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Corporate Governance and Earnings Management in Banking Sector: Empirical Evidence from Palestine

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Thesis Approval

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Declaration

I declare that the content of this thesis is my own research work, unless otherwise referenced. I certify that this thesis does not contain any material published before by another person or has been submitted elsewhere for any degree or qualification.

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Dedication

To my family, who have been my constant source of encouragement and support throughout this academic journey. Given your love and understanding, this accomplishment is both a personal milestone and a testament to your unconditional support.

To my teachers and mentors, whose advice and experience have had a significant impact on my intellectual development. Your commitment to creating engaging learning environments and your enthusiasm for sharing knowledge have had a long-term impact on my academic endeavors. Your influence has served as a beacon of intellectual growth and discovery for me.

This work is dedicated to everyone who believes that resilience, education, and group support can have a transformative effect. May it be a source of inspiration for those embarking on their own journeys of discovery, as well as a valuable contribution to the group's quest for knowledge, fostering a community united by a love of education.

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Abstract

Corporate governance involves a set of relationships between a company's management, its board, its shareholders, and other stakeholders. It also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Earnings management has been attributed to the lack of such good corporate governance practices. This study focuses on the relationship between corporate governance indicators and earnings management. Good corporate governance practices are significant in achieving the objectives of financial institutions and in enhancing investors' confidence. In this study, the parallel data was collected through the annual reports of the seven Palestinian banks listed on the Palestine Stock Exchange for the years from 2013 to 2022, which include the banks financial performance reports. The independent variables (CG characteristics) are Ownership concentration, BOD size, internal audit function, number of BOD meetings, independence of BOD, and BOD foreign representatives. Additionally, Islamic banks and female representatives need to be taken into consideration as control factors. The dependent variable in this study is the earning management which is estimated by the method of modified Jones Model. The study concludes that foreign representatives, the independency of BOD, and BOD size in Palestinian banks lowers the earning management. On the other side, the study finds that there is negative correlation between number of BOD Meetings, the number of members in audit committee, and ownership concertation in Palestinian banks and the earning management. The study suggests several recommendations. Such as, independent directors should possess appropriate knowledge and align their interests with the bank's long-term success. Strong internal controls and risk management frameworks are vital, alongside transparent reporting processes. Employee compensation schemes should incentivize long-term performance and ethical behavior. Transparent discussions about board decisions and financial reports are essential, along with regular communication with shareholders and stakeholders regarding ownership structures and conflicts of interest.

Key Words: Corporate Governance, Earnings Management, Bank Sector, Audit Committee, Internal Controls, Board Composition, Transparency.

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List of Abbreviations

Abbreviation:	**Definition**
CG:	Corporate Governance
ER:	Earnings Management
BOD:	Bord of Directors
CBOD:	Composition of the BOD
IBOD:	Independence of the BOD
NOM:	Number of Meetings
IAF:	Internal Audit Function
OC:	Ownership Concentration
ISMK:	Islamic Bank
FML	Female Representative
JM	Jones Model
QUDS:	Al-Quds Bank
BOP:	Bank of Palestine
AIB:	Arab Islamic Bank
ISBK:	Palestine Islamic Bank
SAFABANK:	Safa Bank
TNB:	The National Bank
PIBC:	Palestine Investment Bank

Chapter One

Introduction

1.1 Introduction

The financial scandals of WorldCom, Enron, and Xerox, along with the 2008 global financial catastrophe, emphasize the critical need for strong corporate governance systems in an era of globalization, competitiveness, new technology, and social and environmental issues (Gorton & Metrick, 2012). According to (García, 2012), good corporate governance systems are crucial for protecting stakeholders' interests, upholding ethical norms, and preventing unethical or unlawful acts.

The 2008 financial crisis had a tremendous influence on the worldwide economy, causing countless bankruptcies, job losses, and widespread financial instability. Previous financial scandals, such as Enron's iconic collapse in 2001 or WorldCom's $11 billion accounting scam, helped to justify stronger corporate governance rules. Financial scandals have been identified as one of the causes of a loss of confidence in organizations, necessitating a greater emphasis on transparency, accountability, and ethical procedures (Bebchuk & Fried, 2003; Coffee, 2002).

According to a World Bank analysis, organizations with stronger governance procedures have better financial performance, which may lead to higher profitability and longer-term financial stability (World Bank, 2003). These scandals also highlight the possible consequences of bad corporate governance, such as reputational harm, legal responsibilities, and negative effects on the whole economy. As a result, firms must create and maintain effective corporate governance processes to ensure long-term viability and success (Fligstein & Brundage, 2014).

