



Journal of International Economics and Management

Journal homepage: <http://jiem.ftu.edu.vn>

Earnings management around equity issuances in Vietnamese listed firms

Anh Thi Mai Nguyen¹

Foreign Trade University, Ho Chi Minh City, Vietnam

B-Ta Tran

Khanh Binh JSC, Ho Chi Minh City, Vietnam

Hiep Manh Nguyen

Foreign Trade University, Ho Chi Minh City, Vietnam

Received: 24 August 2021; **Revised:** 29 December 2021; **Accepted:** 08 February 2022

<https://doi.org/10.38203/jiem.022.2.0048>

Abstract

This study examines accrual earnings management in Vietnamese listed firms around equity issuances. Using a matching approach, we find that issuers tend to report higher earnings by aggressive recognition of discretionary current accruals before and during the years of equity offering. This results in significantly larger abnormal stock returns for the issuing firm-years, as the capital market overvalues firms with higher accrual earnings. However, regression results show that investors are subsequently disappointed by negative reversals in earnings, and suffer from significant negative abnormal returns in the third year after the issuance. These results provide additional empirical evidence in an emerging and transition market context, and caution investors against fixation on reported earnings in equity offerings.

Keywords: Right offering, Private placement, Earnings management, Financial reporting

1. Introduction

Since reported earnings provide critical information about firm performance, managers are keen on manipulating it to influence stakeholders' impression. Earnings management occurs when managers intentionally alter financial reports by using discretion in accounting choices within the bounds of accounting standards, or manipulation of real cash flow from operations (Dechow and Skinner, 2000).

Prior studies have documented that earnings management tends to be more severe around major corporate events. Among them, earnings management around stock offerings has

¹ Corresponding author: nguyenthimaianh.cs2@ftu.edu.vn

attracted particular attention over the last three decades (Aharony *et al.*, 1993; Morsfield and Tan, 2006; Chahine *et al.*, 2015). When a firm issues new shares, it has to put out a prospectus that provides investors with the necessary information to evaluate the firm. Earnings feature predominantly in the prospectus, and heavily affect the investors' calculation of the range of reasonable stock price and thus their decision to take part in the issuance. Therefore, managers have strong incentives to inflate reported earnings in the period before or during which the issuance occurs to influence capital market response.

In this study, we investigate earnings management using accrual choices around equity issuances of Vietnamese listed firms. Using a matching approach, we find strong evidence that listed firms in Vietnam manage earnings upward using discretionary current accruals surrounding equity offerings. Compared to non-issuing firms and industry average, issuing firms exhibit significantly higher income and higher discretionary current accruals in the years before and during which an equity issue occurs, but not in the years after the issuances.

Notably, consistent with aggressive recognition of discretionary current accruals and inflated earnings, we find that issuers experience significant stock abnormal returns in the issuance year. However, three years after the issuance, when discretionary current accruals and earnings reverse, stock abnormal returns suffer from a negative reversal. This is in accordance with prior studies indicating that investors fixate on reported earnings and overvalue firms with high accrual earnings around share issuances, to their own disappointment in the future when the accruals reverse (Teoh *et al.*, 1998; Richardson *et al.*, 2006; Pincus *et al.*, 2007).

In Vietnam, there have been few empirical studies on earnings management. Nguyen *et al.* (2019) show evidence of earnings management to avoid reporting losses. Other studies focus on specific contexts and determinants of earnings management, including governance and financial factors. Among them, Nguyen *et al.* (2018) demonstrate the effects of ownership structure and governance on earnings management. Nguyen and Nguyen (2016) found that firms with low ROA and low market-to-book ratios manipulate their earnings more. However, we could not find any studies specifically examining the phenomenon around the event of equity issuances. In the Vietnam market, the two most common ways for firms to raise equity capital are right offerings for existing shareholders and private placement. Share offering to the general public after IPO is not popular. Taking on this issue will enrich the literature with new evidence and insights from an emerging and transition market context.

Besides, our results have important practical implications. Vietnam's capital market has witnessed rapid development in size and depth in recent years, with transaction value amounting to an equivalence of 186 billion USD in 2020 in the middle of the COVID-19 crisis. 401,786 new investor accounts were opened in 2020 (Vietnam Securities Depository, 2021). In the first four months of 2021, the number of new investor accounts is 368,653; 366,314 of which are individual investors. Individual investors, who account for 90% of the market's trading (Minh Khue, 2021), are mostly unsophisticated and may become easy prey to the managers' opportunistic behaviors. This study provides these investors a caution and equips them with a better understanding of the risk associated with the fixation on firm-reported earnings, especially when it comes to taking part in equity issuances.

