

DO INTERNALLY MANAGED REITS MANAGE EARNINGS MORE THAN EXTERNALLY MANAGED REITS?

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Abstract

Purpose – The purpose of the paper was to provide an empirical examination of earnings management among internally and externally managed REITs. The empirical accounting literature claims that internal management of a firm does not constrain earnings management, while others argue in favour of internal management for firms.

Design/methodology/approach – Using a sample of listed South African REITs for the 2013 - 2021 time period, we examine the relationship between management structures and earnings management.

Findings – We do not find any aggressive practice in internally managed REITs during the study period.

Practical implications – The study's findings imply that good corporate governance is a critical safeguard for stakeholders in exceptional circumstances when REITs have special incentives to manage earnings; as a result, it is suggested that REITs' corporate governance is important, despite being overlooked in some circumstances. Specific to South African REITs, policymakers as well as nominating committees of the board of directors may wish to take note that financial competence is an important quality of external directors in order to effectively curb earnings management.

Originality/value – This is the first study to investigate financial sheet manipulation among REITs management structures in an emerging market.

Keywords. Earnings Management, Discretionary Accruals, REITs, Emerging Markets

1.0. Introduction

The perceived manipulation of financial sheets within the real estate investment trusts sector has become a topical issue. Zhu, Ong and Yeo (2010) opined that it appears Real Estate Investment Trust (REITs) managers engage in activities such as earnings management; the paper equally argued that this tends to be a possibility because of the heavy reliance on finance from external sources in funding their investment and expansions. In similar vein, Adams, Hayunga and Rasmussen (2017) recently corroborated this by stating that there appears to be a possibility of REITs engaging in financial sheet manipulations owing to the fact that such firms needed to file their financial statements with their respective securities regulatory bodies. Although the real estate industry has seen a lot of progress in securitized real estate, REITs do not have sufficient data to provide both corporate and individual investors with a clear understanding of their investment risk (REITs) (Zhu, Ong & Yeo, 2010). These market microstructure distinctions include dividend pay-out obligation and restriction on property investment. REITs cannot support investment activities by internally generated profits, hence this is unwanted for them (Deng & Ong, 2018). Indeed, the REIT sector has been perceived as more transparent than other businesses because of its rigorous regulatory requirements, physical assets, and highly predictable income flow (Schrand, et al, 2021; Olanrele, et al, 2015; Newell and Osmadi, 2009; Morri and Beretta, 2008; Joseph, et al, 2006). Existing literature (Zhu et al, 2010; Deng and Ong, 2014; Seguin, 2016) noted that while the perceived transparency within the REITs sector ought to ameliorate potential engagement in earnings management; yet, there are also wide reports of investor concerns with respect to low dividend yields; these aforementioned studies equally reported that managers tend to attempt to manipulate the financial sheets in favour of external sources of financing. Chiang (2015) had reported that dividend yields of REITs in emerging (especially African) markets appear not to have performed comparatively with their counterparts in developed markets.

Earnings management are economic acts used by managers to conceal the actual financial performance of their company. Various strategies, such as delaying revenue recognition, boosting or reducing discretionary spending, and disposing of assets, are able to influence the earnings of REITs. The study predicts that in times of increased SEO activities of REITs, they will engage in microstructure-induced earnings management practices to reduce the cost of capital. The study therefore asks the research question: Do Internally Managed REITs Manage Earnings more than Externally Managed REITs around Secondary Equity Offerings? - This is the question the study wants to address in this article. If earnings management techniques in the

REITs sector are significantly curtailed, or perhaps eliminated, policymakers will do well to encourage businesses to seek debt funds; by implication, buyers will gain in two distinct ways: their dividend yields will increase and management will be less likely to deceive them. REITs who manipulate financial results in a bid to create cash flow, those with frequent share price announcement (SEOs), and those with an inactive corporate governance structure, high leverage are all pointers to perceived engagement in earnings management (Cohen and Zarowin, 2010; Ghosh, and Sirmans, 2006). Further, most issuers would have run out of cash by the year after the SEO had they not received the offer revenues (DeAngelo et al, 2010). Ling and Wu (2013) observe that firms' cost of equity is lower prior to SEO filing when there is an increase in liquidity risk. Like with all REITs, there is a larger amount of liquidity risk for REITs than common stocks, and so REITs' desire to manage their liquidity risk is stronger (Deng and Ong, 2018). Moreover, earlier studies found that firms will sell expensive shares by means of earnings manipulation (the behavioral hypothesis). As SEO firms have been discovered to engage in genuine earnings management in post-SEO firm performance (Kothari, et al, 2016; Deng and Ong, 2014; Yang, et al, 2013); this means that in the aftermath of SEOs, the long-term trend of poor post-SEO firm performance will be more profound than post-SEO firm manipulation (Cohen and Zarowin 2010; Rangan 1998).

Earnings management efforts over accrual-based manipulation are favored among REIT managers because of a major reason; a reason being that REIT managers are also limited by the dual performance measurement by net income and money from operations prior to enhancing their compensation by actions like merger and acquisition (Zainudin, et al, 2019; Deng and Ong, 2018). Because REITs with low operating cash flow are less likely to seek external funding, their motivation to control net operating income is greater than for other companies. In terms of REIT exposure to SEO timing, the study has just begun to focus on SEO timings in connection to the degree of earnings management. In light of South Africa's recent financial scandals (Holtzblatt, et al, 2020; Jooste, 2011), this study contributes to investigating possible instances of earnings manipulation among REITs on the Johannesburg Stock Exchange. These incidents call into doubt the competency and ethics of firm managers which, in turn, drives investors and future investors to question the financial statements that they receive. For instance, the South African Institute of Chartered Accountants started an inquiry on November 2, 2017 to investigate the conduct of a handful of troubled accountants and managers. REITs being examined in this paper is intended to expand the understanding of the prevalence and degree of earnings management activities in South African REITs. Of interest is the specific relationship between management structures of REITs and instances of earnings management in the South African market. When ownership and management are separated,

the study may expect alternative decisions including differing degrees of earnings management to emerge (Ambrose & Linneman, 2001). Based on the pioneering evidence of Jensen & Meckling (1976), the study assumes that REITs like other firms are vulnerable to earnings management. Several scholars have examined the influence of REIT ownership/management structures on REIT performance to the exclusion of earnings management.

According to An, et al. (2016), REITs have two basic types of management structures: internal and external; managers who work for a REIT but are governed by the REIT's authorities have control over the structure. REITs use people in a variety of roles, including asset management, acquisition, and advising. The paper also noted that REITs with external management have a more marked control and ownership split. An intermediary asset management firm engaged by the REIT manages the day-to-day property management, financial and operational duties. As a result, the REIT firm pays a variety of fees to the managers; it is possible to charge a flat fee or an incentive fee, both of which are based on a percentage of the fund's assets under management (AUM). Ooi (2009) for instance documented that compensation paid to externally managed REITs managers must be scrutinized due to the underwhelming performance of these firms in the United States and the looming global financial crisis. REITs have historically behaved like mutual funds in the United States (US), with the exception of the ability to trade. REITs were required to engage advisers who served as managers, selecting properties and implementing investment plans inherent with tendencies to manage earnings on behalf of the REIT. In contrast to other passive investments such as bonds and shares, property investments necessitate the employment of property managers, which is why numerous REITs noticed inefficiencies and a conflict of interest among advisors/REIT managers and shareholders in the late 1980s (Wei et al. 1995; Ambrose & Linneman, 2001). REITs were permitted to engage in self-advisory and management activities following a modification in the legislation in 1986. REITs grew rapidly in the 1990s, and this sparked several academic studies on the organizational management structure of REITs and its effect on REIT performance. In spite of the argument for REITs being internally rather than externally managed, several REIT regimes have embraced externally managed structures since the US first implemented it. Most REITs, particularly in Asia, have an externally managed structure, either by default or as a necessity, indicating that externally managed REITs have certain advantages. Due to the increasing use of REITs as a form of indirect property market investment; and REITs' increasing appetite for expansion (mergers and acquisition) including other reasons, it is critical to examine how their management styles/structure and corporate governance influences the degree of earnings management around CEOs.

¹fraudulent financial reporting; Corporate malfeasance; Audit Scandals

It is possible to assume that the individuals assigned with preparing financial statements are conflicted (Ronen & Yaari, 2008; Burgstahler, et al, 2006) which increases the likelihood that the financial statements are incomplete and inaccurate. The statistical models presented in this paper use data obtained from the Stock Exchange News Service (SENS) and IRESS Expert database to first examine if there are financial sheet manipulations around SEOs; and subsequently, the degree of earnings management (if any) around the different management structures of real estate investment trusts (REITs) listed on the Johannesburg Stock Exchange. The study contributes to the REIT literature in two ways. First, it provides novel evidence on earnings management behavior of the different management structures around SEOs in the REITs sector. Second, it extends this line of inquiry into the REIT market in a developing country. Also, because the legislative requirement of a 90% dividend payout is often considered to lessen agency problems and hence minimize earnings management activities in REITs, the study of earnings management in REITs is extremely significant; according to Boshoff and Bredell (2013), the new tax treatment allows a SA REIT to deduct all distributions made to shareholders as a cost. As a result, if all distributable earnings are distributed to shareholders, they will not be taxed. SA REIT is exempt from Capital Gains Tax (CGT) on property transactions. When purchasing or selling REIT shares, SA REIT shareholders are not required to pay any Security Transfer Tax (STC). Investors will receive gross payments that are not subject to the 15% dividend tax. Their dividends, however, will be included in their taxable income. By implication, this allows investors to use debt efficiently to fund the acquisition of their REIT investment on a pre-tax basis. If the investment in a SA REIT is part of a pension, provident, or preservation fund, no tax is payable; nevertheless, foreign shareholders of a SA REIT must pay 15% of their dividends or the double tax agreement may apply; in all, REITs listing requirements limits the debt to gross asset value for SA REITs. Also, the insights will assist investors in gaining from management being less able to deceive them in addition to greater dividend rates. The results should be of interest to both investors and governments who hope for real estate capital markets to work as efficiently as possible. The remainder of the paper is framed as follows. The following section conducts a review of pertinent literature. The next section presents the testable hypotheses and data sources; this is inherent with "Measuring Financial Results Manipulation" which describes ways to quantify prevalence and degree of financial manipulation. The subsequent section "Empirical Results" summarizes and interprets the empirical findings from univariate and multivariate regression analyses. The last section is referred to as the "Conclusion."

