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EFFECT OF CORPORATE DISCLOSURE ON EARNINGS MANAGEMENT AMONG LISTED FIRMS AT THE UGANDA SECURITIES EXCHANGE: A CRITICAL EVALUATION AND LITERATURE SURVEY

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ABSTRACT: *The primary purpose of this paper is to critically examine literature on the effect of corporate disclosure on earnings management among listed firms at the Uganda Securities Exchange. We discuss some background information on the interlinkages between corporate disclosure and earnings management. We also explore some of the theories available in literature on corporate disclosure and earnings management. In addition, we critically review extant literature on corporate disclosure and earnings management, highlight the research gaps, provide a justification for novelty of the paper and draw a conclusion. The paper is also expected to make a significant contribution to knowledge by shedding light on the effect of CD on EM, particularly in the context of a developing country.*

KEYWORDS: Corporate Disclosure; Earnings Management; Listed Firms; Uganda Securities Exchange

INTRODUCTION

The primary purpose of this paper is to critically examine literature on the effect of corporate disclosure (CD) on earnings management (EM) among listed firms at the Uganda Securities Exchange (hereafter, USE). The concept of corporate disclosure (CD) is amorphous due to the fact that attempts at conceptualising and measuring it have not yielded a universal approach for researchers (Modugu & Eboigbe, 2017). While Solomon, Solomon, Joseph and Norton (2013) describe it as a whole array of different forms of information produced by companies such as the annual reports and all forms of voluntary corporate communications, Vural (2017) depicts it as accounting information provided in corporate annual reports.

According to Kolsi (2012), the recent corporate financial scandals highlighted by the subprime crisis (that is, Lehman Brothers Holding Inc. in 2008 and Toshiba in 2015) have raised suspicion about the fairness of financial information disclosed by firms. These events exemplify how corporate

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insiders used their information to manipulate the accounting system by avoiding reporting significant liabilities and providing a falsely positive picture of the firms' financial situation to the market (Vural, 2017). Herein, not only did the management fail to act on behalf of its shareholders, but also the current monitoring mechanisms, such as the monitoring by the board of directors (BoDs) and the independence of the auditors, proved inapt. In the core of these scandals was usually EM.

EM occurs when managers use judgement in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers (Enomoto, Kimura, Yamaguchi, 2015). Based on the discussions found in extant literature, EM by firms is undertaken by means of three broad techniques. The first is accruals-based earnings management (AEM) in which managers change estimates and accounting policies to increase or decrease earnings (Elkala, 2017). The second technique referred to as real earnings management (REM) occurs when managers intentionally make operating decisions that have actual cash flow consequences with the goal of altering reported earnings. The third broad EM technique is referred to as classification shifting-based EM in which core expenses are shifted to special items in the statement of comprehensive income to increase earnings before extraordinary items. Of all these, AEM which is the focus of this paper, is the most harmful to the accounting reports value. The crux of the argument is that accruals are the principal product of accounting standards and, if earnings are managed, it is more likely that EM occurs on accruals rather than the cash flow component of earnings (Pantelis, 2011).

According to Ruiz (2018), research on EM by companies has dramatically grown since the late eighties. While speculative, we believe the major drivers of growth in EM area are likely to be the confluence of several factors that have both encouraged and facilitated this line of research. A factor encouraging this research was the Securities Exchange Commissions (SEC) harsh allegations during the 1990's of widespread EM among public companies (DeFond, 2010). These assertions depicted managers as routinely engaging in opportunistic EM inclined towards achieving their desired goals (Rezaei, 2012) of meeting capital market expectations.

Another factor that we believe helped fuel the growth in EM research is the introduction of abnormal accruals model in Jones (1991). While it has been and it continues to be controversial, the Jones model is noteworthy for providing the literature with a more-or-less generally accepted measure of abnormal accruals (DeFond, 2010). The other factor that helped facilitate growth in EM research is the development and implementation of a set of internationally accepted accounting standards (DeFond, 2010). The International Accounting standard Board's (IASB) explicit objective of developing a single set of high quality accounting standards has naturally focused researchers' attention on the fundamental issues related to EM.