The rest of the paper is organized as follows: section 2 reviews the literature; section 3 explains the methodology and describes the data; section 4 presents the results; section 5 concludes the paper.

2. Literature review

In Vietnam and other countries, the accounting system functions on the accrual principle. It means that transactions are recorded when they occur rather than when actual payments are received or made. Under this principle, financial statements present an enterprise's performance during a period instead of merely listing its cash receipts and outlays. The inconsistencies between cash flow and accounting profit are called "accruals". Examples of short-term accruals are accounts receivable, accounts payable and provision for devaluation of inventories. Examples of long-term accruals are depreciation of fixed assets, and provision for long-term financial investments.

One problem with accrual accounting is that it allows firms' managers to use subjective judgement and discretion in determining the value of accruals. For instance, they can change the estimation of provisions, the calculation of depreciation of fixed assets, and the cost of inventories (Zang, 2011). Earnings management occurs when managers intervene in the recognition of financial information or restructure ordinary transactions, causing changes on financial statements. According to Dechow and Skinner (2000), earnings management is not fraudulent financial reporting, but rather maneuvers within the accepted accounting standards. These can cause significant changes in the financial statements, to the extent that they may affect the decisions of investors, creditors and other stakeholders. In the context of asymmetry information, earnings management is a powerful tool for managers to manipulate stakeholders' expectations or affect contractual outcomes (Healy and Wahlen, 1999).

Earnings management may be good for investors if it conveys private information of managers (Sankar and Subramanyam, 2001). Tucker and Zarowin (2006) find that earnings smoothing, an earnings management technique, contains information about future earnings. Badertscher *et al.* (2012) show that discretionary accounting choices can be predictive of future cash flows.

However, earnings management is often associated with the managers' opportunistic behavior to mislead stakeholders, obtain private benefit, and influence contractual outcomes (Schipper, 1989; Healy and Wahlen, 1999). Franz *et al.* (2014) find that firms close to violation or in technical default of their debt covenants exhibit significantly higher levels of earnings management. Bergstresser and Philippon (2006) observe that CEOs and insiders take advantage of the years with high accruals to sell their shares or exercise their stock options. Kalyta (2009) shows that income-increasing earnings management is more pronounced in the final years of a CEO if the retirement benefits of the CEO are tied to firm performance in these years. Even earnings smoothing, which is supposed to make a firm appear less risky, is associated with negative stock returns and exacerbates stock price crash risk (Chen *et al.*, 2017).

With regard to share offerings, managers have strong incentives to manage earnings around these events. Investors use earnings in their stock valuation models. Thus, reporting higher earnings would positively affect market response to and guarantee the success of the offerings (Aharony *et al.*, 1993). Prior empirical research confirms that, before and during the years of share offerings, managers engage in aggressive income-increasing accrual adjustments and real activities manipulation (Cohen and Zarowin, 2010; Teoh *et al.*, 1998). Investors are misled and become overly optimistic about the firm's performance and thus overvalue the new issues.

Fixation on reported earnings in share offerings will later harm investors. As earnings management does not change the firm underlying economic substance but simply accelerates or postpones recognition of certain revenue and expenses, its income-increasing effect will subsequently reverse and lead to underperformance post-offering (Teoh *et al.*, 1998; Cohen and Zarowin, 2010). Such reversion will disappoint investors and oblige them to negative abnormal returns post-issuance (Teoh *et al.*, 1998; Rangan, 1998).

Earnings management around equity offerings has been extensively studied in developed markets, such as the U.S. market (Teoh *et al.*, 1998, Nguyen *et al.*, 2022) and the UK market (Iqbal *et al.*, 2009). However, empirical evidence on this phenomenon in transition and emerging markets is still lacking. In Vietnam, although there have been several studies on accrual and real earnings management (Nguyen *et al.*, 2019; Nguyen *et al.*, 2018; Nguyen and Nguyen, 2016), earnings management around equity issuances has largely been neglected. Vietnam's fast-growing equity market provides an interesting context to investigate this issue.

3. Research methodology and data collection

3.1 Research methodology

Following Teoh *et al.* (1998), accruals are classified based on the time period and managerial control. First, total accruals are calculated as the difference between reported earnings and cash flows, scaled by total assets as follows:

$$TAC_{jt} = \frac{(NI_{j,t} - CF_{j,t})}{TA_{j,t-1}} \quad (1)$$

where *j* denotes the firm; *t* denotes the year; TAC represents total accruals; NI denotes net operating profit *t*; CF stands for cash flow from operations; TA represents total assets.