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2.0. Literature Review

2.1. Earnings Management

Financial reporting enables managers to keep stakeholders informed about their firm's performance. Financial reporting, in an ideal world, would assist the best-performing enterprises in the economy in differentiating themselves from the poor performers and would promote resource allocation and stewardship by stakeholders (Healy and Wahlen 1999). Managers may leverage their company experience to enhance the usefulness of financial statements as a communication tool with potential investors and creditors. When management is needed to select between alternative accounting procedures for reporting the same transactions, judgment is required. Additionally, management must apply judgment when establishing provisions for future liabilities like as research and development expenses, bad loan losses, or asset impairments. Additionally, managers might employ smooth earnings trends to indicate to investors their firm's higher profits potential (Tan & Jamal, 2005; Graham et al., 2005). Similarly, Tucker & Zarrowin (2006) demonstrate experimentally that managers' use of financial reporting discretion has the impact of disclosing additional information about businesses' future earnings and cash flows. As Scott (1997) previously said, managers may leverage their financial reporting options to provide extra information to consumers about the firm's future expectations. Despite this good aspect of managers' judgment, it also provides managers with a chance to influence financial statement users in ways that benefit them the best. Earnings management is the deliberate falsification of earnings that results in the bottom line figures being different than they would have been in the absence of any manipulation (Mohamram, 2003).

According to these definitions, earnings management is a deliberate intervention by an organization's management in the financial reporting process with the intent of influencing financial report users in order to obtain an advantage for themselves or the firm. By implication, this is the practice of accounting judgment, commonly known as accruals management. In the case of REITs specific accruals, they are bound by a minimum dividend payment policy (at least 90% of taxable income); as a result, REITs pay out a substantially higher percentage of their earnings than conventional corporations (Ambrose & Bian, 2010). This might mean that REITs are more likely to have insufficient financial slack, which can be useful when external funding is expensive (Ferguson & Stevenson, 2014). Equity financing, for example, may be expensive due to the asymmetric knowledge problem identified by Myers

and Majluf (1984). Furthermore, debt financing may be unfavorable owing to risk-shifting or debt overhang issues. Thus, in order to avoid being deprived of financial slack, REITs may benefit from managing their earnings lower; this required payout policy, on the other hand, forces REITs to return to the capital market on a regular basis to raise external cash. This procedure gives foreign investors more opportunity to gather information (Ambrose & Bian, 2010). Existing equity investors, according to Easterbrook (1984), face the challenge of collective action and frequently impose insufficient scrutiny on management. Thus, raising fresh capital on a regular basis exposes managers' performance to regular examination from new investors, who are not subject to the collective action problem. This ongoing review should encourage managers to eliminate organizational inefficiencies in order to get the best price for their new equipment. As a result, more important and impactful information should be imbedded in stock trading, improving REIT organizational efficiency.

When management's participation in the financial reporting process has an effect on total accruals in a way that is not consistent with regular economic activity and conditions, abnormal accruals occur. Hoogendoorn (2011) distinguishes two types of accrual management: The first category encompasses the application of earnings management via accounting policies or procedures. This refers to the selections made about depreciation methodologies and inventory valuation, among other things. Managers might exercise discretion by selecting or adjusting accounting methods to benefit themselves or their organization. The second group includes the estimations that managers must make throughout the financial reporting process. This comprises time and cost estimates made in a variety of methods throughout the reporting process. Later on, it will become apparent that the introduction of fair value provides a significant potential for earnings management via estimations. Managers have discretion over the techniques and estimations used to calculate discretionary accruals, as well as the timing of their recognition (Xiong, 2006). Financial fraud is the purposeful distortion or omission of material facts of accounting data that is misleading and, when combined with all available information, causes the reader to change or adjust his or her judgment or choice (National Association of Certified Fraud Examiners, 1993; Dechow and Skinner, 2000).

2.2. REITs Seasoned Equity Offering

The literature on REITs deals extensively with seasoned equity offers. The market reaction to security issue announcement is well documented. Similar to regular stock trading, in the pecking order theory analysis, a strong negative reaction is discovered. Using data from 1970

to 1985, Howe and Shilling (1988) found that, for every 1 percent increase in equity issues, there was a 0.6 percent decrease in the stock price, whereas for every 1 percent increase in debt offerings, there was a 1.3 percent increase in the stock price. REITs stock issuance had a considerable negative market reaction in the 1990s according to a paper published in 2000 by Ghosh et al. (2000). Equity offers alongside another thread of literature focused on capital structure transformation are found in REIT literature. Researchers in the field of REITs have mostly been focused on analyzing the signaling impacts of equity and debt offerings of REITs since these properties minimize the impact of trade-off and pecking order rationales (Howe and Shilling 1988; Brown and Riddiough, 2003). A recent body of empirical research has found that REITs adopt target debt ratios in general in the securities market. A group of researchers (Ooi et al, 2010) examines the timing of REIT IPOs and debt-to-equity ratios. They argue that REITs timing the market using debt-to-asset requirements that are more generic in nature. Studies by Boudry et al. (2010) and Ghosh et al. (2011) found that the market timing theory offers considerable support for the market-timing decisions of REITs, as well.

There is a lack of study on REIT SEO price, according to studies. According to Ghosh et al. (2000), ownership concentration, offering size, as well as underwriter reputation all have a significant role in REIT SEO underpricing (Ghosh et al. 2000). Investors may demand further discounting if the investment has an abnormally high placement cost and value uncertainty, according to other researchers. There is considerable evidence of behavioral trading in the real estate market when REIT short-selling and IPO returns are included (Blau et al. 2011). There is a surprising lack of research on the impact of work-based income on the seasoned equity issuance and pricing procedures of real estate investment trusts. Some uncertainties persist despite the fact that experienced equity offerings have had a substantial influence. Recent research demonstrates that many securities issuers engage in substantial actual investment activity surrounding stock offerings, demonstrating that the assets of the company have a significant impact in determining the amount of investment capital required. Knowing how the manipulation of real earnings impacts decision-making surrounding the issuance of seasoned equity securities or how this may effect expected stock returns would be intriguing.

2.3. Performance of REITs Management Structures

Real estate investment trusts (REITs) can be classified as either internally or externally managed. When REITs were first proposed, they were intended to be passive investment vehicles similar to mutual funds, except that they would have trading limits (Ambrose &

Linneman, 2001). The paper noted that REITs were required to engage 'managers who would sit on boards,' who performed tasks comparable to those of mutual fund portfolio managers; apart from this, REITs investment managers were also responsible for the selection of assets and the implementation of investing plans. Real estate investments, unlike stock or bond portfolios, necessitate active management to lease, operate, and finance the properties (Baum & Hartzell, 2012). In same vein, REITs also employed 'managers' who were responsible for the day-to-day management of the property. A number of REITs in the late 1980s identified the inherent conflicts of interest between these advisors/managers and REIT shareholders as a result of fee structures that were not linked to REIT performance (Chan et al., 2003). According to Hardin III, et al. (2009), evidence on the performance of REITs is affected by their external versus internal management structures. The paper noted that both internal and external management structures were demonstrably superior across each time period at a much reduced risk. For instance, it was established that the external manager A-REIT series outperformed the stock market in each time period, particularly during the global financial crisis. Also, three A-REITs that were part of the external management series had minimal gearing and no international property in their portfolios; therefore, there was some overlap between these variables and their proven performance. Ambrose & Linneman (2001) continued to note that growth in the real estate market was hampered by the tensions between advisors/managers and REIT shareholders. Traditional developers/operators risk alienating control of their properties when they converted to REIT status without the ability to actively manage their assets. In 1986, the Internal Revenue Service issued private letter judgments permitting REITs to assume responsibility for selecting investment properties and managing their assets, allowing them to become 'self-advised' and 'self-managed'. After Kimco REIT's IPO in 1991, the need of addressing these conflicts became widely understood. There were two competing organizational structures in REITs during this period of fast growth, which is an interesting subject to look at.

2.4. Earnings Management and SEOs

According to research on businesses that issue SEOs, reported earnings of such businesses are exceptionally high during the SEO period, which is due to abnormally large accruals. If management opt to issue shares far in advance of the offering announcement, they will manage profits in advance in order to affect investor expectations about the business. Dechow et al. (1996) argue that one of the primary motivations for manipulating results is to get low-cost external funding. With fabricated financial statistics, issuers might obtain an edge in negotiations with underwriters on the terms under which securities are offered.

Simultaneously, a higher price helps the company since it allows the issuer to earn a greater profit from the offers. There will be less dilution of ownership as a result of the additional shares for the same amount of money collected. Despite the potential benefits of overstating earnings, earnings management may incur expenses. According to Dechow et al. (1996), businesses recognized by the Securities and Exchange Commission as earnings manipulators suffer a higher cost of capital. Additionally, qualifying audit findings or litigation may have a detrimental effect on the firm's image and reputation. As a result, it is reasonable to expect managers to make every effort to control financial performance. It's logical to anticipate that profits manipulation will continue for several quarters, as this will make the manipulation more seamless and difficult to detect. As a result, the quarters immediately before an offering announcement are the most sensitive to earnings management (Rangan, 1998). To preserve their tax-exempt status, REITs must distribute a significant portion of their taxable revenue and hence rely significantly on external funding to support their investments and growth. As a result, REITs must access the financial markets and raise cash more often than other types of securities. REITs undergo increased scrutiny from different capital market players because of their frequency of SEO issuance. This feature is likely to have an effect on the way REIT managers manage their earnings. Dechow et al. (1996) argue that managers of companies that need regular external funding would declare profits cautiously in order to establish a favorable market reputation that would benefit future offers. As frequently used, two or more public offerings over the course of two years qualify as 'frequent issuers.' when offers are made, managers may have previously predicted the next offering in pipeline. This expectation is believed to alter managers' incentives to manipulate profits and the degree to which earnings manipulation occurs (Shivakumar 2000). Although it is foreseeable that another offering will follow shortly after the present one, there will be a cushion built into profits management, since excessive financial manipulation may tarnish the firm's image and, as a consequence, result in increased financing costs for future offers. As mentioned previously, the REIT business is characterized by regular SEOs.

The existing literature has mostly focused on whether firms manipulate earnings around the issuance window, as well as the accounting and stock market repercussions of these actions (Rangan, 1998 & Teoh et al., 1998). Because of the empirical evidence that SEOs are accompanied with negative stock returns and bad profits performance, this research is leaning towards the conclusion that high earnings management in anticipation of SEOs occurs on occasion, which is then overturned (Teoh et al., 1998; Rangan, 1998; Shivakumar, 2000). SEO corporations have a tendency to have positive anomalous accruals (i.e., upwardly

manipulated reported profits) during the year preceding the SEO, which indicates both earnings reversals and poor stock performance in the following year. The findings of the article show that enterprises manipulate earnings upward around SEOs, and that the stock market is misled by the upwardly managed earnings, temporarily overvaluing issuing companies and then being disappointed by the forecasted earnings declines of such companies. Additionally, Teoh et al. (1998) found that SEO issuers that move profits upwards more (i.e., have larger positive anomalous accruals) had lower post-event stock returns as well as weaker earnings following the event. For the first time, DuCharme et al (2004) offer a legal viewpoint on the study of SEOs. Settlement amounts are directly linked to irregular accruals for SEOs who subsequently get sued. Furthermore, post-SEO reversals are more dramatic for SEOs who have been sued, and their post-SEO stock returns are lower. Post-SEO litigation, they say, is driven by earnings manipulation. Accrual earnings management is frequent in SEOs and is associated to post-event litigation, according to these studies. Whether or not the stock market is misled, on the other hand, is the subject of much controversy.