Many studies in the developed countries have investigated the effect of CD on EM. Whereas some studies find that EM increases after the adoption of IAS/IFRS (see for example, Callao & Jarne, 2011; Hoque, Dunstan, & Karim, 2012), other studies (Khalina, Mertens & Roosenboom, 2015; Lemma, Negash, & Mlilo, 2013) find a negative relationship between MD and AEM. In addition, Einhorn and Ziv (2012) in a study on the interactions between VD and EM find that managers' decision on whether to provide more voluntary information is independent of the decision to bias the financial reports. In contrast, Aerts and Zhang (2014) find a positive relation between the intensity of causal reasoning in the Management Discussion and Analysis (MD&A) section and AEM. They argue that an increase in causal reasoning mitigates investors' concerns about EM.

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In the context of developing countries, Rudra and Bhattacharjee (2012) find that Indian firms adopting IFRS are more likely to smooth earnings compared with firms that do not adopt IFRS. Latridis and Alexakis (2012) and Gras-Gil, Manzano and Fernandez (2016) find a negative association between VD and EM while Alqatamin (2016) finds a negative relationship between forward-looking information disclosures (FLID) and EM. Meanwhile Consoni, Colauto, and de Lima (2017) find no association between voluntary disclosure and EM. Lastly, some studies (see for example, Katmon & Farooque, 2015; Lakhal, 2015; Susanto, 2016) also show that corporate governance mechanisms (CGMs) have a moderating influence on the relationship between CD and EM.

In the African context, there is also substantial evidence to show that some studies have taken place. While some authors document improved earnings quality (EQ) following mandatory IFRS adoption (Yeboah & Yeboah, 2015), others provide evidence of either no improvement or a decline in EQ (Ames, 2013; Belgacem & Omri, 2015). In the Ugandan setting, however, research on the effect of corporate disclosure and EM is sparse. Sejjaaka (2006) for instance, studies corporate MD practices by financial institutions in Uganda. Much as this study helps to shed light on the current study, it does not examine the effect of CD on EM. Furthermore, the study is not exhaustive enough because the researcher focused essentially on financial institutions (FIs) which are deemed to be closely regulated and therefore do not provide a useful area of analysis.This study therefore extends previous research by examining the effect of corporate disclosure on EM among listed firms at the USE.

The paper is expected to be beneficial to investors and members of the public interested in understanding the harmful effects of EM practices.The paper is also expected to make a significant contribution to knowledge by shedding light on the effect of CD on EM, particularly in an emerging economy. Moreover, the paper provides new evidence on the moderating effect of CGMs on the relationship between corporate disclosure (both mandatory and voluntary) and EM, in the context of a developing country. Prior evidence shows that corporate governance per se does not always help to reduce discretionary accruals (DACC) and therefore relying on this as a basis for making investment decisions might be insufficient for investors (Katmun, 2012). As well as focusing on CGMs, investors should also concentrate on CD, which is shown to be helpful in reducing managers' propensity to manipulate earnings.

The remainder of the paper is organised as follows: Section 2 reviews the relevant theories on CD and EM; Section 3 provides a critical review of extant literature on CD and EM; Section 4 identifies the research gaps; Section 5 provides a justification for novelty; and, Section 6 concludes the paper.

THEORETICAL REVIEW

Public Interest Theory

The public interest theory (PIT) of economic regulation was first developed by Pigou (1932), and later modified by Posner (1974). This theory holds that regulation is a public good that benefits society (Omran & El-Galfy, 2014). Government intervention is necessary to create a regulated reporting environment, with the objective of ensuring that accurate accounting information about firms is supplied to the market. This increases investor confidence in individual firms and improves overall market efficiency as a whole.

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Two essential reasons have been advanced in support of PIT of corporate disclosure requirements of stock markets. The first reason is because of the existence of inadequate incentives to disclose information, unequal possession of information and the motivation to suppress unfavourable information in an unregulated environment (Owusu-Ansah, 1998). The second reason is that PIT helps in reducing the chances of misleading information disclosures by companies at least in the short term (Nalikka, 2012). When applied to financial reporting, this theory implies that the needs of users of corporate reports are best served if the information in them is mandated (Owusu-Ansah, 1998). Thus, regulating the disclosure of corporate information would provide an important social benefit.
However, much as PIT considers the normative or stewardship role of regulators, it ignores the opportunistic roles of regulators, the capture of the regulatory process by regulates and the private interests of other stakeholders. Furthermore, the possible lack of competence by regulators and their being disinclined to protect the public interest may reduce the potential efficacy of this theory (Omran & El-Galfy, 2014).