As prior research argues that managers have greater discretion over current accruals than over long-term accruals (Guenther, 1994; Teoh *et al.*, 1998), we make a distinction between the two. Total accruals equal current accruals plus long-term calculated as follows:

$$TAC_{jt} = CA_{jt} + LA_{j,t-1} \quad (2)$$

where CA denotes current accruals and LA represents long-term accruals.

Then, current accruals are calculated as the change in non-cash current assets minus the change in operating current liabilities. Current accruals are adjustments of working capital accounts, including current assets and current liabilities. Managers can alter current accruals

to increase reported earnings in the current year by, for example, advancing recognition of revenues with credit sales, delaying the recognition of expenses, and underestimation of provisions. In contrast, non-current accruals are adjustments of non-current accounts. The following equation is proposed:

$$CA_{j,t} = \frac{\Delta(STA_{jt} - CASH_{jt}) - \Delta(STL_{jt} - STD_{jt})}{TA_{j,t-1}} \quad (3)$$

where STA denotes current assets; CASH represents cash and cash equivalents; STD stands for current liabilities, and STD denotes short-term debt.

Following the modified Jones (1991)'s model and Teoh *et al.* (1998), discretionary current accruals are calculated as follows.

$$CA_{jt} = b_0 \left(\frac{1}{TA_{j,t-1}} \right) + b_1 \left(\frac{\Delta SALES_{jt}}{TA_{j,t-1}} \right) + \varepsilon_{jt} \quad (4)$$

where $\Delta SALES$ stands for the change in net sales.

First, for each fiscal year, we regress current accruals on the change in sales in a cross-sectional regression using all firms in the same industry in one year. We require that the industry-year regressions must have at least ten observations.

The predicted value of current accruals from equation (4) is nondiscretionary current accruals (NDCA) is calculated as follows:

$$NDCA_{it} = b_0 \left(\frac{1}{TA_{i,t-1}} \right) + b_1 \left(\frac{\Delta SALES_{it} - \Delta AR_{it}}{TA_{i,t-1}} \right) \quad (5)$$

where ΔAR denotes the change in trade receivables; NDCA represents nondiscretionary current accruals.

The residual from the regression is discretionary current accruals (DCA) and calculated as follows:

$$DCA_{it} = CA_{it} - NDCA_{it} \quad (6)$$

where DCA stands for discretionary current accruals.

We apply a similar procedure for long-term accruals. Following Jones (1991), we estimate total accruals using Equation (7). We require that the industry-year regressions must have at least 10 observations.

$$TAC_{jt} = a_0 \left(\frac{1}{TA_{j,t-1}} \right) + a_1 \left(\frac{\Delta SALES_{jt}}{TA_{j,t-1}} \right) + a_2 \left(\frac{PPE_{jt}}{TA_{j,t-1}} \right) + \varepsilon_{jt} \quad (7)$$

where TAC denotes total accruals; PPE denotes gross property, plant, and equipment.

Nondiscretionary total accruals (NDTAC) are the fitted value from Equation (7), and the residuals are discretionary total accruals (DTAC). Its equations are as follows:

$$NDTAC_{it} = a_0 \left(\frac{1}{TA_{i,t-1}} \right) + a_1 \left(\frac{\Delta SALES_{it} - \Delta AR_{it}}{TA_{i,t-1}} \right) + a_2 \left(\frac{PPE_{it}}{TA_{i,t-1}} \right) \quad (8)$$

and

$$DTAC_{it} = TAC_{it} - NDTAC_{it} . \quad (9)$$

Discretionary long-term accruals (DLA) are the difference between discretionary total accruals and discretionary current accruals. Nondiscretionary long-term accruals (NDLA) are the difference between nondiscretionary total accruals and nondiscretionary current accruals. DLA values are calculated using the following equations:

$$DLA_{it} = DTAC_{it} - DCA_{it} \quad (10)$$

and

$$NDLA_{it} = NDTAC_{it} - NDCA_{it} \quad (11)$$

where DLA stands for discretionary long-term accruals; NDLA represents nondiscretionary long-term accruals; DTAC denotes discretionary total accruals in year t for firm i; and NDTAC represents nondiscretionary total accruals.