Corporate governance is a crucial component of modern corporate management, comprising the systems and procedures that guide and regulate businesses. It is critical in maintaining accountability, transparency, and ethical behavior inside firms, protecting the interests of a variety of stakeholders, including shareholders, employees, customers, and the larger community. The alignment of interests between shareholders and management is critical to good corporate governance, since it promotes long-term value creation and sustainable growth (Adams & Ferreira, 2009).

Understanding the dynamics of corporate governance and earnings management is critical for politicians, regulators, investors, and business executives alike. Effective governance systems, such as independent board monitoring, strong internal controls, and transparent disclosure standards, can discourage opportunistic earnings management activity (Klein, 2002). In contrast, flaws in corporate governance frameworks, such as board entrenchment, insufficient risk management, or conflicts of interest, can generate opportunities for earnings manipulation as well as increase the possibility of financial fraud (Beasley, Carcello, Hermanson, & Lapides, 2000).

Several studies have looked into the link between earnings management and corporate governance. For example, Healy and Wahlen (1999) discovered that companies with weak or ineffective boards of directors were more likely to engage in aggressive earnings management. This shows that effective company governance practices might help dissuade profits management and possibly mitigate its detrimental effects. Other scholars have emphasized the necessity of regulating earnings management through stringent financial reporting rules, timely disclosures, and open accountability (Bhagat et al., 2004; Dechow et al., 2002).Additionally, he corporate governance system is a key tool for protecting stakeholders from misleading or fraudulent financial claims while also enhancing the integrity of financial information (Bajra, 2018).

In conclusion, corporate governance and earnings management are intertwined, with one impacting the other significantly. Corporate governance maintains an organization's power balance, ensuring that it works ethically, transparently, and financially responsibly. In contrast, earnings management is concerned with financial reporting and management activities that can affect an organization's reported performance. Understanding the relationship between these two concepts enables firms to execute strong corporate governance systems while maintaining high ethical standards, resulting in increased financial performance and stakeholder confidence.

1.2 Research Problem

The Palestinian banking sector, like many others worldwide, is dealing with the complicated interaction between corporate governance procedures and earnings management (Al-Hadi & Arafat, 2017). Corporate governance processes are critical for guaranteeing transparency, accountability, and ethical behavior inside banks, especially in light of increased regulatory scrutiny and investor demand for higher governance standards. However, the extent to which corporate governance impacts earnings management behaviors among Palestinian banks has not been thoroughly investigated (Arafat & Al-Hadi, 2019)

Earnings management, or the purposeful manipulation of financial outcomes, poses substantial risks to the integrity of financial reporting and the general stability of the banking sector. While some degree of earnings management may be permissible or even necessary for smoothing out fluctuations in financial performance, excessive or fraudulent practices can erode investor trust and distort market perceptions of bank stability and profitability (Al-Shaer, 2017).

Earnings management, or the purposeful manipulation of financial outcomes, poses substantial risks to the integrity of financial reporting and the general stability of the banking sector. While certain earnings management is permitted or even required to smooth out swings in financial performance, excessive or fraudulent tactics can undermine investor trust and skew market views of bank stability and profitability. As a result, understanding the dynamics of corporate governance structures and earnings management practices is critical for Palestinian banking stakeholders (Arafat & Al-Hadi, 2019).

Despite the growing literature on corporate governance and earnings management in global banking contexts, there is a scarcity of empirical research concentrating on the Palestinian banking industry. Given Palestine's particular sociopolitical and economic concerns, including as geopolitical instability and restricted access to international financial markets, the application of established corporate governance theories and practices requires careful consideration (International Monetary Fund, 2019).

As a result, policymakers, regulators, investors, and bank executives must investigate the relationship between corporate governance mechanisms and earnings management behaviors in Palestinian banks in order to improve governance practices, foster financial stability, and boost investor confidence in the Palestinian banking industry.

This thesis comes to answer the following general question: What is the impact of corporate governance on earnings management practices of the listed banks on Palestinian exchange-PEX?

1.3 Theoretical and Practical Significance

The theoretical importance of this study stems from its examination of the relationship between corporate governance practices and earnings management in the banking industry, a topic of great interest to scholars, regulators, and practitioners alike (Carlson & Levitt, 2013). Corporate governance regulations have an important role in promoting transparency, accountability, and stability within financial institutions, thus it is critical to understand how these policies affect earnings management (Adams & Ferreira, 2009). By investigating this relationship, the study contributes to the current body of knowledge on corporate governance and financial management, providing vital insights into how governance practices influence earnings manipulation in the banking sector.