Agency Theory
Alqatamin (2016) conceptualises agency theory as a contract under which one or more persons engage another person to achieve some service on their behalf that includes delegating some decision-making authority to the agent. According to agency theory, there is potential for a conflict of interests between managers and shareholders (Anis, 2016).This conflict exists when managers undertake opportunistic actions, such as EM, to maximise their interests (Sun, Salama, Hussainey, & Habbash, 2010). Managerial action can mislead stakeholders about the firm's corporate market value and financial position, and cause outsiders to make false economic decisions. EM is, therefore, an agency cost (Zahra, Priem, & Rasheed, 2005).

One possible way to reduce agency costs is to disclose information about the managers' actions and the economic reality of the firm (Boshnak, 2017). With that information, shareholders will be able to monitor managers more effectively. Consequently, the disclosure of information serves as a mechanism for control on behalf of the firms' shareholders, as well as a mechanism of legitimacy for managers. In addition, Modugu and Eboigbe (2017) posit that agency theory has a direct nexus with corporate disclosure research because corporate disclosure presents an ample opportunity to apply positive agency theory (PAT). This is due to the fact that managers, by the nature of their position in the firm, have better access to company information and *ceteris paribus* can make timely, reliable and credible communication to the market to optimise the value of the firm.

In a nutshell, and based on these arguments, it can be contended that increased mandatory disclosure can reduce the agency costs arising from information asymmetries and strengthen the reputation of management. Therefore, firm management have an incentive to provide a high level of mandatory disclosure (Boshnak, 2017). This theory is, however, limited for it does not provide a detailed explanation of the available accounting choices - measurement methods and disclosure options (Omran & El-Galfy, 2014).

Signalling Theory
According to Buskirk (2012), signalling theory is considered to be an extension of agency theory. The theory explains why firms have an incentive to report information voluntarily to the capital market, that is, VD is necessary in order for firms to compete successfully in the market for risk capital (Omran & El-Galfy, 2014). Insiders know more about a company and its future prospects than investors do; therefore, investors will protect themselves by offering a lower price for the

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company. However, the value of the company can be increased if the firm voluntarily reports (signals) private information about itself that is credible and reduces outsider uncertainty (Connelly, Certo, Ireland, & Reutzel, 2011).

Signalling theory is useful for describing behaviour when two parties have access to different information (Omran & El-Galfy, 2014). Typically, one party, the sender, must choose whether and how to communicate (or signal) that information, and the other party, the receiver, must choose how to interpret the signal. There are a number of flaws associated with signalling theory. Connelly *et al*. (2011) assert that the tenets of the theory are still unknown and requires further development. In addition, the assumption categorising firms as high quality and low quality is also somewhat faulty since in reality firms do exist in a continuum not in dichotomy. Furthermore the fact that the theory emphasises the intentional signalling of positive information means that the role of unintentional signalling of negative information is underestimated.

Although signalling theory was originally developed to clarify the information asymmetry in the labour market, it has been used to explain VD in corporate reporting (Omran & El-Galfy, 2014). VD is one of the signalling means, where companies would disclose more information than the mandatory ones required by laws and regulations in order to signal that they are better (Campbell, Shrives, & Saager, 2001). Going by this perspective, we consider this theory relevant in this review in the sense that the transition to IFRSs and the increase in disclosures required of companies globally provide good USE listed firms with the opportunity to screen themselves from the lower quality listed firms.

Stakeholder Theory

According to Freeman (1983), the basic proposition of stakeholder theory is that a firm's success is dependent upon the successful management of all the relationships that it has with its stakeholders. Unlike agency theory, stakeholder theory assumes that managers are accountable to all stakeholders. The implication of this is that a firm has to protect the interests of different stakeholders, including shareholders (Solomon, 2010).

This theory is, however, flawed because it focuses on the way the corporation manages its stakeholders (Omran and El-Galfy, 2014). In other words, the corporation identifies the stakeholders that it will consider, and the level of attention it will give to each is based on how those stakeholders can benefit the organisation. In addition, the organisation centred legitimacy on which stakeholder theory is reliant ignores important influences of society as a whole on the organisations' provision of information. These include the existence of laws and regulations developed by government and statutory bodies, which contain requirements for information disclosure.

Stakeholder theory is the accepted paradigm to explain why companies involve themselves in socially responsible activity as a strategy to maximise their long-term return on investment (Choi, Lee & Park, 2013). Because stakeholders control resources that are essential for the existence of an organisation, a manager who wishes for the continued success of the firm has to strategically devote his attention to the needs of stakeholders (Gras-Gil *et al*., 2016). From this perspective, socially responsible firms are inclined to foster long-term relationships with stakeholders rather than maximise their short-term profit. In this regard, providing quality earnings is closely connected to corporate social responsibility (CSR) activities, especially with the aim to meet the needs of the stakeholders (Choi *et al*., 2013). In conclusion, stakeholder theory offers a beneficial foundation for research into the connection between voluntary CD and EM.