Following Rangan (1998), we test the impact of discretionary current accruals on the firm's abnormal stock returns using Equation (12) with firm-specific controls.

$$AR_{jt} = c_0 + c_1 OFFER_{jt} + c_2 DCA_{jt} + c_3 SIZE_{jt} + c_4 LIQ_{jt} + c_5 LEV_{jt} + c_6 CAPEX_{jt} + c_7 \Delta NI_{jt} + c_8 BM_{jt} + \varepsilon_{jt} \quad (12)$$

where

$$AR_{jt} = R_{jt} - R_{mt} \quad (13)$$

where AR denotes abnormal stock return; OFFER is a dummy variable indicating equity offering; SIZE is firm size, as logarithm of market capitalization; LIQ denotes current assets over current liabilities; LEV stands for non-current liabilities over total assets; CAPEX represents capital expenditures; ΔNI denotes the change in asset-scaled net income; BM denotes book to the market ratio; R stands for the realized stock return; and R_{mt} denotes the market return; subscription t indicates the year and subscription j identifies the firm.

3.2 Data collection and summary statistics

We use financial data for companies listed on the Ho Chi Minh City Stock Exchange (HOSE) from 2008 to 2019 excluding insurance companies, securities companies, and banks. Two industries, which are “information technology” and “oil and gas”, have less than 10 firm observations in every year of the sampled period. They are excluded from the sample. This procedure results in a sample of 3040 firm-year observations of 295 firms.

We then manually collect the data for two types of equity offerings: right offerings for existing shareholders and private placement for strategic shareholders. For our empirical procedure, we require that the offerings of the same firm must be at least six years apart (Teoh *et al.*, 1998). Non-issuer firms are used as the control group for our empirical tests that follow.

Table 1 shows a summary of statistics of key variables by firm-years with and without share offerings. The number of observations in Table 1 is lower than the total number of

firm-years reported earlier due to two reasons. First, the calculation of our variables requires lagged values. Second, we trim the data for extreme or improbable values by excluding observations in the 0.5 and 99.5 percentile of ROA and LEV to be conservative with outliers that may distort the statistical analysis. We report here only the number of observations for the return regressions. Moreover, the number of OFFER is small, due to our criteria that the two offerings of the same firm must be at least six years apart.

Table 1. Descriptive statistics of factors affecting the abnormal stock returns

	OFFER=0		OFFER=1		Difference	
	(1) Obs.	(2) Mean	(3) Obs.	(4) Mean	(5) =(4)-(2)	(6) t-stat
AR	2069	0.048	138	0.540	0.492***	(10.19)
DCA	2069	-0.004	138	0.052	0.0563***	(4.15)
SIZE	2069	27.811	138	28.178	0.367***	(3.42)
LEV	2069	0.477	138	0.491	0.014	(0.75)
LIQ	2069	2.252	138	2.013	-0.24	(-1.07)
CAPEX	2069	0.084	138	0.111	0.027***	(3.72)
ROA	2069	0.072	138	0.069	-0.003	(-0.43)
BM	2069	0.955	138	0.662	-0.293***	(-9.58)

Source: The authors' calculation

Table 1 shows that issuers and non-issuers are quite different from each other. Notably, abnormal stock returns of issuing firm-years are on average more than ten times larger than those of non-issuing firm-years (0.54 vs. 0.048). Compared to non-issuers, issuers have much higher levels of discretionary current accruals (0.052 vs. -0.004). This indicates the possibility of earnings management. Regarding firm characteristics, on average, issuers are more likely to be growth firms, as evidenced by their significantly lower book-to-market ratio (0.662 vs. 0.955). This observation is consistent with previous studies (Teoh *et al.*, 1998; Rangan, 1998; Cohen and Zarowin, 2010). Firms tend to issue equity when market valuation is high. Growing firms have significantly higher levels of capital expenditure (0.111 vs. 0.084). In general, for large and growing firms, the issuance of shares will be more favorable and likely to be successful.

4. Research result

4.1 Earnings around equity issuance

Following Teoh *et al.* (1998), Table 2 reports three measures of performance in the six years surrounding the issue year: (i) unadjusted net income scaled by prior year's total assets, (ii) asset-scaled net income minus the industry median, and (iii) the change in asset-scaled net income of the issuer minus that of a comparable matched non-issuer.

Table 2. Issuer net income from year -3 to +3 around equity issuance

Year	-3	-2	-1	0	1	2	3
<i>Unadjusted net income</i>							
Mean	0.074*** (9.35)	0.094*** (11.34)	0.107*** (12.77)	0.101*** (11.42)	0.075*** (7.99)	0.058*** (6.6)	0.039*** (3.1)
N	107	141	141	141	134	114	85
<i>Issuers' net income — Industry median net income</i>							
Mean	0.002 (0.26)	0.023*** (2.96)	0.032*** (3.89)	0.030*** (3.5)	0.010 (1.14)	-0.003 (-0.38)	-0.022* (-1.67)
N	107	141	141	141	134	114	85
<i>Issuers' net income — Matched non-issuers' net income</i>							
Mean	-0.041**	-0.016	0.012	0.018	-0.011	-0.014	-0.029*
t-value	(-2.60)	(-1.25)	(1.03)	(1.43)	(-0.87)	(-1.18)	(-1.96)
N	99	127	141	138	133	111	82

Notes: *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively; t-statistics are presented in parentheses.