From a practical standpoint, strong corporate governance is critical in the banking sector for various reasons:

- Risk Mitigation: Corporate Governance practices facilitates risk mitigation by allowing banks to identify, manage, and reduce inherent risks connected with their operations, ensuring that their risk-taking activities remain below permissible boundaries (De Cruz & Franks, 2014).
- Strong Corporate Governance standards improve the financial health in the banking industry. Banks that operate with transparency and accountability are less likely to participate in activities that could harm the stability of the financial system (Servaes & Guedhami, 2015).
- Trust and Reputation: Effective governance encourages trust and a favorable reputation among stakeholders, such as customers, investors, and regulators, increasing a bank's capacity to attract deposits and investments (Beasley, Carcello, Hermanson & Lapides, 2000).

- Compliance and Regulation: strong corporate governance procedures help banks fulfill regulatory requirements since regulatory agencies regularly analyze governance protocols to guarantee conformity to laws and regulations. Banks that follow a well-structured governance framework can reduce legal risks and prevent penalties, ensuring their long-term profitability and sustainability in the competitive financial sector (Klein, 2002).

1.4 Objectives of this Thesis

The Primary Goal of this Thesis is as Follows:

To examine the impact of governance indicators on earnings management within the Palestinian banks, the primary goal is separated into the following sub-objectives:

1. Examine the relationship between the composition of Boards of Directors (BOD) and earnings management in the Palestinian banking sector.
2. Examine the relationship between the independence of BOD and earnings management in the Palestinian banking sector.
3. Examine the relationship between the number of BOD meetings and earnings management in the Palestinian banking sector.
4. Examine the relationship between the number of internal audit function and earnings management in the Palestinian banking sector.
5. Examine the relationship between BOD size and earnings management in the Palestinian banking sector.
6. Examine the relationship between ownership concentration and earnings management in the Palestinian banking sector.

1.5 Research Questions

The Research's Main Question

What impact does corporate governance characteristics have on the management of earnings in Palestinian banks?

The Sub Questions are:

1. How does the composition of Boards of Directors (BOD) and earnings management in the Palestinian banking sector.
2. How does the independence of BOD affect earnings management in the Palestinian banking sector.
3. How does the number of BOD meetings affect earnings management in the Palestinian banking sector.
4. How does the number of internal audit function affect earnings management in the Palestinian banking sector.
5. How does the size of the BOD affect earnings management in the Palestinian banking sector?
6. How does the ownership concentration affect earnings management in the Palestinian banking sector.

1.6 Study Method

Main hypothesis

H.0: There is a significant impact between corporate governance characteristic and earnings management in Palestinian banking sector.

This thesis comes to examine the following hypothesis:

H.0.1: There is a significant impact between the composition of BOD as a corporate governance characteristic and earnings management in Palestinian banking sector.

H.0. 2: There is a significant impact between the Independence of BOD as a corporate governance characteristic and earnings management in Palestinian banking sector.

H.0.3: There is a significant impact between the number of BOD Meetings as a corporate governance characteristic and earnings management in Palestinian banking sector.

H.0.4: There is a significant impact between the number of internal audit function as a corporate governance characteristic and earnings management in Palestinian banking sector.

H.0.5: There is a significant impact between the BOD size as a corporate governance characteristic and earnings management in Palestinian banking sector.

H.0.6: There is a significant impact between the effect of Ownership Concentration on EM in the Palestinian banks.

1.7 Study Model

Since the study involves examining the relationship between corporate governance factors, control variables, and earnings management, the study can represent it graphically by using the following model:

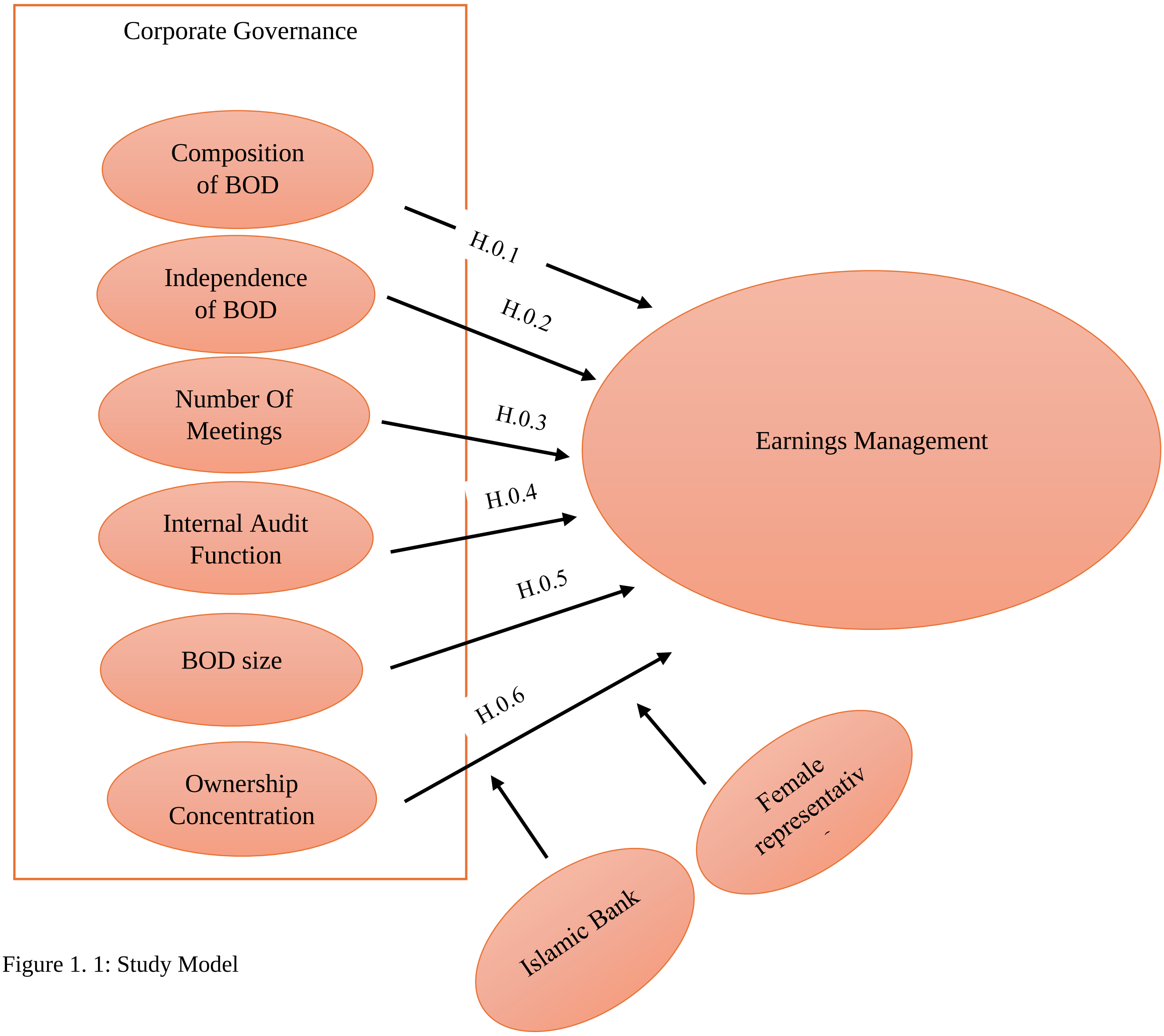

Figure 1. 1: Study Model

1.8 Operational Definition

- Corporate Governance: defined as a set of policies, procedures, and guidelines that regulate how an organization is run. It includes the interactions between many stakeholders, including the community, suppliers, consumers, workers, shareholders, management, and the board of directors. Ensuring openness, accountability, fairness, and integrity in a company's management and decision-making processes is one of corporate governance's main goals. This protects the interests of all stakeholders (Tricker, 2015)
- Earning Management: Earnings management is the manipulation of a company's financial statements to obtain desired financial outcomes, which are frequently used to paint a more positive picture of the company's success than would otherwise be possible. This manipulation can include a variety of accounting tactics such as revenue recognition, spending deferral, accruals manipulation, and changes in accounting methods (Healy & Wahlen, 1999).
- Composition of the BOD: The composition of the Board of Directors (BOD) refers to the structure and characteristics of the individuals who serve on a company's board (Hermalin & Weisbach 2003). In this thesis it will indicate the number of foreign members on the board.
- Independence of the BOD: Independence refers to the lack of any affiliations that might compromise a director's judgment or freedom of thinking (ASX, 2009).
- Number of Meetings: the overall number of meetings conducted in the year (ASX, 2009).
- Internal Audit Function: The internal audit function is an impartial and objective assurance and consulting activity that seeks to bring value and enhance an

organization's operations. It assists an organization in meeting its objectives by assessing and enhancing the efficacy of risk management, control, and governance procedures. The internal audit function reports back to the board of directors or its audit committee on the sufficiency and effectiveness of internal controls and risk management procedures (IIA. (2017).