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Empirical Review of Literature

Mandatory Disclosure of IAS/IFRS and Earnings Management

Ames (2013) studies the effect of IFRS adoption on AQ in South Africa. In this context he defines AQ as earnings quality (EQ) and value relevance, and hypothesizes that both will increase post IFRS adoption. His sample consisted of the entire universe of COMPUSTAT global firms listed in South Africa. This resulted into 3,950 variables from 2000 through 2011, distributed roughly evenly over the years. He employs a series of tests following Barth, Landsman and Lang (2005) and Morais and Curto (2008). Consistent with his prediction, the study finds in a variety of specifications that EQ is not significantly improved post adoption. In addition, the value relevance of major statement of financial position components changes post adoption. One such limitation that this study suffers, however, is that this was an archival method of research which often suffers from the problem of collecting data in a carefully controlled environment. Due to this problem it becomes naturally impossible to effectively control for all effects influencing the data. Another limitation specific to this study is that the quality of data available for South Africa may not be as high as the quality of more commonly studied nations, such as the US.

Ahmed, Neel and Wang (2013) compare EM metrics for 21 countries that adopted IAS/IFRS standards for the first time in 2005 to firms from non-IFRS countries (largely firms from the US). They find that firms that adopted IAS/IFRS standards in 2005 exhibit greater EM and lower frequency of large negative earnings relative to the benchmark control firms in the post-adoption period, consistent with greater EM. However, the tests in Ahmed *et al.* (2013) are based on only two years of data following the 2005 adoption of IFRS. It is conceivable that over a longer period the effects documented in their study may not persist as implementation guidance and preparer familiarity with IFRS standards increases and/or there are improvements in enforcement of IFRS standards.

Christensen, Lee, Walker and Zeng (2015), analyse a sample of 310 German firms that adopted IAS/IFRS from 1998 to 2005. They compare EM metrics of early adopters (pre-2005) to late adopters (2005). They find a decrease in EM for the Early Adopters, but a modest increase in EM for those firms that waited until IFRS became mandatory in Germany. Christensen *et al*. (2015) attribute these differences in results to early adopter's incentives to adopt IAS/IFRS in order to improve their EQ and conclude that incentives play a greater role than do IAS/IFRS standards, per se, in explaining the observed differences in firms' smoothing behaviour following IFRS adoption. Much as Christensen *et al*. (2015) provide an incentive explanation that the difference in their findings is due to the self-selection bias, as only firms with an external orientation had incentives to adopt IAS/IFRS standards early and to commit to greater transparency (lower EM) while the firms that delayed adoption until 2005 did not have strong incentives for transparent reporting, this explanation seems to carry little force when seeking to reconcile the findings of Ahmed *et al*. (2013) because a majority of firms in the Ahmed *et al*. (2013) sample (75%) come from countries where firms did not have a choice to adopt IAS/IFRS early as a credible way of signalling their commitment to greater transparency.

Capkun, Collins and Jeanjean (2016) re-examine the question of whether IFRS adoption deters or encourages greater EM in the European Union (EU) member countries. Their sample consisted of firms from twenty-nine countries which was split into early adopters, late adopters, and mandatory adopters. They find an increase in EM from pre-2005 to post-2005 for early voluntary adopters and late adopters in countries that allowed early IAS/IFRS adoption, and for mandatory adopters in

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countries that did not allow early IFRS adoption. This study complements country specific studies like Khalina *et al*. (2015) who use UK data, however, the study fails to take account of the changes to IAS/IFRS.

In a subsequent study, Doukakis (2014) examines the effect of mandatory adoption of IFRS on both accrual-based management (AEM) and real earnings management (REM) in Europe. A broad based sample of 15,206 firm-year observations of available data from 22 European countries between 2000 and 2010 countries that mandatorily adopted IFRS in 2005 was used. The study uses absolute discretionary accruals (*ABS_DACC*) as a proxy for AEM and the modified Jones model to calculate DACC. Following Roychowdhury (2006), Doukakis (2014) considers three metrics to study the level of REM: the abnormal levels of productions costs, cash flows from operations, and discretionary expenses. The empirical findings suggest that mandatory IFRSs adoption has no significant impact on the level of AEM and REM. Much as this study allows for a more comprehensive understanding of the impact of mandatory IFRS adoption on EM, the findings of the study should be interpreted with caution. The study fails to reject the null hypothesis that mandatory IFRS adoption has no effect on AEM and REM. However, this finding does not rule out the existence of a difference in reality. Quite possibly the insufficiency of evidence to reject the null hypothesis may be due to the sample used, the methodology, the proxies for AEM and REM, the time period and the empirical setting, among other things.