Source: The authors' calculation

Mean unadjusted net income increases from 7.4% three years before issuance to a peak of about 10.7% in the year right before the issuance, and then deteriorates consistently to 3.9% three years later. This result is in accordance with Teoh *et al.* (1998).

A similar pattern is found in the industry-adjusted net income, which grows from an insignificant 0.20% in year -3 to 3% in year 0, and then declines to a significant -0.22% in year +3. This means that issuers outperform the industry average before and during the year of issuance and underperform three years after the issuance.

Next, we match each issuer with a similar non-issuer and compare their performance. The matched non-issuer must be in the same year and the same industry as the issuer and must have the closest value of variable SIZE in the year immediately before the issuance. Following Teoh *et al.* (1998), we require further that the SIZE of the non-issuer must be at least 80% of the size of the issuer. After identifying the non-issuers, we calculate the third measure by subtracting the asset-scaled net income of the issuer

minus the asset-scaled net income of the matched non-issuer. We find 141 pairs of matches, but the number of observations for the years around the issuance varies due to data availability.

Issuers show similar performance with their matched peers in the two-year windows before and after the issuance. But they appear to significantly underperform their matches three years before the issuance, and three years after the issuance. Myers and Majluf (1984) argue that equity issuance signals bad news about a firm's prospects. Our results indicate that the future of issuing firms is not really bright compared both to the industry average and comparable firms.

4.2 Accruals around equity issuance

In Table 3, we turn our attention to the four accrual measures. Discretionary current accruals show a dramatic rise before and during the year of issuance, and then decline, suggesting manipulation of current accruals. Discretionary current accruals peak in year 0 at a mean of 5.01% of total assets. Although DCA does not exhibit a negative reversal after the issuance, after three years it decreases to 1.39% and turns statistically insignificant. Teoh *et al.* (1998) argue that discretionary current accruals would not reverse immediately because it may lead to objections or litigation and may lead to investors' turning away.

The nondiscretionary current accruals show a somewhat similar pattern. By definition, NDCA is a positive linear function of sales growth. It means that issuers time new issuances to coincide with sales growth peaks. This is also consistent with summary statistics which show that issuers are much more likely growth firms and have much larger capital expenditure compared to non-issuers.

Discretionary long-term accruals do not show a pattern consistent with earnings management around equity issuance. Long-term accruals are less subject to manipulation by managers because they are slow to change and may be more visible than current accruals. The means of nondiscretionary long-term accruals are negative, suggesting a significant depreciation of fixed assets.

The mean NDLA variable shows an inverted U-shaped evolution around equity issuance, but the changes are relatively modest and unlikely to contribute to the pattern of net income around seasoned equity offerings.

In Table 4, to make a more rigorous comparison, we adjust the four accrual variables of issuers by those of the matched non-issuers. Table 4 presents the difference in accounting accruals of the issuers compared with matched non-issuers in the period from year -3 to year +3. The difference in DCA shows significant upward changes before and during the year of issuance, and peaks at 7.4% in the issuance year. However, three years later, this difference has decreased and the difference DCA in year + 3 is close to -1.3%. This pattern is consistent with that of net income and indicative of earnings management behavior around equity issuance.

The difference in NDCA is relatively small and statistically marginally significant. The difference in the two long-term accruals variables shows a similar pattern to those in Table 3.

Table 3. Asset-scaled around equity issuance

Year	-3	-2	-1	0	1	2	3
<i>Discretionary current accruals (DCA)</i>							
Mean	-0.032**	0.046**	0.049**	0.050**	0.0076	0.022**	0.014
t-value	(-2.17)	(2.28)	(2.61)	(2.39)	(0.60)	(2.10)	(1.32)
N	87	113	141	141	134	114	85
<i>Nondiscretionary current accruals (NDCA)</i>							
Mean	0.044***	0.055**	0.036***	0.040***	0.019***	0.016***	0.011**
t-value	(3.40)	(2.32)	(5.15)	(5.68)	(3.44)	(3.82)	(2.31)
N	95	116	141	141	134	114	85
<i>Discretionary long-term accruals (DLA)</i>							
Mean	-0.084**	-0.140***	-0.119***	-0.085***	-0.029*	-0.036**	-0.084**
t-value	(-2.24)	(-3.20)	(-2.69)	(-2.77)	(-1.92)	(-2.29)	(-2.07)
N	87	113	141	141	134	114	85
<i>Nondiscretionary long-term accruals (NDLA)</i>							
Mean	0.049	0.052*	0.064	0.048**	0.002	-0.005	0.052
t-value	(1.43)	(1.83)	(1.62)	(2.08)	(0.31)	(-0.78)	(1.41)
N	95	116	141	141	134	114	85

Notes: *, **, *** indicate significance at the 10%, 5%, and 1% levels, respectively; t-statistics are presented in parentheses.