Indeed, it appears the EM practice attempts to explain the concerns surrounding stock pricing during the event window and period (SEOs); much more importantly, concerns on what motivates managers of firms in engaging in EM practice is fast becoming topical. Yoon and Miller (2002) investigated 249 Korean SEOs by firms between 1995 and 1997; this was done to estimate the level of manipulation by firm managers on earnings/returns prior to the event period. At this point, the evidence revealed that the Korean firms which contemplated SEOs as a means of raising funds managed their earnings a year prior the event window; it is assumed that the firms' financial performance had been poor. The impact of earnings management (EM) appears to have become the mainstay since the advent of bankruptcies in the financial and stock sector. It is assumed that regulators and stakeholders (industry practitioners specifically) deliberately manipulate financial reports (accruals/earnings/returns) in a bid to “make the books look good” to potential investors. Bortoluzzo, Sheng and Gomes (2016) had recently examined the impact of EM; findings revealed that firm managers appeared to have influenced the amount of earnings in the financial reports by imputing the loan loss provisions. Information veracity of financial reports is increasingly becoming of utmost concern as stakeholders tend to engage in returns/income smoothing in order to convey a consistent image of good performance to the potential investors. As such, the EM phenomenon merits attention in a sector that appears to be gaining keen interest; the real estate investment sector.

3.0. Theoretical Underpinnings and Earnings Management

Evidence suggests that a company's size, leverage, and return on asset (ROA) all have a role in how it manipulates earnings (Iturriaga and Hoffmann, 2005; Hessayri and Saihi, 2015; Heninger, 2001; Daniel et al., 2008; Siregar and Utama, 2008; Sun and Rath, 2009; Jelinek, 2007; Chung et al., 2005). This shows that both accrual-based and real activity-based approaches of managing earnings are indeed dictated by these influencing variables. Based on their Positive Theory, Watts and Zimmerman (1986) presented three main assumptions. Firms internal contractual motivations for earnings management is addressed in the theory. Incentives for earnings management are based on set contracts that utilize accounting figures, according to the assumptions. According to the bonus plan theory, the purpose of accounting decisions in management pay plans is to provide performance bonuses (Xiong, 2006). To balance the interests of management and shareholders, managers are compensated in addition to their normal pay according to their performance. When companies evaluate managers' performance, they typically look at specific accounting data. Incentives for managers are therefore there so that they may identify the right accounting techniques and apply judgment over accounting estimations to help them get raises (Xiong, 2006). Debt covenant hypothesis claims that debt covenants lead to earnings management. In order to make sure they can fulfill their debt obligations, creditors put limits on the payment of dividends, share repurchases, and new debt issuance for a firm's creditors (Xiong, 2006). Management is incentivized to ensure that every criterion is satisfied by manipulating accounting figures. In the most recent studies on earnings management, researchers have taken a back seat to capital market motivations as an explanation of managerial opportunism (Xiong 2006). For example, Burghstahler and Dichev (1997) disregarded explicit contract earnings management approaches. It was argued that contracts such as this are not frequent enough to explain the widespread avoidance of losses and earnings reductions.

3.1. Earnings Management and Firm Characteristics

3.1.1. Firm Size and Earnings Management

The effect of firm size on earnings management is likely to be negative. This is because larger REIT firms are more likely to have strong internal controls and better auditors who can effectively mitigate earnings management. Firms with a higher revenue can also be audited by large audit firms with auditors who have a more extensive track record. This means the

potential for earnings management is much reduced. Major REITs may also be more concerned about their public image, which could discourage them from attempting to manipulate the company's results (Kim et al., 2003; Lemma et al., 2013). Lemma et al. (2013) documented evidence on this noting that the risk of reputation damage from leaked financial information is greater for large firms, which is why they believe auditing firms would provide more valuable services. In addition, large firms are under increased scrutiny from analysts, investors, and regulators, which gives them an incentive to avoid earning management (Sun and Rath, 2009). Also, Kuo et al. (2014) contend that large firms face more intense examination by auditors and authorities, due to the size and nature of their operations.

Conversely, there is also evidence that firms with more 'Wall Street' scrutiny may face a greater incentive to manipulate earnings forecasts (Lemma et al., 2013). More importantly, the major firms in this sector have higher bargaining power with auditors, which makes it more likely that auditors will give an audit report that declares earnings management attempts have been successful for large customers (Nelson et al., 2002). Large firms have a greater current asset base, allowing them to use earnings management more effectively (Kim et al., 2003). Results are inconsistent with respect to the nature of the association. Firm size and discretionary accruals are confusing in regards to one another according to Koh (2003). His further argument is that whereas huge corporations are subject to different regulatory and analyst scrutiny, this can diminish prospects for profit manipulation. When it comes to earnings management, those authors that focus on size find that there is a positive link (Moses, 1987; Rangan, 1998; Michaelson et al., 1995; Lemma et al., 2013), while authors who consider several other factors conclude that there is a negative relationship (Heninger, 2001; Sirat, 2012). Michaelson et al. (1995) found that large firms engaged in earnings management to appear less risky to investors, whereas smaller firms did not. To determine whether or whether accruals-based earnings management activities are present in the firms studied by Burgstahler and Dichev (1997), the paper investigated if these activities were present in US firms. Following losses or drops in earnings, larger and smaller firms boost earnings. In the paper earlier mentioned, they make the assumption that managers hide revenue and losses to minimize the financial impact on the company. According to Rangan (1998), U.S. firms have a significant relationship between accounting practices that value future revenues and the success of seasoned equity offerings. Additionally, the paper demonstrates that older and larger firms change current accruals in order to create the impression of greater earnings and higher profitability.

3.1.2. Debt/Equity Ratio (Leverage)

Higher leveraged firms may tend to manage earnings in order to prevent bond defaults (Lemma et al., 2013; Sun and Rath, 2009; Becker et al., 1998; Mohrman, 1996; DeAngelo et al., 1994; and Defond and Jimbalvo, 1991). A possible motivation for firms to engage in earnings management may exist since breaching debt covenants carries a penalty. Leverage has the opposite effect; Debt-dependent firms generally have constraints on how much they may spend (Jelinek, 2007). The paper contends that managers that attempt to restrict free cash flow use would pursue projects that provide value for shareholders while spending all of the discretionary funds on approved projects. Additionally, more stringent leverage requirements could minimize earnings management practices (Zamri et al., 2013; Jelinek, 2007; and Iturriaga and Hoffmann, 2005). DeAngelo et al. (1994) found that American firms that employ debt financing and debt covenants display management decisions meant to provide a more favorable view of the firm to creditors in order for creditors to be able to decrease their loan obligations. While Mohrman (1996) argues that accounting procedures that increase current income are likely to be adopted by firms with higher leverage in order to avoid debt covenant violations, this view is also supported by John, who posits that increased current income and accrual-based accounting will be favored by firms with higher leverage in order to dodge debt covenant violations.

With all of the above, it is clear that firms enter into debt covenants (borrowing money) (Doron and Penman, 2003). Debts serve the purpose of restricting management from making decisions that diminish the value of the creditor's claim. Only in this specific case, debt covenants could restrict the payment of dividends when a company's revenue falls short of particular income standards (Nelson and George, 2013). Additionally, violations of debt covenants result in extra expenditures for the organization (Nelson et al., 2013). The fact that firms near a debt covenant violation have accounting choices that are likely to make a default less likely has been noted by Watts and Zimmerman (1986). Sweeney (1994) looks at the claim that debtors who fail to pay back their loans update their accounting methods in the years before bankruptcy (more frequently than comparable firms that do not default). Sweeney (1994) shows that managers, when facing increased debt covenants, adjust accounting processes. The study also claims that companies that are running afoul of the rules imposed by GAAP (generally accepted accounting principles) are more prone to make discretionary changes to increase income. Firms also apply accounting modifications to increase income earlier than control corporations. In the case of South Africa, the International Financial Reporting Standards (IFRS) and in accordance with numerous studies, the introduction of IFRS would likely diminish earnings management and managerial discretion. The implementation

of the new IFRS, which allows for the option of fair value accounting for real estate investment assets, has radically transformed the landscape of financial reporting for real estate corporations globally. Based on findings (Quagli & Avallone, 2010; Edelstein, et al., 2012). The study discovered that under the IFRS, firms prioritize market asset values above alternative criteria for present performance. According to previous research, the majority of real estate firms prefer to record fair values for investment properties in their financial statements rather than in the notes to the financial statements. The findings of Chebaane & Othman (2013) demonstrate the influence of implementing IFRS fair value accounting on the reporting of investment property information. Following the adoption of the IFRS, companies have two options for accounting for investment properties: (1) on the balance sheet at fair values and on the income statement with unrealized gains and losses (i.e., the fair value model), or (2) on the balance sheet at cost with notes used to disclose fair values on the financial statements (i.e., the cost model).

Although fair values must be recorded somewhere in the financial statements, managers of REITs have the option of not reporting fair values on the balance sheet and the related unrealized fair value profits and losses on the income statement (Aboody, et al., 1999; Dietrich, et al., 2001). The fair value approach vs the cost model has advantages and disadvantages. In rising real estate markets, it may be advantageous for real estate corporations to use the fair value model to record unrealized profits on the income statement (Danbolt & Rees, 2008; and Barth & Clinch, 1998). Unrealized gains and losses, of course, can be significant in comparison to a real estate company's rental and other income. As a result, revenue volatility may occur as real estate values vary in response to market conditions. As a result, managers may believe that include unrealized gains and losses in net income is not useful, and they may continue to use the cost model in accounting for investment properties, with fair value information de-emphasized and confined to the notes to the financial statements. In order to lower the probability of debt covenants being breached and to increase the firm's negotiating leverage in debt negotiations, managers employ income-increasing accounting policies (Norman and Kamran, 2005). This signifies that leverage management's earnings trajectory could go up or down. For instance, DeFond and Jiambalvo (1994) search for ways to make additional money available to troubled companies without raising their debt burden. Additionally, DeAngelo and DeAngelo (1994) discovered that accruing lower than expected income decreases a business's ability to get better contract terms. Many researchers have utilized leverage as a surrogate for possible association with earnings management when analyzing the effect of debt covenants (DeFond et al., 1994).

South African REITs have higher willingness to borrow in order to provide dividends to shareholders due to incentives strategy in place (Kasozi & Ngwenya (2015)).

3.1.3. Dividend Yield (DY) and Earnings Management

According to a review of the literature, management of earnings has an impact on the dividend policy of corporations (Ali Shah et al., 2010; Kazemi et al., 2014). Firms' reported earnings do not reflect their real performance or ability to pay dividends since they alter their earnings statistics (indicating earnings management) for a variety of reasons including enticing investors, satisfying shareholders and creditors, etc (Chansarn & Chansarn, 2016). With this, the management of earnings consequently has an effect on the dividend policy for sure; by implication, the stock price rises when a firm uses earnings management to boost its reported results in order to attract investors. A financial manager faces a daunting task when it comes to developing a sound dividend policy. Shareholders' confidence should rise as a result of this approach and it should also be beneficial to the firm. Dividend policy was pioneered by Lintner (1956); the paper examined the process through which firm managers arrive at their dividend policy. Further, it was discovered that dividend rate serves as a benchmark for the company's management. The choice to lower payouts is a difficult one for the firm's management. When a company is in its early stages, it may not pay dividends since it is concentrating on growth and maintaining its earnings. When capital markets are believed to be flawless, dividend policy is irrelevant (Miller & Modigliani, 1961). Litzenberger & Ramaswamy (1979) in terms of earnings management established that dividend policy is significant in the context of imperfect markets. A firm's dividend policy and earnings are strongly linked; Kaasen et al (1999) provided evidence on the concept of dividends influencing earnings management. The paper noted that shareholders wanted substantial returns in anticipation of a smooth dividend influx; with this, Earnings management was therefore promoted in order for firms to show sufficient income for dividends.