In another study, Yeboah and Yeboah (2015) investigate whether IFRS adoption improves earnings quality through reduced EM in South African listed firms for the period 1998 to 2012. A critical maintained hypothesis that undergirds their analysis is that adoption of adoption of IFRS will lead to higher AQ in the post-adoption period arising from less EM in South Africa. The study population comprised all companies listed on the Johannesburg Stock Exchange (JSE) between 1998 and 2012. A sample of 2,535 firm-year observations for 181 firms that adopted IFRS between 1998 and 2012 was used. They employ DACC methods (Barth, Landsman, & Lang, 2008; Kothari, Leone, & Wasley, 2005; Jones, Krishnan, & Melendrez, 2008) to measure AQ and find that the adoption of IFRSs resulted in better AQ than the South African GAAPs. Specifically, the results evidence a reduction in the pervasiveness of EM by way of earnings smoothing and DACC within the post adoption period. This study can, however, be critiqued in the sense that South Africa has a comparatively longer IAS/IFRS adoption experience relative to Uganda that mandated the post-2005 IFRSs adoption, therefore this allowed the study a sufficient information window to assess such impact and arrive at meaningful conclusions which may not be the case for firms at the USE.

Bello, Salisu and Adeyemi (2016) investigate the effect of IFRS adoption on EM of non-financial quoted companies in Nigeria. The population of the study consisted of all the 165 companies quoted on the Nigerian Stock Exchange (NSE) as at December 31, 2014. The study utilised a sample of 75 quoted companies in Nigeria that had consistently published their audited annual financial reports between 2010 and 2014. A dummy variable was used to separate the period of pre and post adoption; before January 2012 and year-end 2014. EM was measured by DACC based on the modified Jones model. The data collected were subjected to descriptive analysis, correlation analysis and a panel multiple regression analysis to explore both trends and possible effects of IFRSs adoption on general EM. The results established that IFRS adoption in Nigeria does not significantly affect the tendency of Nigerian companies to manipulate earnings. This study is very instrumental in that it evaluates the effect IFRS on EM in an African setting, however, the study period of five years (2010-2014) is inadequate to provide robust findings.

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Voluntary Disclosure of Corporate and Strategic Information and Earnings Management

Yip, Van Staden and Kahan (2011) examine whether corporate social responsibility disclosure (CSRD) is related to EM in two US industries, one with high political visibility and one with low political visibility. Their final sample consisted of 80 publicly listed firms from the food industry and 30 publicly listed firms from the oil and gas industry. They test their hypotheses by regressing EM on CSRD while controlling for other factors that may affect the level of EM. CSRD was measured in terms of web disclosure, report disclosure and any other disclosure using a binary of 1 and 0 coding for disclosing and non-disclosing firms, respectively. In addition EM was measured using DACC. They find that CSR and EM are negatively related in the oil and gas industry, but positively related in the food industry. One major weakness with this study is that the researchers focus on corporate social disclosures per se leaving significant disclosures relating to operational information like analysis of the market share and significant issues during the year, among other things.

Belgacem and Omri (2015) investigate whether voluntary social disclosure is related to EQ. The study was performed on a sample of 25 distinct firms listed on the Tunisian Stock Market (TSM) over ten years (2002-2011). In order to achieve the aim of their study, content and statistical analyses were used. Considering four attributes of earnings quality (EM, conservatism, value-relevance of earnings and AQ), the findings of the study provides strong evidence that social disclosure is positively associated with the degree of EM and negatively associated with the degree of conservatism. Accordingly, they conclude that social disclosure does not contribute to financial reporting quality but is instead used by managers as a mechanism to cover-up their EM practices in order to reinforce firm legitimacy. The weakness with the former researcher, however, is that the authors considered four attributes of EQ (EM, conservatism, value-relevance of earnings and AQ) and thereby generalising their findings.