Source: The authors' calculation

Table 4. Accruals of issuers around equity issuance matched with comparable non-issuers

Year	-3	-2	-1	0	1	2	3
<i>Discretionary current accruals (DCA) of Issuer — DCA of matched non-issuer</i>							
Mean	-0.011	0.047*	0.050*	0.074***	-0.001	0.016	-0.013
t-value	(-0.47)	(1.87)	(1.69)	(3.04)	(-0.42)	(0.91)	(-0.57)
N	78	108	127	137	126	108	79
<i>Nondiscretionary current accruals (NDCA) of Issuer — NDCA of matched non-issuer</i>							
Mean	0.015	0.038*	0.001	0.011*	-0.001	-0.005	0.0003
t-value	(0.80)	(1.67)	(0.15)	(1.82)	(-0.10)	(-1.12)	(0.06)
N	94	116	141	141	134	114	85
<i>Discretionary long-term accruals (DLA) of Issuer — DLA of matched non-issuer</i>							
Mean	-0.051	-0.111**	-0.143***	-0.087***	-0.019	-0.066	-0.004
t-value	(-1.55)	(-2.23)	(-3.30)	(-3.11)	(-0.72)	(-1.60)	(-0.12)
N	78	108	127	137	126	108	79
<i>Nondiscretionary long-term accruals (NDLA) of Issuer — NDLA of matched non-issuer</i>							
Mean	0.010	0.026	0.039	0.027**	0.008	0.015	0.013
t-value	(0.48)	(0.95)	(1.52)	(2.07)	(0.57)	(1.64)	(0.56)
N	94	116	141	141	134	114	85

Notes: *, **, *** indicate significance at the 10%, 5%, and 1% level, respectively; t-statistics are presented in parentheses.

Source: The authors' calculation

4.3 Discretionary current accruals and post-offering earnings performance

The last set of results assesses the influence of equity issuance and discretionary current accruals on abnormal stock returns post-issuance. In Table 5, we present results from regressions of abnormal stock returns on a dummy variable indicating the year of issuance in Column (1), the issuance one year, two years, and three years before the current year in Columns (2), (3), and (4), respectively. We control for idiosyncrasies and time variations by key firm-specific characteristics, as well as firm fixed effects and year fixed effects. Standard errors are clustered at firm levels.

Table 5. Abnormal stock returns post-offering

	(1)	(2)	(3)	(4)
	AR	AR	AR	AR
OFFER	0.155** (2.49)			
OFFER		-0.060 (-1.64)		
OFFER			0.035 (0.58)	
OFFER				-0.091* (-1.75)
DCA	0.232*** (2.76)	0.243*** (2.85)	0.243*** (2.84)	0.244*** (2.86)
SIZE	0.051 (1.59)	0.061* (1.87)	0.054* (1.69)	0.063* (1.92)
LEV	-0.304** (-2.19)	-0.349** (-2.49)	-0.324** (-2.32)	-0.347** (-2.50)
LIQ	-0.008 (-1.12)	-0.009 (-1.23)	-0.008 (-1.19)	-0.008 (-1.16)
CAPEX	0.195 (1.21)	0.254 (1.55)	0.248 (1.53)	0.232 (1.42)
ΔNI	1.467*** (6.08)	1.434*** (5.95)	1.438*** (5.95)	1.430*** (5.91)
BM	-0.920*** (-32.52)	-0.948*** (-36.14)	-0.952*** (-36.37)	-0.949*** (-36.21)
Constant	-0.346 (-0.40)	-0.548 (-0.63)	-0.375 (-0.44)	-0.608 (-0.69)

	(1)	(2)	(3)	(4)
	AR	AR	AR	AR
Firm fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Clustered standard errors	Firms	Firms	Firms	Firms
N	2193	2193	2193	2193

Notes: OFFER is a dummy variable indicating seasoned equity offering; DCA is the discretionary current accruals; SIZE is the log of the market capitalization of the firm; LEV is leverage; LIQ is liquidity, CAPEX is capital expenditures; Δ NI is the change in asset-scaled net income; BM is the book-to-market ratio. Singleton observations are dropped. t-statistics in parentheses; *, **, *** denote significance levels at 10%, 5%, and 1%, respectively.