- BOD size: This refers to the number of directors that serve on the board. The size varies based on the company's size, complexity, and industry standards (ASX, 2009).
- Ownership concentration describes how a company's ownership shares are distributed across its shareholders. It assesses the extent to which a small number of shareholders own a large proportion of the company's outstanding shares (Bebchuk & Roe1999)
- PEX: stands for Palestine Exchange, the principal stock market serving the Palestinian territories. The Palestine Exchange, founded in 1995, promotes the trading of stocks, bonds, and other assets produced by Palestinian enterprises. It allows investors to purchase and sell assets, supporting capital creation, investment, and economic progress in the region (PEX).

Chapter Two

Theoretical Framework

2.1 Introduction

Corporate governance is an important aspect of today's business (Harrison & Freeman, 2020). It is more than a set of laws and standards; it is a system that promotes honesty, responsibility, and morality (Carrol & Buchholtz, 2014). This approach guarantees that business resources are handled in a way that supports long-term growth (Brennan and Solomon, 2008).

In widely held firms, where officer responsibility is separated from capital commitment, the connection between the chief and investors, as well as between investors and lenders, is crucial to ensuring that the company runs smoothly (Hillman & Dalziel, 2003). This is known as corporate governance. It is the process by which a corporation is formed and operated (Tricker, 2015).

Legislative issues, monetary factors, and social components all have an impact on the structure of corporate governance (Davis et al., 1997). In simple corporate terms, norms and standards are supposed to represent the partners' interests (Blair and Stout, 1999). However, in the real business world, the connections and consistency of diverse partners' enthusiasms are dynamic and multifaceted (Mallin, 2010).

Corporate governance guarantees that business resources are employed in ways that encourage long-term growth (Brennan and Solomon, 2008). It protects investors' interests, expands capital availability, and fosters financial stability (Hansmann & Kraakman, 2001). Successful corporate governance promotes openness and responsibility, instilling trust and certainty in investors, clients, and the general public (Yermack, 2016). It lowers the risk of corruption, abuse, and administrative errors while strengthening firm integrity and moral standards (Hermalin & Weisbach, 2003). It allows partners to communicate, discuss, and collaborate more effectively (Hillman and Keim, 2001). It promotes a culture of morality, trust, and respect (Solimon & Solomon, 2011).

Furthermore, good corporate governance systems benefit society as a whole by harnessing enterprises' inventive capabilities to solve social issues and promote economic advancement (Cornell & Shapiro, 1987). Organizations with clear and accountable corporate governance may stimulate financial development and job creation, improve business culture, and achieve breakthroughs that raise individual happiness and prosperity (Pfeffer & Salancik, 2003). This all-encompassing approach to corporate governance fosters economic and holistic progress, resulting in a reasonable and prosperous society (Carroll & Buchholtz, 2014).

Corporate governance's relevance extends beyond large corporations, being equally critical for small businesses and large public companies (Adams, 2002). Effective governance systems enable efficient management, attract investors, and foster strategic development (Tricker, 2015). Transparent governance procedures attract investors, boosting their trust in the company's development and success (Hermalin & Weisbach, 2003). Furthermore, governance systems that evaluate strategic possibilities and allow for timely decisions promote strategic growth by matching profitable actions with strategic objectives (Zattoni & Judge, 2012).

Corporate governance and earnings management are two separate but linked components of a company's financial operations (Armstrong & Caylor, 2006). Corporate governance refers to the structures, procedures, and systems that guide and manage a firm (Bhagat, 2002). It refers to a company's management, board of directors, shareholders, and other stakeholders (Dial, 2005).

The basic goal of corporate governance is to promote effective decision making, accountability, and transparency in a company's activities (Bhagat 2002). Earnings management, on the other hand, is a method in which a firm manipulates its reported results to achieve certain goals, such as matching analyst expectations or completing regulatory requirements (Chraibi, 2016). This includes eliminating costs, accelerating revenue recognition, or delaying expense recognition (Haniffa, 2006).

The relationship between corporate governance and earnings management is that a solid corporate governance framework may assist avoid or discourage earnings management techniques (Campbell, Conley, & Sloan, 2004).

A transparent and responsible board of directors can assist keep management from participating in earnings management (Bhagat, Bolton, & Walkling, 2009). Strong financial controls and internal audits can help identify potential earnings management actions (Bhagat, 2009). Furthermore, a well-defined compensation system that rewards managers for creating long-term value rather than short-term profits might discourage earnings management (Dial, 2005).

In contrast, a poor corporate governance framework might make a corporation more subject to earnings management tactics (Cai, He, & Liu, 2012). If a company's board lacks independence and has strong links to management, it may be less inclined to question earnings management practices (Dimson, Karceski, & Stanev, 2012). Similarly, if there are insufficient financial controls and internal audits, management will find it simpler to participate in earnings management without being identified (Fan, 2002)

In conclusion, corporate governance plays a crucial role in determining a company's vulnerability to earnings management. A good corporate governance system can assist prevent or discourage earnings management, whereas a weak corporate governance structure might make a business more vulnerable to earnings manipulation (Jinri, 2012).