Muttakin, Khan and Azim (2015) explore the relationship between CSRD and EQ as proxied by earnings accruals in Bangladesh from 2005 to 2009. The sample of their study consisted of all 135 non-financial companies listed at the Dhaka Stock Exchange (DSE) with 580 firm year observations. Social responsibility information was collected from CSRD, corporate governance disclosures, directors' reports, chairperson statements and notes to the financial statements contained in the annual reports. They find that in an emerging economy managers manage earnings when they provide more CSRD. Such EM is through income increasing DACC. It is not clear, however, whether the aforementioned authors did model specification tests to ascertain the robustness of their model.

Gras-Gil *et al*. (2016) investigate the relationship between CSR and EM using panel data methodology for a sample of Spanish non-financial companies. The sample employed in the study consisted of 100 most reputable Spanish companies according to the Merco Index for the period 2005–2012. The final sample was a panel of 286 firm-year observations. They employ MERCO index to measure the extent of CSRD and the Dechow *et al.* (1995) model to measure EM. Their results show that CSR practices may be an organisational device that leads to more effective use of resources, which then has a negative impact on EM practices. The limitation with the former study, however, is that the authors used a restricted sampling frame and a small sample size that included only the most reputable companies in Spain due to the feasibility of collecting CSR and financial data and so generalising their findings was not possible given this limitation.

Voluntary Disclosure of Financial and Capital Market Data and Earnings Management

Riahi and Arab (2011) study the relationship between disclosure frequency and EM by quoted Tunisian firms. They conduct their study on a sample of 19 non-financial firms listed on the Tunisian Stock market (TSM) over a 10-year period (1999 to 2008). Regression analysis was used to test for the effect of disclosure on DACC calculated from the model of Kothari *et al*. (2005). They find that when the level of disclosure increases, EM decreases. The implication of this finding is that information disclosure related to financial decisions and performance constitute a constraint to the proliferation of EM. One major disadvantage with the former research is that the paper examines a combination of strategic, financial and non-financial information. Two, Riahi and Arab (2011) employed the performance-matched model of Kothari *et al*. (2005) to test for EM. This model is deemed lacking because it cannot entirely cure the model misspecification problem (Lee & Vetter, 2015).

Pour and Arabi (2015) evaluate the effect of VD of financial information (FI) on the relationship between AQ and information asymmetry. AQ was measured using the level of DACC obtained using the modified Jones (Dechow, Sloan, & Sweeney, 1995) and Kothari *et al*. (2005). Information asymmetry was calculated by the range of price offered to buy and sell shares in each company. The required data was collected using a sample of 149 companies listed in Tehran Stock Exchange (TSE) from 2005 to 2012. The collected data was analysed using combined data method and random effect models. They find that if more information is disclosed, the information asymmetry between shareholders decreases and DACC decreases as well. Much as this study provides meaningful insights on the relationship between voluntary disclosure of financial information and EM, there are several limitations associated with this study. One such limitation is that the context in which the study was conducted cannot be used to exactly mirror what takes place among listed firms at the USE. Secondly, the impact of control variables such as economic factors, political conditions, the global economy, laws and regulations, and so forth, which might affect the relationship between the study variables was not catered for in the study.

Consoni, Colauto and de Lima (2017) examine the association between the VD of economic and financial information and EM in the Brazilian capital market. Their analysis was conducted on a random sample of 66 non-financial Brazilian listed companies in the 2005-2012 period. They employ the index proposed by Consoni and Colauto (2016) to measure VD and the Dechow *et al.* (1995) model to measure EM. The analysis was done using a model of simultaneous equations and by the random effects regression method with panel data. A significant negative relationship was expected *a priori*; however, the main result of the study indicated that VD and EM are not associated. One of the limitation with the former research is that the results obtained contradicts with the theoretical assumption that information asymmetry can be reduced through VD (Scott, 2012) and consequently limiting the opportunistic practice of EM. The possible explanation for this is that several companies in Brazil may not be interested in providing high-quality VD because most of their shareholders enjoy private benefits of control. Secondly, the context in which this study was conducted (Brazil) is quite different from Uganda and so it is possible institutional differences between markets could have influenced both VD and EM.