Source: The authors' calculation

Column (1) in Table 5 shows that in the year of issuance, the issuers experience significantly larger abnormal stock returns compared to the non-issuers. The average difference is 12.8% annually, and statistically significant at 10%, which confirms the observation in Table 1. The magnitude of the difference in this regression is much smaller than that observed in Table 1 due to the inclusion of the control variables and the fixed effects.

Nevertheless, Column (4) in Table 5 shows that three years after issuance, the mean abnormal return of the issuers is significantly lower than that of the non-issuers. The magnitude of the difference is more than 9% annually. This is again consistent with the pattern observed in net income in Table 2 and discretionary current accruals in Table 4. This suggests that earnings management around equity offering does have a significant impact on stock returns.

Table 5 also indicates that contemporary discretionary current accruals and the change in net income positively affect abnormal stock returns. These results are statistically highly significant. Firms with higher BM ratios seem to have lower abnormal returns than firms with lower BM ratios, showing that growth stocks seem to outperform value stocks in the Vietnam market. Highly leveraged firms also exhibit lower returns.

These results show that the fixation of investors on inflated accrual earnings (Pincus *et al.*, 2007; Richardson *et al.*, 2006) leads to the overvaluation of stock at the time of issuance. In the long run, these investors are likely to be disappointed by the firm's future performance, and thus have to suffer negative abnormal stock returns.

5. Conclusion

In this paper, we use a sample of listed firms on the Ho Chi Minh Stock Exchange from 2008 to 2019 to examine accrual earnings management in Vietnamese listed firms. We show that pre-issuance manipulation of discretionary accruals explains the long-term underperformance of equity issuers and the reversal of abnormal stock returns. In addition, we find that discretionary current accruals increase before and during the issuance year and decrease thereafter. This

change in accruals results in a similar change in net income. Most importantly, we demonstrate that the fixation of investors on accrual earnings lead to a positive abnormal return in the year of issuance, and a reversal to negative abnormal return three years later.

These results not only contribute to the literature with new evidence of the managers' opportunistic behavior around share issuance from an emerging market context, but also have practical implications. Investors, especially unsophisticated investors, need to be aware of and look for signs of aggressive manipulation of discretionary current accruals, such as inconsistencies between sales growth and cash flows, or understatement of provisions before and during the issue to avoid investing in the wrong firms to their own disappointments later.

In this study, the number of issuances observed is relatively small due to data unavailability. Later research may expand the sample by including issuances from Ha Noi Stock Exchange and Upcom stocks. In addition, the small sample prevents us from distinguishing the effects of different types of share offerings. That could be a shortcoming to be addressed by future studies.

Acknowledgment: We would like to thank Le Tuan Bach, Nguyen Ngoc Thuy Vy, and Nguyen Thi Oanh at Foreign Trade University for their valuable comments and suggestions. This research is funded by Foreign Trade University under research program number FTURP01-2020-04.

References

- Aharony, J., Lin, C.J. and Loeb, M.P. (1993), "Initial public offerings, accounting choices, and earnings management", *Contemporary Accounting Research*, Vol. 10 No. 1, pp. 61 - 81.
- Badertscher, B.A., Collins, D.W. and Lys, T.Z. (2012), "Discretionary accounting choices and the predictive ability of accruals with respect to future cash flows", *Journal of Accounting and Economics*, Vol. 53 No. 1-2, pp. 330 - 352.
- Bergstresser, D. and Philippon, T. (2006), "CEO incentives and earnings management", *Journal of Financial Economics*, Vol. 80 No. 3, pp. 511 - 529.
- Chahine, S., Mansi, S. and Mazboudi, M. (2015), "Media news and earnings management prior to equity offerings", *Journal of Corporate Finance*, Vol. 35, pp. 177 - 195.
- Chen, C., Kim, J.B. and Yao, L. (2017), "Earnings smoothing: does it exacerbate or constrain stock price crash risk?", *Journal of Corporate Finance*, Vol. 42, pp. 36 - 54.
- Cohen, D.A. and Zarowin, P. (2010), "Accrual-based and real earnings management activities around seasoned equity offerings", *Journal of Accounting and Economics*, Vol. 50 No. 1, pp. 2 - 19.
- Dechow, P.M. and Skinner, D.J. (2000), "Earnings management: reconciling the views of accounting academics, practitioners, and regulators", *Accounting Horizons*, Vol. 14 No. 2, pp. 235 - 250.
- Franz, D.R., HassabElnaby, H.R. and Lobo, G.J. (2014), "Impact of proximity to debt covenant violation on earnings management", *Review of Accounting Studies*, Vol. 19 No. 1, pp. 473 - 505.
- Guenther, D.A. (1994), "Earnings management in response to corporate tax rate changes: evidence from the 1986 tax reform act", *Accounting Review*, Vol. 69 No. 1, pp. 230 - 243.
- Healy, P.M. and Wahlen, J.M. (1999), "A review of the earnings management literature and its implications for standard setting", *Accounting Horizons*, Vol. 13 No. 4, pp. 365 - 383.