Evidence of dividend-stimulated earnings management was identified by Kato et al., (2001); their paper revealed that banks use their earnings to maintain their position at the top of the market. The proportion of independent directors' equity stake reveals their motivations, as shareholders, to carry out their responsibilities as controllers successfully. Participation in firm share capital by external directors does in fact motivate them to exert influence on executive behavior and to challenge their decisions. These board members want to receive dividends from their company's excess cash flow. Researchers Dechow et al. and Beasley (1996) found a negative correlation between the percentage of shares held by outside directors and the breach of generally accepted accounting standards. According to Nekhili et

al. (2009), in the French context, the percentage of stock owned by non-executive directors has a negative relationship with earnings management. Shareholders' expectations for dividends rise significantly due to the firm's increased reported profitability. By implication, Arif et al. (2011) provided evidence on a possible outcome wherein managers tend to be forced to report lower profits because of the payout. Therefore, to avoid paying dividends, the managers might manipulate their earnings (Edelstein et al, 2008). The deduction infers that as long as they display a lower income and higher spending, they can accomplish their goal. Edelstein et al. (2008) confirms the findings of Kato et al. (2001) by corroborating that there are incidences of dividend-stirred earnings management, but contradicts the findings of Savov (2006), who showed that firms with higher investments had more possibilities of discretionary accruals in their earnings. Earnings management may be measured by the amount of discretionary accruals. Investments and earnings management are proven to have a detrimental impact on dividends.

3.1.4. Market to Book Value Ratio (MBvR) and Earnings Management

This association has been documented by Lang et al. (1989) and Servaes (1991) as well. The ratio of market to book value is related with firms' motivations to manage earnings. As a result of their increased sensitivity to earnings changes, low market to book ratio firms profit the most from managing their earnings (Skinner and Sloan, 2002). A surrogate for earnings management has been modeled that incorporates the book-market ratio to differentiate it from the market to book ratio's effect.

3.1.5. Return on Company's Assets (ROA) and Earnings Management

Motivated by financial incentives, managers work to increase shareholder wealth by employing business assets in the most efficient manner possible (Kasznik, 1999). In other words, past years' earnings influence the propensity to exaggerate future years' earnings, as well as match analyst expectations for future earnings. Kothari, Leone, and Wasley (2005) state that three main sorts of events have an impact on discretionary accruals activities in organizations. First, anticipated company events of interest influence discretionary accruals. The second factor is the induction of discretionary accruals by other firm-specific events. And last, discretionary accruals such as increasing ROA were motivated by boosting the company's performance. According to Kothari et al. (2005), firms with higher ROA have more events distinctive to the firm as well as discretionary accruals inspired by the financial performance of the company. Following the previous line of reasoning, Shih (2013) describes the two types of abnormal accruals, namely those related to results and those to mistakes, as "performance-related abnormal accruals. This study utilizes the return on assets (ROA) as opposed to firms' share prices to illustrate business performance.

3.1.6. Free Cash Flow (FCF) and Earnings Management

Having cash on hand after all successful initiatives have been financed, but not paid as dividends or super-dividends, is a source of conflict of interest between shareholders and managers. This is referred to by Jensen (1986) as an FCF situation. Managers' misuse of these money, i.e., the allocation of which has little to do with the interests of the firm, is the focus of this article. There are several factors to consider when determining whether or not an FCF scenario is alarming to shareholders. Aside from the fact that in firms with promising development prospects, agency charges connected to FCF issues are not substantial enough (Alonso et al., 2005; Lasfer, 2006; Gregory & Wang, 2013). Overinvestment can occur when there are not enough strong growth possibilities, which might be bad for shareholders. Leaders' propensity to inevitably encourage firm expansion to enhance its size, degree of remuneration (Jensen and Murphy, 1990) and discretion are to blame for this condition (Stulz, 1990). Repurchase of own shares and linked parties transactions (with leaders, significant shareholders, and/or directors) can also be used to extract private gains and expropriate small owners in the event of an FCF crisis. (Nekhili & Cherif, 2011). Such conduct might have a negative impact on the company's finances, cause a drop in the stock price, and lead to the replacement of managers (Opler et al., 2001; Richardson, 2006). Because of this, they may alter profits in order to hide their use of discretionary money and ease the extraction of private advantages of control (Leuz et al., 2003).

FCF and earnings management have a positive relationship, according to Jaggi & Gul (2006). Management in firms with high FCF is said to manipulate earnings upward to post strong results and maintain job security. The findings of Chung et al. (2005a) are supported by the findings of the aforementioned scholars. Discretionary accruals are used by firms with a high FCF level to cover up negative net present value (NPV) projects (Bukit & Iskandar, 2009). A study of 155 Malaysian listed firms on the Malaysian Stock Exchange in 2001 found that companies with high FCF levels were more likely to be able to manage their earnings in the short term. Rusmin et al. (2014) propose that the relationship between FCF and income-increasing accounting option is not a one-to-one relationship, but rather depends on a unique institutional characteristic. In Malaysia for instance, Rusmin et al. (2014) found a positive relationship between FCF and income-increasing accounting decision, which is somewhat relevant in Singapore, but not in Indonesia. A FCF scenario, on the other hand, provides proof of the reasons for downward earnings management, according to Chung et al (2005b). Discretionary accruals are used by organizations with high FCF and poor growth potential to lower their profit levels.

In Table 1, the study has reasons to believe a relationship between earnings management and the adopted variables based on a number of accounting literature.

Table 1: Relationships among Variables: REITs Earnings Management

S/No	Variable	Paper	Relationship with Earnings Management
1	Leverage (Debt/Equity)	Matsuura (2008); Fung & Goodwin (2013); and Salihi & Jibril (2015)	Positive
		Chou, Gombola & Liu (2006); Rodríguez - Pérez & Van Hemmen (2010) and Black, Sellers & Manly (1998).	Negative
2	Dividend Yield	Chansarn & Chansarn (2016); Kao (2014); Shah, Yuan & Zafar (2010) and Lanouar, Riahi & Omri (2013).	Negative
		He, Ng, Zaiats & Zhang (2017); and Padmini & Ratnadi (2020).	Positive
3	Free Cash Flow (FCF)	Dewi & Priyadi (2016); Kodriyah & Fitri (2017); and Chung, Firth & Kim (2005); and	Positive
		Astami, Rusmin, Hartadi & Evans (2017); Susanto, Pradipta & Djashan, (2017).	Negative
4	Market to Book Value Ratio	Han, Kang, Salter & Yoo (2010); and Capalbo, Frino, Lim, Mollica & Palumbo (2018).	Positive
		Tabassum, Kaleem & Nazir (2015); and Park & Park (2004).	Negative
5	Firm Size	Ali, Noor, Khurshid & Mahmood (2015); and Nalarreason, Sutrisno & Mardiaty (2019)	Positive
		Thoopsamut & Jaikengkit (2009); and Lobo & Zhou (2001).	Negative
6	Return on Assets	Aygun, Ic & Sayim (2014); and Sun & Rath (2009).	Positive
		Alhadab & Al -Own (2017); and Leggett, Parsons & Reitenga (2009).	Negative

4.0. Hypotheses Formulation & Data Sources

4.1. South African REIT Management Structures/Styles and Earnings Management around SEOs

Capozza & Seguin (2000) documents that REITs that delegate asset and liability management decisions to internal employees generally pay managers based on corporate cash flows rather than property cash flows for their work; additionally, the important design element is the simultaneous existence of several forms of management contracts and pay systems among the publicly listed REIT companies. When REITs are managed externally (i.e., by advisers),

there is a mismatch of incentives, according to Sagalyn (1996), but conflicts of interest are less likely with internal management. An important distinction is not whether a management and shareholder have an arm's-length relationship or not, but rather whether contracts exist that reward external advisers based on criteria different from shareholder wealth. Most external advisers are paid as a percentage of assets, as a percentage of property-level cash flows, or as a mix of the two.

4.2. Management Structures and Earnings Management

It is the tasks and procedures of a firm's internal governance that are designed to monitor and influence the actions of its management. Maintaining the credibility of a company's financial statements is a primary function of these systems in connection to financial reporting (Dechow et al., 1995). Board of directors is an essential internal control tool for monitoring the actions of senior management and maybe the use of accruals to manage earnings. Fama (1980) & Fama and Jensen (1983) argue that the efficacy of the board is a function of the board's makeup. According to them, the corporate board's internal control is strengthened by the presence of non-executive members. However, agency theory suggests that external directors, due to their independence and organizational capabilities, provide an effective regulatory system for executive directors' activities (who are perceived to favour opportunism) since they have a unique perspective on the firm (Rediker & Seth, 1995). Because external directors/managers have incentives to cultivate track records as experts in regulated decision-making, they have the potential to be more successful (Fama & Jensen, 1983). The board can be viewed as a means by which managers exert control over their subordinates. Researchers usually agree that external management is crucial for management monitoring and supplemental knowledge (Booth et al., 2002). Further, a number of studies have also provided evidence on the impact of management structure on limiting opportunistic earnings management action. Some studies asserted that external managers on a board appears to restrain the action of the board in relation to earnings management (Klein, 2002; Peasnell et al., 2000, 2005, 2006; Benkel et al., 2006; Benkraiem, 2009). Financial statement fraud has been studied extensively by Beasley (1996), Dechow et al (1996), and Uzun et al (2004), among others. A correlation between irregular accruals and the percentage of external managers on a firm's board has been identified by Klein (2002), using data from the United States. Management structures and earnings management were also examined using a sample of firms in the United Kingdom by Pope et al. (1998). The paper suggested that a more diverse board of directors would limit earnings management; apart from this, the paper established a significant relationship between the percentage of external

board members and the growth in income accruals. On the basis of the Cadbury Committee Report of 1992, Peasnell et al. (2000) provided evidence on the relationship between board composition and earnings management. While the paper found no indication of a relationship between management structures and earnings management, it indicated a strong negative correlation between the percentage of external managers and the amount of income-increasing accruals. Howe & Shilling (1990) found that externally managed REITs experience negative abnormal returns over the 1973 to 1987 period on average. Whereas, Hsieh & Sirmans (1991) and Cannon & Vogt (1995) found that internally managed REITs outperformed externally managed REIT's over their 1987 to 1992 sample period. Also, Capozza & Seguin (2000) established that compared to domestically managed REITs, externally managed REITs issue loans with lower projected interest rates. Higher debt use in externally managed REITs may not explain all of the rising interest rates. It also is worth noting that these debt contracts come with interest rates that are higher than those on the borrowed funds. The usage of debt that has been negotiated at rates that appear to be above market rates has the effect of reducing shareholders' cash flows.