Corporate governance and earnings management are key challenges in the Palestinian banking sector, particularly as it grows and matures (Abu-Libdeh, 2014). With the Middle East and North Africa (MENA) area attracting global investment, the Palestinian banking industry has expanded significantly in recent years (World Bank, 2019). However, this expansion has prompted heightened scrutiny from regulators, investors, and other stakeholders (Hiner, 2015).

The Palestinian banking sector's lack of effective corporate governance procedures can have a negative impact on its stability and credibility (Rouba, 2019). Poor governance can result in fraudulent activities, financial mismanagement, and other ethical difficulties, exacerbating the dangers of operating in a volatile political and economic context (Khanfar, 2017). Furthermore, bad governance standards can have an influence on the sector's capacity to attract foreign investment and capital, which is critical for long-term growth and development (UN, 2016).

Earnings management, or the practice of altering a company's reported results to meet or surpass analyst expectations, is another issue that must be addressed in the Palestinian banking industry (Al Khatib, 2019). This can be accomplished through a variety of means, including revenue recognition difficulties, profits timing, and other accounting procedures that contradict generally accepted accounting standards (GAAP) (Al-Atras, 2018). Earnings management can lead to misleading financial statements, lower investor trust, and higher regulatory scrutiny (Nashif, 2017).

One of the primary reasons for these challenges in the Palestinian banking sector is a lack of trained and experienced experts in corporate governance and financial reporting (Abu-Libdeh, 2014). This is exacerbated by the lack of a well-established legal and regulatory framework, as well as the Palestinian Monetary Authority's (PMA) inadequate enforcement capacities (Zu'bi 2009). Furthermore, the region's high degree of corruption and lack of transparency might worsen these difficulties (Chraibi, 2016).

Another aspect contributing to these issues is the impact of political forces on the banking industry (Rouba, 2014). The Palestinian Authority (PA) has a large portion in the banking industry, which can put pressure on banks to prioritize politics above sound business standards (World Bank, 2019). There have also been several instances of political pressure being put on banks to lend to their political ties and friends (UN, 2016).

To solve these issues, the Palestinian banking sector must take aggressive steps to improve corporate governance and improve financial reporting (Rouba, 2019). This involves implementing worldwide best practices (Rouba, 2014), creating an effective legal and regulatory framework (Zu'bi, 2009), and building the competence of local experts (Hiner, 2015).

Additionally, the PMA should be more aggressive in regulating and enforcing compliance with these procedures (Al-Khatib, 2019). Also, enhancing the business environment via initiatives to decrease corruption and increase transparency (Chraibi, 2016) might help to build a stronger corporate governance framework.

In conclusion, the Palestinian banking sector confronts substantial issues in terms of corporate governance and earnings management. To tackle these challenges, the industry must emphasize developing strong corporate governance procedures (Khanfar, 2017), adopting worldwide best practices (Al-Atras, 2018), and upgrading the legal and regulatory environment (Nashif, 2017). The PMA must be aggressive in implementing these measures (Abu-Libdeh, 2014), and the Palestinian Authority must guarantee that political factors do not impede sound business processes (Al-Khatib, 2019).

2.2 Corporate Governance Characteristics

2.2.1 The BOD Composition

The Board of Directors (BOD) is an important part of a company's corporate governance structure, consisting of both executive and non-executive directors. Executive directors are full-time employees who contribute their expertise and experience to the company's operations, whereas non-executive directors provide independent oversight based on their experience and expertise in areas other than the company's current operations (Ahrens and Bryce, 2007).

The ideal balance between these two categories of directors varies within each company, although best practices often call for a majority of non-executive directors to provide a high level of independence in board decision-making (Dunkley & Houston, 2010). This independence is increased when a non-executive director is selected as the board's chair (Bebchuk & Roe, 2002).

One particularly relevant aspect of non-executive directors is their nationality. Foreign directors, in particular, can provide distinct views and information to the boardroom due to their experience in various corporate, cultural, and regulatory settings (Ahrens & Bryce, 2007). For example, they can shed light on global market dynamics, cultural subtleties, and new trends (Ahrens & Bryce, 2007). Furthermore, they may assist a firm in assessing and managing the risks associated with operating in many jurisdictions, such as political and regulatory concerns (Dahya and Chen, 2013). Furthermore, their worldwide networks can lead to strategic alliances and development prospects (Dahya & Chen, 2013).