- Iqbal, A., Espenlaub, S. and Strong, N. (2009), “Earnings management around UK open offers”, *European Journal of Finance*, Vol. 15 No. 1, pp. 29 - 51.
- Jones, J.J. (1991), “Earnings management during import relief investigations”, *Journal of Accounting Research*, Vol. 29 No. 2, pp. 193 - 228.
- Kalyta, P. (2009), “Accounting discretion, horizon problem, and CEO retirement benefits”, *Accounting Review*, Vol. 84 No. 5, pp. 1553 - 1573.
- Minh Khue. (2021), “Dong tien cua nha dau tu F0 van chay manh?”, VNBUSINESS, Available at <https://vnbusiness.vn/giao-dich/dong-tien-cua-nha-dau-tu-f0-van-chay-manh-1078788.html> (Accessed 20 October, 2021).
- Morsfield, S.G. and Tan, C.E.L. (2006), “Do venture capitalists influence the decision to manage earnings in initial public offerings?”, *Accounting Review*, Vol. 81 No. 5, pp. 1119 - 1150.
- Myers, S.C. and Majluf, N.S. (1984), “Corporate financing and investment decisions when firms have information that investors do not have”, *Journal of Financial Economics*, Vol. 13 No. 2, pp. 187 - 221.
- Nguyen, H.T., Alphonse, P. and Nguyen, H.M. (2022), “Financial distress and the accrual anomaly”, *Journal of Contemporary Accounting and Economics*, forthcoming.
- Nguyen, H.T., Nguyen, A.T.M. and Nguyen, L.T.T. (2019), “Thao tung loi nhuan nham dat nguong loi nhuan: bang chung thuc nghiem tai Viet Nam”, *Tap chi Kinh te doi ngoai*, So 113, tr. 60 - 74.
- Nguyen, H.T. and Nguyen, H.M. (2016), “Real earnings management: evidence from Vietnam”, *External Economics Review*, No. 89, pp. 22 - 34.
- Nguyen, H.T., Tran, T.N.M., Pham, T.T.A. and Phan, T.H. (2018), “The impact of audit quality and state ownership on accrual-based earnings management: evidence from Vietnam”, *External Economics Review*, No. 108, pp. 3 - 19.
- Pincus, M., Rajgopal, S. and Venkatachalam, M. (2007), “The accrual anomaly: international evidence”, *Accounting Review*, Vol. 82 No. 1, pp. 169 - 203.
- Rangan, S. (1998), “Earnings management and the performance of seasoned equity offerings”, *Journal of Financial Economics*, Vol. 50 No. 1, pp. 101 - 122.
- Richardson, S.A., Sloan, R.G., Soliman, M.T. and Tuna, I. (2006), “The implications of accounting distortions and growth for accruals and profitability”, *Accounting Review*, Vol. 81 No. 3, pp. 713 - 743.
- Sankar, M.R. and Subramanyam, K.R. (2001), “Reporting discretion and private information communication through earnings”, *Journal of Accounting Research*, Vol. 39 No. 2, pp. 365 - 386.
- Schipper, K. (1989), “Earnings management”, *Accounting Horizons*, Vol. 3 No. 4, pp. 91 - 102.
- Teoh, S.H., Welch, I. and Wong, T.J. (1998), “Earnings management and the underperformance of seasoned equity offerings”, *Journal of Financial Economics*, Vol. 50 No. 1, pp. 63 - 99.
- Tucker, J.W. and Zarowin, P.A. (2006), “Does income smoothing improve earnings informativeness?”, *Accounting Review*, Vol. 81 No. 1, pp. 251 - 270.
- Vietnam Securities Depository. (2021), “Annual Report 2020”, Available at <https://vsd.vn/en/bao-cao-thuong-nien> (Accessed 20 November, 2021).
- Zang, A.Y. (2011), “Evidence on the trade-off between real activities manipulation and accrual-based earnings management”, *Accounting Review*, Vol. 87 No. 2, pp. 675 - 703.