4.2.1 Externally Versus Internally Managed REITs: Benefits and Features

The activities of the "manager" and the "advisor," respectively, in REIT management include investing and property management. Property managers are in charge of managing property sites; their responsibilities include leasing and facility operations such as maintenance, engineering, tenant relations, onsite construction management, property-level accounting, and so on. Investment management advisors are in charge of selecting and managing assets in order to carry out the REIT's investment plan; their responsibilities include providing recommendations on property purchases and disposal. The IREIT model is notable in that it should be handled externally. The projected IREIT regulations make no distinction between asset management ("advisor") and property management ("manager"). External management is required for overall management. This is analogous to early REITs in the United States (before to 1968), which were obliged to be externally advised. In turn, the adviser would employ managers, leasing brokers, and subcontractors. The idea was to retain REITs as passive investment vehicles. The United States started to enable REITs to be "self-advised" and "self-managed" in 1986 (Ambrose & Linneman, 2001). The trust in an IREIT will designate a management company (or LLP) to be in charge of asset management and property management. In total, approximately 50% of worldwide REITs are advised and managed internally, whereas roughly 30% are advised and managed externally (Das & Thomas, 2016).

Markets with extensive REIT experience tend to have even more internally advised REITs. Externally advised REITs are common in developing REIT markets, particularly in Asian economies. Companies favor internal advising when laws allow, but are less picky about internal management. The sole exception is Mexico, where roughly 70% of REITs are externally managed but internally managed, while the remainder are both advised and managed. According to Cashman et al. (2014), external management is popular in less stable economic and political situations, higher levels of corruption, worse disclosures, or inadequate property rights protection. The bulk of REITs (60–75 %) in developed countries with a saturation point of REITs (e.g., the United States, the United Kingdom, and Australia) are internally advised and managed. Developed markets (e.g., the United States, the United Kingdom, Australia, Belgium, Canada, and France) with a high number of REITs are dominated by internal advisers (60–85 %) and, while still significant, are less controlled by internal managers. In contrast, all REITs in Japan and Singapore are both advised and managed by third parties. It is worth noting that REITs in Japan and Singapore were designed after Australia when it introduced external management. Although Australian REITs are now internally advised and managed, REITs in Singapore and Japan are still externally advised and managed. Several REITs (11 – 13 %) in developed markets such as the United States, United Kingdom, and France are externally advised and managed. Half of Hong Kong's real estate investment trusts (REITs) are advised and managed by third parties. Countries where REITs are still in their early stages (for example, Finland, Ireland, and the United Arab Emirates) choose externally advised and managed arrangements. Property owners are sometimes hesitant to hand up power to managers since external advising services involve investment management. As a result, some property owners are hesitant to convert their properties into REITs. Other challenges arising from this paradigm include agency issues and conflicts of interest, particularly in circumstances when a management business services many customers. Clearly, as Cashman et al (2014) reiterated, the choice of external versus internal advisor is a function of the estimated agency costs. Indeed, earlier externally-managed REITs underperformed. Howe and Shilling (1990) reported that from 1973 to 1987, the risk-adjusted performance of externally-advised REITs was worse than the overall market. In 1986, the U.S. Tax Reform Act (TRA) took the drastic step of allowing REITs to be internally managed. Recently, REITs are pre-dominantly self-advised (Nicholson & Stevens, 2021)

4.2.2. Costs and Benefits of External Managers

When comparing external vs internal advisers or managers, studies have shown varying results. For example, Brockman et al. (2014) discover that, whereas externally managed REITs underperformed until 1993, the underperformance did not last due to rising institutional

ownership. They claimed that better monitoring from institutional ownership raised the performance of externally managed REITs to that of internally managed ones. Das and Thomas (2016), on the other hand, indicate that internally-managed REITs are no better at reducing general and administrative (G&A) expenditures. Internally managed REITs, on the other hand, have 20 basis points greater management expenses in terms of market value. They discover that the efficiency ratio range (G&A expenditure divided by total revenue) in domestically managed vs externally managed REITs is 5%–7% and 4%–6%, respectively. According to Yong & Singh (2013), when internally managed REITs engage in a broader range of operating activities, they become more vulnerable to market and financial risk.

4.2.3. Costs and Benefits of External Advisors

According to Brockman et al. (2014), while the choice of external vs internal management has a negligible influence on REIT returns, the choice of internal versus external adviser type is essential. Specifically, whether property-level operations are managed internally or externally has little impact on REIT performance. However, it is recognized that whether asset management (investment in and disposition of properties) is performed by internal or external managers makes a difference. According to Howe & Shilling (1990), insurance companies and specialist real estate consulting services firms provide superior advice than others. Engaging external managers or advisers may enhance a REIT's performance, especially for REITs with regionally broad asset portfolios or heterogeneous asset holdings (Deng, et al, 2014). It is suggested that local ("external") advisers have access to "soft information" and are therefore more capable of overcoming some of the difficult problems often connected with the features stated above (Cashman, et al., 2014). Externally advised REITs are also seen as more transparent. As a result, analyst expectations are less scattered, bid-ask spreads are narrower, and share prices are less volatile. However, external advisors may be more costly. Another downside of external advisors is related to self-dealing. For example, an advisor may acquire for the REIT an overpriced asset in which it has ownership interest, or sell assets at low price to a related buyer.

Below is Table 2 showing a sample of internally and externally managed REITs around the world. This is followed by Table 3 which shows South African REITs and their management structures. Externally managed REITs are believed to have greater governance, better frameworks, and better alignment (Lecomte & Ooi, 2013; Omokhomion, et al., 2018; Kudus & Sing, 2011; and Yap, et al., 2018). In reaction to the financial crisis and accompanying regulatory revision, institutional fund management platforms have tightened internal controls, systems, procedures, and investor communication (Waldron, 2018). They are now

aiming to diversify capital sources and, where feasible, develop new products that complement existing fund offerings, such as performance-based fee structures and strong governance controls (Wenceslao, 2008; Joseph, Graeme & Tien-Foo, 2006). As a result, new, externally managed listed firms in the United States and across the world with structures that better alleviate many of the traditional alignment, cost, and governance difficulties are becoming more common. Listed REIT products are now enabling access to best-in-class fund platforms to retail and institutional investors of all sizes. With this, investor confidence is lured due to the impact of externally managed REITs' corporate governance outlook (Chong, et al., 2017). A possible case of investors being lured to buy more SEOs of externally managed REITs than their internal counterparts is perceived.

Table 2: Sample of Internally managed vs. Externally managed REIT 2021 globally

REIT/Year of Origin	Internal Management	External Management	Market Capitalization (USD)
US (1960)	251	41	1.33 Trillion
UK (2007)	36	19	74 Billion
Netherlands (1969)	11	0	0.77 Trillion
France (2003)	28	11	76 Billion
Belgium (1995)	23	9	16 Billion
South Africa (2013)	29	5	36 Billion
Italy (2007)	6	3	5.1 Billion
Australia (1985)	28	13	103 Billion
Ireland (2013)	4	9	5.3 Billion
Spain (2009)	4	11	28.2 Billion
Mexico (2004)	6	13	17.5 Billion
Hong Kong (2003)	4	8	11.1 Billion
Singapore (1999)	4	41	73.3 Billion
Japan (2000)	6	62	147.2 Billion

Author's Compilation

The study contends that managers' subpar performance can be explained by taking a close look at the money they receive. For the most part, external managers are paid as a proportion of either the overall assets managed or the cash flows from individual properties. Interest expenses have no effect on the pay of either party. Because of this, they have no need to bargain for lower interest rates. For this reason, external management are compelled, regardless of interest rates, to issue debt to fund the purchase of further real estate. With the need to issue debt and the inability to offer competitive interest rates, it is possible for stock value to fall. With the above literature inconsistencies, the study then hypothesized that a relationship exists between management structures of firms (REITs) and tendency to manage earnings irrespective of the degree.

Hypothesis 1A: Internal Management of REITs will increase earnings management behavior around SEOs
Hypothesis 1B: Internal Management of REITs will not increase earnings management behavior around SEOs
Hypothesis 2A: External Management of REITs will reduce earnings management behavior around SEOs
Hypothesis 2B: External Management of REITs Table 3: South African REITs and their Management

Structures/Classifications will not reduce earnings management behavior around SEOs