Forward-Looking Information Disclosure (FLID) and Earnings Management

Hassanein and Hussainey (2014) analyse a sample of 1,912 firm-year observations of UK narrative statements over the period 2005 to 2011 in a bid to ascertain whether and to what extent forward-looking financial disclosure (FLFD) is changed in response to changes in firm performance. Their sample comprises FTSE all-shares firms listed on the London Stock Exchange (LSE). Data was analysed by use of descriptive statistics and multivariate analysis. The study finds an association between a change in FLFD and a change in firm earnings performance. This study, however, uses the textual/thematic method of analysing annual report narratives using QSR N6 text analysis software. This method of analysis is not only less popular in disclosure studies but also requires financial reports to be availed in soft copies which may not be possible in emerging markets like the USE.

Bravo (2016) investigates whether forward-looking disclosures (FLDs) and corporate reputation lead to a reduction in stock return volatility. His final sample was composed of 73 non-financial companies included in Standard and Poor's 100 in the year 2009. In order to analyse the effect of disclosure on stock return volatility, data about daily prices in 2010 were collected, since annual reports for the year 2009 were published in 2010. The disclosure measure was calculated by reading and analysing annual reports while stock return volatility was calculated in logarithmic terms (GarcíaLara, García Osma, & Pe˜nalva, 2014). The results of the study indicate that FLI disclosed by companies of a higher reputation has a greater effect on stock return volatility suggesting that the disclosure of financial FLI is highly relevant, since it triggers reactions in capital markets. Notwithstanding the fact that the study provides some useful insights on FLDs, a period of one year is not sufficient to provide robust results.

Maghfira and Tresnaningsih (2018) test the effect of FLDs on the ability to anticipate future earnings in the current stock price. The study sample was drawn from 87 manufacturing firms listed on the IDX during the period 2012–2013. Data on FLD was obtained from the companies' annual reports. The stock market's ability to anticipate future earnings in share price was proxied using the future earnings response coefficient (FERC). The study finds no association between the level of FLDs and the ability to anticipate future earnings in current stock prices. The gap associated with study is that its findings are limited to one industrial sector which certainly does not mirror what takes place in other industrial sectors.

Alqatamin (2016) examines the relationship between the level of FLID and EM practices among non-financial Jordanian companies listed on the Amman Stock Exchange (ASE) during the period 2008-2013. Content analysis was used to explore the items of FLID, and the level of FLID was measured using a disclosure index. Three models, Jones (1991), modified Jones (Dechow *et al*., 1995) and performance-matched Kothari *et al*. (2005) were employed to estimate DACC as a proxy for EM. He finds a negative and significant relationship between the level of FLID and EM. While the author made a significant effort to ensure that the study objectives were met and the research questions answered, it should be mentioned that the study suffers from several limitations. One such limitation is that the sample size is limited to non-financial Jordanian companies publicly listed on ASE. Financial companies were excluded from the study sample, and this might have as a consequence, limited the generalisation of the study findings. Secondly, the results are based on data from the Jordanian context which may not be transferable to the Ugandan context.

Corporate Disclosure, Corporate Governance Mechanisms and Earnings Management

Sun *et al.* (2010) examine the association between corporate environmental disclosure (CED) and EM and the impact of CGMs on that association in the UK. The paper uses performance-matched DACC as a measure of EM. They find that audit committee (AC) diligence but not board size (BS) affects the relationship between corporate CED and EM. This is one such unique study, however, there are several limitations associated with it. First, the study period is relatively short - three years (2010-2012). A longer period from six years and above would better describe the actual picture of

EM. Second and more importantly, the sample of companies used was only limited to manufacturing firms listed at the Indonesian Stock Exchange (ISE) which makes it practically difficult to generalise the results of the study. Third, and most importantly, only one corporate governance mechanism (female AC) was used in the study. Incorporating other CGMs (board characteristics, OS) would help to shed light on the aforementioned relationship.

Katmon and Farooque (2015) investigate the impact of internal corporate governance (ICG) on the relationship between DQ and EM in the UK listed companies for the period 2005-2008. The sampled companies comprised 170 firms. DataStream was used to obtain financial data relating to control variables and disclosure information and corporate governance data was collected manually from annual reports. The researchers measured a number of board and AC related governance instruments, three DQ proxies, that is, Investor Relation Magazine Award (IRA), FLD, and Analyst Forecast Accuracy (AFA). The modified Jones model was used to test the hypotheses of the study on a matched-pair sample data of Investor Relation Magazine Award winning and non-winning firms. Their findings constantly demonstrated that DQ proxies are significantly and negatively related to EM, as opposed to internal CGMs, in combating EM practices. The findings of this study should, however, be interpreted in light of several limitations. First, the study sample might not have been so large as to represent the whole population, even though it is among the highest in research so far on DQ. Second, similar to other researches on DQ, the proxies for DQ might be subject to bias. The FLD score failed to anticipate the tone of good or bad FLD. In this instance, Schleicher and Walker (2010) contend that it is crucial to consider the effect of different tone of FLD, because it is largely subject to manipulation by managers and as each of them contribute to the economic consequences of their firms to a different extent. Third, the focus of the study was only on two internal governance mechanisms (board and AC related governance instruments) leaving other internal governance mechanisms like OS, among others.