In addition to these strategic benefits, foreign directors help to improve board accountability and transparency by providing independent perspectives and questioning management assumptions (Ahrens & Bryce, 2007). Their presence can also promote more open and objective decision-making, lowering the risk of groupthink (Ahrens & Bryce, 2007).

However, appointing foreign directors to the BOD is not without difficulties. Language and cultural hurdles might make it difficult for them to fully participate in board meetings, necessitating a significant investment in training and assistance (Ahrens & Bryce, 2007). Differences in regulatory settings might further complicate compliance difficulties (Ahrens & Bryce, 2007).

To summarize, the composition of the Board of Directors, particularly the presence of foreign directors, is crucial to ensuring effective corporate governance in today's increasingly linked global economy. Companies that promote diversity and cultural awareness can better handle the complexity of doing business across national borders, gain a competitive edge, and improve overall performance.

In the context of Palestine, the necessity of varied board membership is equally important. The region's economic and political landscape is continuously changing, and businesses must adapt to remain successful (Hashlemoun & Atallah, 2020). The Palestinian Investment Promotion Agency (PIPA) was established in 2017 to encourage foreign direct investment by promoting the regulatory environment and guiding investors through the investment process (Hashlemoun & Atallah, 2020). Furthermore, PIPA raises knowledge and understanding of the Palestinian market in order to persuade foreigners to serve on Palestinian boards, offering fresh viewpoints and ideas (Mamlouk, 2018).

Finally, the composition of the Board of Directors (BOD) is crucial to good corporate governance in Palestine, which aspires to attract international investment and support economic growth in a globalized economy (Mamlouk, 2018). Welcoming foreign directors to the board of directors provides several strategic benefits, including insights into global market dynamics, international networks, and cultural knowledge (Hashlemoun & Atallah, 2020). However, linguistic and cultural barriers, as well as variances in regulatory regimes, may necessitate large investments in training and support (Mamlouk, 2018). Governments, businesses, and educational institutions should work together to develop and support an effective and diverse Board of Directors, which will contribute to enhanced board performance and overall success for Palestinian firms (Hashlemoun & Atallah, 2020).

2.2.2 Independence of the BOD

The independence of the board of directors (BOD) is an important attribute that refers to the proportion of independent members on the board relative to the total number of members (Hillman, 2002).

The BOD's independence refers to the existence of directors who are free of undue influence or conflicts of interest that may compromise the ability to act in the best interests of the company and its stakeholders (Brennan, 2017). Independent directors are individuals who have no material ties to the firm, its management, or its big shareholders, allowing them to exercise impartial judgment and supervision (Sierra García, 2012).

The inclusion of independent directors on the board is critical for a variety of reasons. To begin, independent directors provide a variety of viewpoints, skills, and experience to the boardroom, which improves decision-making processes and reduces the possibility of group thinking (Jensen, 2018). Second, independent directors act as a check on management, ensuring that decisions are made for the long-term benefit of shareholders rather than for personal gain or short-term goals (Adams & Ferreira, 2009). Third, the inclusion of independent directors increases openness and accountability since they are more inclined to question management decisions and financial reporting procedures (Fama & Jensen, 1983).

According to (Dalton, 1998), companies with a larger proportion of independent directors have superior financial performance, lower levels of fraud and misbehavior, and better compliance with regulatory requirements. In addition, (Beasley, 2002) highlighted that independent directors are also connected with greater market values and cheaper capital costs, demonstrating investor trust in the organization's governance systems.

Regardless of the benefits, obtaining and sustaining independence in the composition of the BOD can be difficult. One of the primary critiques is the possibility of "tokenism," in which independent directors lack the required experience or engagement to properly carry out their oversight obligations (Hermalin and Weisbach, 2003). Furthermore, there is a risk of regulatory capture, in which the selection of independent directors is motivated more by compliance requirements than a genuine desire to improve governance (Coffee, 2005).

In the Palestinian context, independent board members' independence is especially vital in light of corporate corruption and inefficiency, which can stymie economic progress and development. (Hansmann & Kraakman, 2001) research of Indian enterprises found that the presence of independent directors resulted in reduced levels of financial misstatement and increased profitability. Similarly, (Abdeljawad, Al-Hakim, & Abu-Dahab, 2020) found that Jordanian enterprises with a larger share of independent directors had stronger governance standards and more financial transparency.

The regulation of corporate governance standards in Palestine has made it a required requirement for corporations to have at least one-third of their board members as independent directors (International Monetary Fund, 2019). This mandate has played an important role in protecting shareholder interests and increasing corporate transparency. (Sierra García, 2012) found that having independent directors improves accountability in Middle Eastern businesses.