REITs	Management Structure	REITs Sector	Date of Listing	Market Cap	P/E Ratio	Dividend Yield (%)	Return on Equity	Return on Assets	Net Asset Value	Issued Shares
ACCPROP ACCELERATE PROPERTY FUND LTD	Internally	Diversified	December 2013	5,392,035,675	10.16	10.57 %	8.7 %	4.61 %	743.87	989,364,344
ARROWHEAD PROPERTIES LTD	Internally	Diversified	December 2011	6,982,192,384	8.01	13.16 %	9.97 %	9.36 %	1,103.91	1,049,953,742
CAPITAL & REGIONAL PLC	Externally	Retail	December 1995	6,938,543,842	27.17	6.34 %	5.03 %	5.38 %	1,152.60	718,275,760
DELTA PROPERTY FUND LTD	Internally	Diversified	November 2012	4,413,435,813	6.82	15.76 %	6.98 %	10.02 %	973.87	711,844,486
DIPULA INCOME FUND LTD A	Internally	Diversified	December 2011	9,311,051,201	11.04	9.27 %	9.2 %	9.53 %	1,012.62	219,197,046
DIPULA INCOME FUND LTD B	Internally	Diversified	December 2011	2,463,134,245	7.13%	3.14%	9.2 %	9.53 %	1,012.62	229,128,767
EMIRA PROPERTY FUND LTD	Internally	Diversified	November 2003	7,646,621,824	14.47	9.79 %	8.06 %	6.66 %	1,734.70	522,667,247
EQUITES PROPERTY FUND LTD	Internally	Logistics	June 2014	8,178,967,953	14.34	5.86 %	14.83 %	7.11 %	1,522.00	409,973,331
FAIRVEST PROPERTY HOLDINGS LTD	Internally	Diversified	November 1998	3,765,255,297	10.66	8.94 %	17.52 %	14.69 %	218.18	861,100,145
FORTRESS REIT LTD A	Internally	Logistics and Retail	October 2009	20,160,129,375	5.91	8.16 %	30.85 %	1.9 %	1,739.00	1,184,496,438
FORTRESS REIT LTD B	Internally	Diversified	October 2009	29,183,891,080	5.91	8.16%	30.85 %	1.9 %	1,739.00	1,086,114,294
GROWTHPOINT PROPERTIES LTD	Internally	Diversified	December 1987	47,597,799,587	15.67	6.96 %	10.73 %	7.35 %	2,518.00	2,934,202,472
HAMMERSON PLC	Externally	Retail	December 2015	21,052,970,823	16.06	5.18 %	9.51 %	5.19 %	12,858.17	794,227,196
TSOGO SUN HOSPITALITY PROPERTY FUND LTD	Internally	Hospitality and Leisure	February 2006	1,417,511,698	9.06	11.54 %	3.46 %	4.48 %	2,009.00	578,154,207
HYPROP INVESTMENTS LTD	Internally	Retail	December 1987	9,408,041,789	17.12	6.3 %	11.04 %	6.89 %	9,978.00	248,441,278
INVESTEC AUSTRALIA PROPERTY FUND	Externally	Retail	December 2012	10,166,278,479	7.71	9.23 %	19.25 %	7.5 %	122.80	478,802,454
INDLUPLACE PROPERTIES LTD	Internally	Residential	June 2015	1,063,399,588	9.52	10.51 %	8.34 %	8.46 %	1,029.98	318,645,117
INVESTEC PROPERTY FUND LTD	Internally	Diversified	December 2011	6,324,097,363	15.63	8.02 %	7.79 %	8.97 %	1,694.00	731,400,437
LIBERTY TWO DEGREES	Internally	Retail	November 2018	4,540,079,672	26.03	4.2 %	6.95 %	6.31 %	994.00	908,443,334
OCTODEC INVESTMENTS LTD	Internally	Diversified	November 1990	6,816,900,958	10.54	11.25 %	8.78 %	7.18 %	2,933.00	266,864,319
ORION REAL ESTATE LTD	Internally	Diversified	2005 – 2019; 2020 – Date	409,954,147	125	5 %	-1.19 %	-0.48 %	94.67	630,698,688
RDI REIT P.L.C	Externally	Diversified		11,145,027,389	13.21	7.8 %	9.13 %	6.42 %	680.81	1,905,132,887
REBOSIS PROPERTY FUND LTD B	Internally	Diversified	December 2010	6,591,506,936	13.14	13.11 %	22.26 %	6.6 %	1,844.55	673,289,779
REBOSIS PROPERTY FUND LTD A	Internally	Diversified	December 2010	1,641,753,011	0	0	22.26 %	6.6 %	1,844.55	63,266,012
REDEFINE PROPERTIES LTD	Internally	Diversified	December 1999	26,127,256,264	-6.75	0	7.38 %	4.09 %	719.74	5,793,183,207
RESILIENT REIT LTD	Internally	Retail	December 2002	22,211,008,360	79.12	7.72 %	1.06 %	-1.73 %	5,213.00	400,126,254
SA CORPORATE REAL ESTATE LTD	Internally	Diversified	December 1995	5,532,410,609	5.73	12.82 %	5.8 %	6.58 %	383.00	2,514,732,095

Author's Compilation

5.0. Data Sources

In this paper, the study used 476 SEOs issued by 34 REIT firms (based on availability of data) from January 1, 2013 to December 31, 2021. The number of SEOs was retrieved from the Stock Exchange News Service (SENs) of the Johannesburg Stock Exchange (JSE). The study did not find consistent data on SEOs for 2020 and 2021; hence, the study commenced the study period in 2013 till 2019, being motivated by the evolution of the REITs regime in South Africa. The sample includes all classifications of REITs for the purpose of the study. Financial ratios and stock accounting data were retrieved from IRESS Expert database. The 34 SAREITs were further categorized into internally managed and externally managed firms (with information retrieved from the SENs) for comparison with a view to examining the degree of earnings management around SEOs. The numbers of internally managed REITs are 29 while the numbers of externally managed REITs are 5. The study first measures earnings management through its discretionary accruals proxy; it then use the multivariate and univariate ordinary least square (OLS) specifications to test the hypotheses. OLS regressions have been argued as the most suitable model for capturing long time-series; apart from this, the OLS-based Jones model is preferred in detecting simulated earnings management (Höglund, 2013; and Ambrose & Bian, 2010). More recently and specifically, Morri, et al (2020) noted that the OLS model is best suited at investigating whether there is a significant relationship between excess dividends and a small set of covariates including samples of ratios adopted in this study (free cash flow, size and ROA). Subsequently, an alternative proxy for discretionary accruals is adopted for the purpose of the study.

5.1. Measuring Earnings Management in Financial Statements: The Discretionary Accruals Phenomenon

Extant studies (Jones 1991; Defond and Jiambalvo 1994; Teoh 1998; Rangan 1998, Zhu et al (2010); Cohen and Zarowin (2010); Ghazali, Shafie and Sanusi (2015); Jackson (2018)) have all often-measured earnings management using discretionary accruals. Jackson (2018) for instance opined that the discretionary accruals are widely used in literature. The paper documented how the use of basic econometrics explains discretionary accruals estimation. Interestingly, the paper criticized the proxy as a measure noting that many researchers often do not consider the underlying econometric nature of same proxy and how it is interpreted. Rangan (1998) also documented that earnings management is best measured using the discretionary accruals; the paper equally noted that discretionary accruals are best effective

in the quarter during which stock prices are announced and in the next quarter. Further, the discretionary accruals is measured by the total accruals. To generate the non-discretionary accruals component, a model is then adopted with a view to categorizing the discretionary and non-discretionary components. Such models range from Jones Model, Modified Jones Model, M-score Model, to Industry Model, etc. Motivated by prior real estate studies, the Modified Jones Model is used in this study (Liang & Dong, 2018; Anglin, et al., 2013; An, et al., 2011; Islam, et al., 2011 and Zhu, et al., 2010). In recent times, this appears to be the most widely used approach for detecting instances of earnings management/manipulation. The assumption in the Jones model and the cross-section Jones model is that any variations in revenue are non-discretionary. Managers, on the other hand, have the option of using credit sales to control their revenues. Dechow et al. (1995) adjusted the Jones model by subtracting the variance of receivables (ΔREC) in order to determine this; hence, the study adopted the modified Jones model proposed by Dechow et al. (1995) which is commonly used in the studies on earnings management to estimate discretionary accruals (Peasnell et al., 2005; Frankel et al., 2002; Haw et al., 2004; Rahman & Ali, 2006). The modified Jones model consists of regressing total accruals (TACC) on three variables:

the change in revenues (ΔRev);
the change in receivables (ΔRec); and
the level of gross property, plant and equipment (PPE).

Discretionary Accruals:

$$TACC_{it} = \alpha_0(1/A_{it-1}) + \alpha_1(\Delta REV_{it} - \Delta REC_{it}/(A_{it-1})) + \alpha_2(PPE_{it}/A_{it-1}) + \epsilon_{it}$$

Where:

TACC_{it}: the sum of total accruals in year t

A_{it-1}: the sum of assets in year t-1

ΔREV_{it} : the change in revenues between years t and t-1

ΔREC_{it} : the change in receivables between years t and t-1

PPE_{it}: the sum of the property, plant & equipment in year t

ϵ_{it} : statistical error

$$DA0 = \alpha_0 + \alpha_1 * DE - \alpha_2 * DY - \alpha_3 * FSIZE - \alpha_4 * MTB + \alpha_5 * ROA + \alpha_6 * FCF + \alpha_7$$

*ManagementStructure

The independent variables are time-varying covariates.

$$DA0 = \alpha_0 + \alpha_1 * DE - \alpha_2 * DY - \alpha_3 * SIZE - \alpha_4 * MTB + \alpha_5 * ROA + \alpha_6 * FCF + \alpha_7 * ManagementStructure + \epsilon_{it}$$

$= 1, 2, 3..T$

5.2. Control Variables

This research focused on previous studies that used variables to control for earnings management, which is in line with investigating the incidence of earnings management within the different management structures of REITs in South Africa. On the basis of this, the study employs variables which explains earnings management of REITS (due to the availability of data) in Table 4. With Debt/equity ratio (LEVERAGE), analysts and investors use the debt-to-equity ratio to determine how much debt a company has in relation to the equity they possess or the shareholders own. The firm has a wide range of finance requirements in order to effectively execute its activities (Matsuura, 2008). As a proxy for how close a firm is to breaching its covenant obligations, most accounting choice research has looked at the debt-to-equity ratio. This study has revealed that when the ratio is high, managers are more likely to pick accounting practices that increase earnings. For more than 60% of the limits on retained earnings, working capital, and net tangible assets, the results of Duke and Hunt (1990) imply that the debt-to-equity ratio is a suitable proxy for the presence or absence of debt covenant constraints. The higher the debt-to-equity ratio, the more likely it is that business activity will raise income; hence, a positive correlation. Dividend Yield (DY) is expressed as the financial ratio (dividend/price) which indicates how much a firm pays out in dividends per year in relation to the stock price, and calculated as a percentage (Christie, 1990; Chen, et al., 1990; Asquith & Mullins Jr, 1986; Ong, et al., 2011 and Elliott, et al., 2009); dividends are a way for a corporation to give back to its owners. A method for returning cash or assets to shareholders has been disclosed as well as a strategy for paying funds to those shareholders (Jensen, 1986). Free cash flow can be distributed to shareholders via dividends.

However, when firms must limit dividends, they are on the verge of entering into a debt agreement. Managers may be motivated to manipulate earnings and keep the dividend hikes coming if this scenario occurs (Barkhordar & Tehrani, 2016). Firm Size (SIZE) Syed Zulfiqar et al. (2010) claim that dividends can be utilized as a feature to forecast income or as a predictor of dividend. These scholars further argued that if a corporation reduces its shareholder dividend, it can be seen as a solution to alleviate the firm's difficulty; ultimately, this is earnings management. The relationship between firm size and earnings management has been studied using agency theory by Barton and Simko (2002) and Ali et al (2015). Financial analysts have high expectations of large firms, thus they often engage in earnings management to meet those expectations (Turegun, 2016). Conversely, research by Kim (2003) and Swastika (2013), on the other hand opined that same large firms possess adequate organizational controls. Furthermore, the scholars noted that as a matter of fact, large firms

are frequently audited by one of the big accounting firms, reducing the likelihood of engaging in financial reporting manipulation. A number of prior studies have found conflicting outcomes when it comes to the relationship between the amount of leverage a firm has and its size. The market to book value ratio (MTB) is also believed to be linked to the incentives of firms to control earnings. To compensate for their greater sensitivity to earnings swings, low market to book value ratio firms stand to gain more from earnings management and so have higher incentives to manage earnings (Skinner & Sloan, 2002). Return on assets (ROA) measures how much a firm may make from its assets while still making a loss (Yuliana & Trisnawati, 2015). It is indeed possible that a decline in earnings will make the company less appealing to investors. Firms that generate a lot of returns will be more motivated to make money-driven decisions in order to keep or even enhance their profits year after year (Wiyadi et al., 2015). Free cash flow (FCF) and earnings management have a positive relationship, according to Jaggi & Gul (2006). Management in firms with high FCF is said to manipulate earnings upward to post strong results and maintain job security. The findings of Chung et al. (2005a) are supported by the findings of the aforementioned scholars. Discretionary accruals are used by firms with a high FCF level to cover up negative net present value (NPV) projects (Bukit & Iskandar, 2009).

