure.

FINDINGS

- The asset utilization ratios provide results that largely concur with expense ratios. Miniratnas demonstrate the highest improvement in asset utilization ratio and therefore indicates least earnings management.
- Similarly, Maharatnas show the greatest decrease and therefore indicate the most potential for earnings management.
- Factors affecting this can be field for further study in future.
- According to the Asset utilization ratios, Miniratnas demonstrate the highest improvement in asset utilization ratio and therefore indicates least earnings management and Maharatnas show the greatest decrease and therefore indicate the most potential for earnings management.

CONCLUSION

The Asset utilization and expenses found out from the data analyzed on the Maharatna Navaratna and Miniratna companies shows that there was a decrease in the expense ratio trend over the three years, which indicates that all three groups are reducing the agency cost in their companies. Among them, Miniratnas seem to be reducing earnings management the most. Navaratna companies seem to be reducing the extent of earnings management but are still the opaquet. The first (Maharatna) and last (Miniratna) seem to have lower extent of earnings management than the middle tier of companies i.e. (Navaratna).

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