Lakhal (2015) examine the relationship between corporate disclosure practices, OS features, and EM by French managers. The sample included French firms listed in the SBF 250’s index. Their final sample consisted of 170 firms in 2008. The extent of CD was measured by a disclosure index while EM was measured based on the modified Jones and the Kothari *et al*. (2005) models. Results show that families, institutional investors and multiple large shareholders negatively influence EM, and hence, act as good corporate governance devices to limit managerial discretion. Much as the findings of the study show that families, institutional investors and multiple large shareholders negatively influence EM, and hence, act as good corporate governance devices to limit managerial discretion, the author focused on OS features per se.

Susanto (2016) studies the effect of corporate social and environmental responsibility disclosure (CSERD) on EM with female AC as a moderating variable. A sample of 61 manufacturing companies was selected based on purposive sampling method. CSERD was measured using content analysis while EM was measured using the modified Jones model. She finds that female AC has a negative influence on the relationship between corporate CSERD and EM. Although the former study offers very insightful ideas in this review, the author focused on the manufacturing companies listed in Indonesia Stock Exchange industry per se and therefore this cannot be a representative of what takes place in other industrial sectors. In addition, the study period of two years (2010-2012) is relatively short; a minimum of 5 years would provide a better picture on the practice of EM.

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Research Gaps

Arising from the literature review are some literature and methodological gaps that are to be filled by this study. Firstly, there is lack of knowledge on the effect of CD on EM among listed firms at the USE. Most prior studies on the effect of CD on EM have been carried out in securities markets outside of the USE like Europe (Capkun *et al*., 2012; Doukakis, 2014), the UK (Hassanein & Hussainey, 2014), France (Lakhal, 2015), Brazil (Consoni *et al*., 2017), Jordan (Alqatamin, 2016), Indonesia (Susanto, 2016), South Africa (Ames, 2013; Yeboah & Yeboah, 2015), among others. Therefore studying the effect of CD on EM among listed firms at the USE helps to shed light as to whether CD and CGMs are effective in curbing the practice of EM in the Ugandan setting.

Secondly, there is a huge literature gap in relation to how CD affects EM in a country with a few listed securities at its exchange and a low market capitalisation like Uganda. Much as Sejjaaka (2006) did the only study so far on corporate mandatory disclosure in financial institutions in Uganda, his study does not highlight the effect of CD on EM. This exhibits not only a huge but very critical research gaps that this study will certainly address. Thirdly, and from a methodological perspective, most empirical studies on CD and EM have either employed the OLS regression model in their multivariate analysis (MVA) in a bid to test for their hypotheses leaving out models like the robust regression model. The robust regression model is not only deemed to be a comfirmatory method in econometric models (Sun *et al*., 2010) but also a very powerful model due to its robustness across outliers.

Justification for Novelty

Since, there are relatively few researches conducted on CD and EM specifically among listed firms at the USE, this paper broadens this scope by providing empirical evidence on the effect of CD on EM. The paper is the first empirical study to examine the effect of CD on EM among Ugandan companies. Albeit preliminary, this is considered the main originality and novelty of the current study.

CONCLUSIONS

The *a priori* theoretical expectation of this paper is that an effective CD and corporate governance system should constrain EM and lead to better corporate policy decisions. With limited previous evidence on listed firms at the USE, this paper sought to critically review extant literature on the effect of CD on EM among listed firms at the USE. Due to the lack of clarity, mixed and permanent relationships provided, we conclude that the association between CD and EM is complex and dynamic. The paper is expected to be beneficial to investors and members of the public interested in understanding the harmful effects of EM practices.The paper is also expected to make a significant contribution to knowledge by shedding light on the effect of CD on EM, particularly in an emerging economy. Moreover, the paper provides new evidence on the moderating effect of CGMs on the relationship between corporate disclosure and EM, in the context of a developing country. Limited studies consider a comprehensive set of CGMs, when examining the relationship between CD and EM.

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