Table 4: Model Specification - Earnings Management and Financial Ratios/Control Variables

<i>Dependent Variable</i>	
DA (Earnings Management Proxy/Measure)	Earnings Management: Discretionary accruals are often used to measure the dependent variable, EM. The Jones Model calculates discretionary accruals. The Jones model (1991) is a widely used model for measuring earnings management.
<i>Independent variables (Firm Level)</i>	
DE	Debt/Equity ratio: Book value of total liabilities divided by book value of equity, computed by using data from the year preceding SEO announcement
DY	Dividend yield: The financial ratio (dividend/price) which indicates how much a firm pays out in dividends per year in relation to the stock price, and calculated as a percentage
FSIZE	Firm Size: The value at which the shares of a company's stock is estimated
MTB	Market to Book value Ratio: The measure is used to equate a company's available net assets to the price at which the stock is sold
ROA	Return on Assets: Net income divided by book value of assets, computed by using data from the year preceding SEO announcement
FCF	Free Cash Flow: calculated as sales revenue - (operating costs + taxes) - required investments in operating capital.
MANAGEMENT STRUCTURE	Internally and Externally Management: Internally managed REITs hire their own personnel, analysts, managers, and executives to handle the firm's assets as opposed to externally managed REITs. Internally Managed – Dummy Variable 1 Externally Managed – Dummy Variable 0

6.0. Results

The aim of this study is to estimate the degree of earnings management using discretionary accruals (modified Jones model) between internally managed REITs and externally managed REITs for the study period. The chapter starts with providing descriptive stats, followed by trends analysis, correlation and Ordinary Least Squares regression.

6.1. REITs SEOs by year, and management type

The distribution of the REITs is seen in the table below. The time-series of SEOs and management structures are presented in the following table below (Table 5) (i.e., internally

managed versus externally managed REITs). There has been an overall increase in the number of businesses that have issued SEOs during the course of the study period. The year 2014 saw the highest amount of observations, with 179 SEO concerns being identified. In South Africa, this may be traced back to the era around the implementation of the REITs system (2013). Indeed, an obvious decline in SEOs is witnessed in the years captured within the Covid-19 phenomenon. Hsu, et al. (2021) and Halling, et al. (2020) had observed that the pandemic panic phase saw stocks prices in various sectors of listed companies fall sharply due to investors' projected rationality. Further, as a result of the spread of Covid-19, both IPOs and SEOs are excluded for the purpose of robustness testing.

Table 5: Distribution of REITs SEOs by year, and Management Type

SEO Year	Internally Managed	Externally Managed	Total
Distribution by Year and Management type			
2013	18	26	44
2014	56	123	179
2015	26	51	77
2016	17	48	65
2017	47	64	111
2018	20	31	51
2019	13	42	55
Total	202	388	590

6.2. Summary Statistics

Table 6 presents a mean comparison of all variables for REITs that are managed internally compared to those that are managed externally. The findings demonstrate that the mean value for Discretionary Accruals (DA) in externally managed REITs (9.5, standard deviation=1.7) was somewhat higher than the mean value for DA in internally managed REITs (9.74, standard deviation=2.6). When comparing FIRMSIZE in externally managed REITs to FIRMSIZE in internally managed REITs, the former was 1.9 times larger/higher. The word "FIRMSIZE" refers to the natural logarithm of 2010 total assets of firm *i*. It is defined as the sum of the market values of all of the shares that are currently outstanding (Anglin et al., 2013). When it comes to corporate capital, leverage, also known as the debt-equity ratio, measures the proportional contributions of creditors and shareholders or owners to the total amount of capital utilized in the firm (Ambrose & Bian, 2010). LEVERAGE levels in externally managed REITs (0.84, standard deviation = 0.77) were much lower than those in internally managed REITs (6.2, standard deviation = 36). DIVIDEND YIELD, also known as the financial ratio, is a measure of how much a company pays out in dividends every year in proportion to the price

of its shares. It is expressed as a percentage of the stock price.

The DIVIDEND YIELD in externally managed REITs (14.1; standard deviation = 37.2) was greater than the DIVIDEND YIELD in internally managed REITs (9.8; standard deviation = 10.4). When it comes to RETURN ON ASSETS (ROA), the findings demonstrate that the ROA in externally managed REITs (5.9 percent; SD=7.1) was somewhat lower than the ROA in internally managed REITs (6.1 percent; SD=6.1); nevertheless, this difference is minor. Furthermore, the descriptive data reveal that TOTAL ASSETS in externally managed REITs were marginally lower (6.7; SD=10.6) than those in internally managed REITs (7.6; SD=8.3) as compared to those in internally managed REITs. In externally managed REITs, the mean MARKET TO BOOK VALUE RATIO (0.87) was 15 times lower than the mean MARKET TO BOOK VALUE RATIO in internally managed REITs (13.5; SD=132). When comparing internally managed REITs to externally managed REITs, FREE CASH FLOW (FCF) was 1.3 times greater in internally managed REITs (243,363; SD>100) than in externally managed REITs. Findings also reveal that the mean value of discretionary accruals in internally managed REITs is less than values inherent in externally managed REITs; by implication and interestingly, South African externally managed REITs manage their earnings more than their counterparts.

Table 6: Summary Statistics for internally and externally REITs in a matched sample

Variable	Externally Managed REITs			Internally Managed REITs		
	Obs.	Mean	Std. Dev.	Obs.	Mean	Std. Dev.
Panel A: Earnings Management Proxy/Measure						
DA	388	9.497	1.701	202	9.743	2.58
Panel B: Control Variables						
Firm Size ('000s)	388	7,160,000	13,100,000	202	13,400,000	17,900,000
Leverage (Debt/Equity)	388	1	1	202	6	36
Dividend Yield	388	14	37	202	10	10
Return on Assets	388	6	7	202	6	7
Free Cash Flow (FCF)	388	185,573	324,806	202	243,363	432,678
Market to Book Value	388	1	0	202	13	132
Panel C: DA Variables						
Current Liabilities	388	1,446,728	2,927,914	202	2,200,729	2,461,585
Current Assets	388	1,446,728	2,927,914	202	2,200,729	2,461,585
Amortisation	388	-	-	202	-	-
Total Assets	388	7	11	202	8	8
Receivables	388	205,051	348,358	202	554,271	846,787
PPE	388	199,770	713,585	202	1,044,047	4,447,983
Depreciation	388	9,519	28,892	202	3,759	12,152
Revenue	388	471,276	630,805	202	1,161,108	2,919,826

NOTE: Above presents the summary statistics for internally and externally REITs in a matched sample. Using Mean and Standard Deviation values, discretionary accruals in internally managed REITs is less than values inherent in externally managed REITs; by implication and interestingly, South African externally managed REITs manage their earnings more than their counterparts.

6.3. Overall Discretionary Accruals (2013 - 2019, all REITs)

Table 7 indicates that the average discretionary values between 2013 and 2019 (although, 2020 and 2021 were excluded due to inconsistent data) in this sample were negative. For each percentile, we compute a 95% confidence interval around the mean Discretionary Accrual (DA). The results reveal that the null hypothesis of zero DA is rejected at the 0.05 level for percentiles representing lower and higher levels of earnings (a type I error). Surprisingly, the results show that aggressive earnings management (Discretionary Accruals) practices in externally managed REITs were relatively higher compared to internally managed REITs, although negative. By implication, we therefore reject the null hypothesis. The prediction is therefore inconsistent with extant literature which had earlier established that external managers on the board of a firm appear to restrain earnings management activities (Klein, 2002; Peasnell et al., 2000, 2005, 2006; Benkel et al., 2006; Benkraiem, 2009). In comprehending the uniqueness of the findings, it is reasonable to assume that earnings management is motivated by a desire to postpone or minimize the release of negative news to investors (Peasnell, et al., 2005).

Another possible reason for these findings is that the negative discretionary accruals discovered in this study are due to poor financial performance and distress among both internally and externally managed REITs. The study observes that, as a result of financial distress and the inability to express a going concern modification (GCM), issuing firms can manipulate their stock prices by managing earnings, and the market appears to extrapolate earnings growth associated with negative discretionary accruals and thus overvalues the issuing firm (Yuanwei, 2009; Ajona, et al., 2008). Prior REITs-specific research (Dempsey et al., 2012; and Ambrose & Bian, 2010) offer an equally compelling justification for boosting earnings management activities among financially distressed firms. Dechow et al. (1995) show that in organizations with exceptional performance, discretionary accruals are skewed.

Table 7: Overall Discretionary Accruals (2013 - 2019, all REITs)

Discretionary accruals (DA)						
	Percentiles	Smallest				
1%	-69	-68.98				
5%	-65.9	-65.94				
10%	-65.6	-65.60	Obs	22		
25%	-63.4	-64.54	Sum of Wgt.	22		
50%	-55.2		Mean	-55.70		
		Largest	Std. Dev.	7.66		
75%	-51.1	-47.83				
90%	-44.6	-44.61	Variance	58.66		
95%	-43.4	-43.42	Skewness	0.01		
99%	-42.6	-42.57	Kurtosis	2.04		
Variable		Obs	Mean	Std. Dev.	Min	Max
DA_internally managed REITs		8	-53.06	9.09	-65.60	-42.57
DA_externally managed REITs		13	-56.95	6.79	-68.98	-47.83

6.4. The Augmented Dickey-Fuller (ADF) Unit Roots Test

All the test statistic, except DEBT/EQUITY RATIO (LEVERAGE), DIVIDEND YIELD and REVENUE, are greater than the critical value, with a corresponding Mackinnon p-value that are greater than the recommended 5%; hence, we conclude that there is presence of unit roots. By implication, the presence of a unit root in a series mean that there is more than one trend in these series. This therefore justifies the need to transform the data to natural logarithm. Data series for LEVERAGE, DIVIDEND YIELD and REVENUE are stationary (does not have unit roots as the p-value is significant at 5% level). The results for the Augmented Dickey-Fuller tests for all the variables are shown in the Table 8:

Table 8: The Augmented Dickey-Fuller (ADF) Unit Roots Test

Interpolated Dickey-Fuller Unit Root Test								
		Statistic	1% Critical value	5% Critical value	10% Critical value	Mackinnon p-value for Z(t)	Unit root	Stationarity
<i>Panel A: Control Variables</i>								
ROA	Z(t)	-0.81	-3.75	-3	-2.63	0.8162	No	No
Dividend Yield	Z(t)	-10.106	-3.75	-3	-2.63	*0.000	No	Yes
Free Cash Flow	Z(t)	-3.315	-3.75	-3	-2.63	*0.0142	No	Yes
MBVR	Z(t)	-2.26	-3.75	-3	-2.63	0.1851	Yes	No
FSIZE	Z(t)	-0.781	-3.75	-3	-2.63	0.8246	Yes	No
Leverage	Z(t)	-0.86	-3.75	-3	-2.63	0.1720	Yes	No
<i>Panel B: DA Variables</i>								
TL	Z(t)	-0.05	-3.75	-3	-2.63	0.9542	Yes	No
TR	Z(t)	-0.452	-3.75	-3	-2.63	0.9011	Yes	No
DEP	Z(t)	-1.342	-3.75	-3	-2.63	0.567	No	No
REV	Z(t)	-3.416	-3.75	-3	-2.63	*0.0104	No	Yes
CASH	Z(t)	-0.818	-3.75	-3	-2.63	0.8138	No	No
TA	Z(t)	-0.669	-3.75	-3	-2.63	0.8546	No	No

6.5. Pearson's Correlation

In Table 9, there are strong positive correlations between DIVIDEND YIELD and discretionary accruals (Earnings Management) in both domestically ($r=0.80$, $p<0.05$) and externally managed REITs ($r=0.985$). A rise in DIVIDEND YIELD would almost certainly result in an increase in Earnings Management. In accordance with He (2017), this paper reveals that past studies (Lintner, 1956; Skinner & Soltes, 2011) have found that paying dividends does not preclude firms from committing accounting fraud, implying that dividend paying firms may not always operate in the best interests of their shareholders. Consistent with Susanto et al. (2017), Agustia (2013), Amertha et al. (2014), and Yogi & Damayanthi (2016), FREE CASH FLOW (FCF) was significantly negatively associated with Earnings Management ($r=-0.36$, $p<0.05$), with a weak effect in internally managed REITs and a twice less effect on externally managed REITs ($r=-0.729$); this means that a unit decrease in FREE CASH FLOW (FCF) was bound to if it is not employed to maximize shareholder earnings in the form of a profitable investment, investors will discover that the company's management is unable to give advantages to the company's owner; at the end of the day, the firm will be in a state of low growth (Jensen, 1986). When it comes to internally managed REITs, firm size (market capitalization) is highly correlated with Earnings Management (EM), however this is not the case for externally managed REITs. In this sample, DIVIDEND YIELD, LEVERAGE (debt/equity), and RETURN ON ASSETS (ROA) were not found to be associated with EM.

Table 9: Pearson's Correlation

	Internally Managed REITs	Externally Managed REITs	Full Sample REITs
	DA_In	DA_In	DA_1n
Discretionary Accruals	1	1	1
Dividend Yield	0.8042*	0.9852*	0.8319*
Leverage_1	-0.1584	-0.2699	-0.1851
Return on Assets	-0.2266	-0.6385	-0.4734
Market Book Value	-0.1298	-0.1418	-0.1305
Free Cash Flow	-0.3616	-0.7295*	-0.5619*
Firm Size	0.7536*	0.0809	0.0439

6.6. REITs management structures and Earnings Management: Multivariate OLS regression

The results of the OLS regression for testing the association between REITs management structures and Earnings Management are presented in Table 10. The dependent variable is estimated from the cross-sectional modified Jones (1991) model. The two proxies for management structures include a DUMMY variable for internally managed REITs as 1 and externally managed REITs as otherwise (0). Although Gras-Gil et al (2016) provided contrary evidence, we corroborate these findings with that of Arun et al (2015) wherein Firm SIZE is found to be negatively associated with the measure of earnings management. The negative FIRM SIZE coefficient term tells the change in Discretionary Accruals (DA) for a unit change in Firm Size i.e. if firm size rise by 1 unit, then earnings management decrease by -3.2 times. The results are significant at 10% level ($\alpha=-3.21$, $p=0.1$), implying a negative relationship between FIRM SIZE and earnings management. While there is no agreement in the literature regarding the effect of FIRM SIZE on earnings management, these findings imply that aggressive earnings management practices is not dependent on a firm/REIT being large due to the close scrutiny by investors. Contrast to Alhadab & Al-Own (2017), Bhojraj et al. (2009) and Taylor & Xu (2010), we find that the positive RETURN ON ASSETS (ROA) coefficient term tells the change in discretionary accruals (DA) for a unit change in ROA i.e. if the ROA values rise by 1 unit, then earnings management increase by 4.4 times ($\alpha=4.4$, $p<0.05$). The results are significant at 5% level, implying a significant relationship between ROA and earnings management.

With ROA being a measure of firm performance, these findings are consistent with extant studies (Lee et al., 2006; Dechow et al., 1995; and El Sood, 2012); with these, it could be that REITs managers of internal and external management classifications use earnings management to understate the current period reported earnings in attempt to reduce the

current market price of the firm's common stock or adopt stock options plans that will ultimately increase share prices and consequently firm value (Alves, 2012). The negative market value coefficient term tells the change in Discretionary accruals (DA) for a unit change in market values i.e. if market values rise by 1 unit, then earnings management decrease by -2.34 (p=0.06). The results are significant at 10% level, implying weak evidence between market to book values and earnings management. Free Cash flow (contrast literature - Bukit, 2015; Nekhili, 2016; Astami, et al, 2017) – we perceive these findings are unique because REITs with high FCF situation and low growth opportunities are bound to result in low long term profitability. To conceal the impending bad performance of these new investments, corporate executives turn to negative accruals to reduce current year's earnings and smooth earnings when the negative effect of these investments occurs. Surprisingly, these results indicate that there were lower levels of earnings management in internally managed REITs compared to externally managed REITs; dividend yield, and debt equity ratios were also not significant predictors of earnings management.

We believe that there is no widespread or aggressive earnings management practice among South African internally managed REITs; yet, these findings are not consistent with the literature on the subject (Epps & Ismail, 2009; Xie et al., 2003; Beekes et al., 2004; Chen et al., 2007). We believe these findings are one-of-a-kind because of the rising popularity of REITs in South Africa and their reputation as an interesting investment option for investors in Africa, with a current market size of about \$400 billion. In addition, these results are based on the fact that the administration of South African REITs is handled by organizations that adhere to stringent governance standards and are performance-driven and entrepreneurial (de Klerk, 2019; Moloï & Akinsomi, 2019). By implication, this suggests that they are focused on getting the most out of their property investments in the long term. They improve the real estate industry's transparency and accountability by implementing sound governance practices.

Table 10: Do internally managed REITs manage Earnings more than externally managed REITs: Multivariate OLS Regression

	Coef.	Std. Err.	z	P>z	[95% Conf. Interval]	Coef	Std.Err.	z	P>z	[95% Conf. Interval]		
Internally Managed REITs						Externally Managed REITs						
DA												
1.Internal	1.306	3.661	0.36	0.722	-5.88178	8.494011	2.113	2.892	0.51	0.521	-4.1134	7.71839
Firm Size	-3.213	1.665	-1.93	**0.054	-6.47721	0.051	-3.021	2.510	-1.71	**0.161	-5.02191	0.0021
MBVR	-2.342	1.243	-1.88	**0.06	-4.77939	0.09481	-3.910	1.031	-1.54	**0.75	-4.01831	0.071027
Dividend Yield	0.721	0.7182	1	0.315	-0.68629	2.129007	0.810	0.8210	1	0.741	-0.51089	1.920281
Debt/Equity_1	0.677	0.843	0.8	0.421	-0.97436	2.330233	0.319	0.310	0.65	0.682	-0.85105	2.829102
Return on Assets	4.499	1.835	2.45	*0.014	0.901663	8.096469	4.103	1.720	2.01	*0.003	0.75631	7.038293
Free Cash Flow_1	0.137	0.460	0.3	0.764	-0.76388	1.039834	0.201	0.501	0.41	0.620	-0.82184	1.070291
Constant	48.069	37.607	1.28	0.201	-25.639	121.7784	43.012	33.103	1.31	0.318	-23.019	117.0128

NOTE: R-squared= 0.9970; Prob > chi2= 0.0000. **Significant at 5% level *Significant at 10% level. Property, plant, and equipment (PPE) dropped due to collinearity

7.0. Conclusion

Earlier research that has documented large discretionary accruals accompanying seasoned stock issues has done so without taking the management structure of the issuing REITs into consideration. We propose that information asymmetry concerns are more severe in an externally managed REIT, and that as a result, earnings management is more aggressive in an externally managed REIT than in an internally managed REIT in the same industry. Using a sample of 34 South African real estate investment trusts (REITs) that issued seasoned equity between 2013 and 2020, we investigate the difference in discretionary accruals between internally and externally managed REITs in South Africa. When comparing externally managed REITs to internally managed REITs, we find that the former have higher discretionary accrual amounts; even after adjusting for elements that have been demonstrated to be associated with a firm's Discretionary Accrual, these findings are not consistent across the commonly used measures of earnings management. In this study, it is hypothesized that the composition of a REIT's board with external directors has an influence on the practice of earnings management in South Africa (Marrakchi Chtourou, et al., 2001; Shah, et al., 2009; Uadiale, 2012; Abbadi, et al., 2016). SEOs are the subject of this investigation, which demonstrates how accrual management may be utilized to achieve financial objectives. In order to "achieve the objectives," it is standard practice to manipulate earnings in order to increase profits. Previous research have reached varying conclusions in a variety of settings. Accruals decline with external management, but there is no statistically significant effect of external management on earnings manipulation, as Kim & Yoon (2008a) and Mazumder (2016) demonstrate. Additionally, scholars assert that externally managed firms, particularly those with a high and stable proportion of foreign capital in their capital structure, engage in less profits management than internally managed firms (Mohd-Sanusi, & Hermawan, 2017 and Guo et al., 2015).

Shayan-Nia et al. (2017) stated specifically that they can limit upward earnings management owing to discretionary expenditure but not due to the work cycle. According to Guo et al. (2015), firms with external management also lower earnings manipulation, but through net cash in firms listed in Japan. On the other hand, Udawatte (2020) cites the information asymmetry between domestic and foreign investors as one reason why managers in firms are more inclined to manage earnings. For the first time in South Africa, we find evidence that financial sheet manipulation is associated with the extent of external management of REITs, indicating that the REITs board of directors does not benefit significantly from external

directors in monitoring the firm's management of earnings, which is consistent with Park & Shin (2004). According to a few reasonable variables, external management of real estate investment trusts (REITs) is inefficient in regulating earnings management in South Africa throughout SEO period. Due to a lack of financial acumen and access to critical information, external directors may be unable to identify and correct earnings management in the majority of cases. External directors may also be disinterested directors as a result of their lack of financial interest in the firm over which they preside. In addition, if there are a large number of powerful shareholder CEOs, it may be difficult for CEOs to properly oversee earnings management.

In addition to having a number of practical implications, this research should be of particular interest to the relevant securities exchange regulatory body in South Africa, which is currently engaged in an anti-earnings management campaign, and the Accounting Standards Board (ASB), which has proposed changes to its standards setting process in order to shift away from a rules-based approach to principles-based standards setting. The study's findings imply that good corporate governance is a critical safeguard for stakeholders in exceptional circumstances when REITs have special incentives to manage earnings; as a result, it is suggested that REIT corporate governance is important, despite being overlooked in some circumstances. It is possible that reducing accounting discretion may increase the informativeness of earnings since it will confine earnings management and encourage the comparability of outcomes among REITs (Fishman & Hagerly 1990). Specific to South African real estate investment trusts, policymakers as well as nominating committees of the board of directors may wish to take note that financial competence is an important quality of external directors in order to effectively oversee earnings management. Future studies could include alternative measures of earnings management (beyond total accruals, as used in this study).7.0

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