Finally, the board of directors' independence is a key part of corporate governance because it promotes effective oversight, strategic decision-making, and stakeholder trust. Organizations can increase their performance, openness, and accountability by ensuring that directors are free of conflicts of interest and undue influence. However, true independence requires ongoing attention, transparency, and devotion from all sides.

2.2.3 Number of BOD Meetings

The frequency of board of directors (BOD) meetings is an important measure in the field of corporate governance. It measures the level of board involvement, monitoring, and decision-making. In terms of corporate governance, the board of directors is responsible for determining strategic direction, monitoring management, and ensuring that the firm follows legal, ethical, and financial requirements (García-Meca, 2009).

(Harris, 1979) was among the first researchers to stress the importance of board meeting frequency in evaluating board effectiveness. He recommended that the larger the frequency of meetings, the more effective the board would be in carrying out its duties. Scholars like (Abu-Elanain, 2018) and (García-Meca, 2009) support the premise that board members' monitoring efforts and dedication to the organization are reflected in the number of meetings they attend.

(González, 2014) elaborate on this point, claiming that the frequency of board meetings represents the board's increased efforts to perform responsibilities such as monitoring, assessing progress, and assuring the reliability of financial data for shareholders. This can lead to improved organizational performance.

However, not every study supports this claim. For example, (Collier, 1999) compared the performance of audit committees in the United States and the United Kingdom and discovered a negative link between audit committee membership and meeting frequency. In a study of 79 US businesses, (Kalbers, 1998) revealed that the number of board meetings was associated with audit committee effectiveness. In a Palestinian setting, (Haniffa, 2006) discovered that board and audit committee size influenced financial accomplishment but had a negative impact on board meeting frequency.

These data indicate that the link between the frequency of meetings and corporate governance success may be more nuanced than previously thought. (Cardoso, 2018) investigated the relationship between board characteristics and earnings management in firms listed on the London Stock Exchange. Contrary to popular assumption, Cardoso, 2018) revealed no significant relationship between the frequency of board meetings and the level of anomalous accruals.

In conclusion, the research indicates a favorable association between board meeting frequency and board performance, while the underlying relationship is unclear. While some studies correlate more frequent meetings to improved board oversight, others warn that board members may confront time limits and competing demands, potentially resulting in diminishing results from increased meeting frequency. In the Palestinian context, careful analysis of these variables is critical for understanding how board meeting frequency affects governance and overall firm success.

2.2.4 Internal Audit Function

The internal audit function is in charge of conducting independent and impartial assessments of an organization's operations, risk management procedures, and internal controls (IAI, 2013). It guarantees that the organization's goals are met quickly, effectively, and with adequate risk (Caldararo et al., 2012). The function's major goal is to improve the organization's overall performance by discovering operational inefficiencies, fraud, and compliance concerns (Haniffa, 2006). Internal auditors protect stakeholder interests by conducting frequent audits to ensure that organizational resources are used correctly, controls are in place, and risks are handled successfully (Zeff, 2009).

According to research, the size of the internal audit committee might represent the efficiency with which it monitors and ensures the organization's conformity to legal, ethical, and financial norms. (Huddleston and Key, 1987) stated that larger committees are more suited to perform their obligations because they provide a wider range of opinions, skills, and experience. Similarly, (Hebb, 1988) claimed that a bigger committee may result in higher audit quality.

In the Palestinian context, (Said and Aqra, 2012) investigated the association between internal audit committee membership and board financial performance. They discovered that the internal audit committee size had a considerable favorable influence on the financial performance of Palestinian banks. This finding suggests that having larger committees with more diversified skills and experience can help to improve monitoring and control systems, ultimately leading to improved financial performance.

However, others are concerned about the consequences of having a big internal audit committee. For example, Bailey and Scott, 2000) cautioned that having too many internal audit committee members might lead to communication issues, conflicts of interest, and difficulties making judgments. Furthermore, (Brown and Licari, 1996) highlighted that bigger committees may be less effective in initiating change because they are more conservative in character.

When deciding on the size of the internal audit committee, it is critical to weigh the benefits of a bigger committee against the potential negatives. While a bigger committee may provide additional viewpoints and experience, it may also result in more communication and decision-making challenges. Ultimately, the ideal size of an internal audit committee is determined by the organization's individual circumstances, such as its size, complexity, and nature of operation.

2.2.5 Board Size

Board size is just one facet of corporate governance that has the ability to impact earnings management. It is a complicated connection that may be influenced by a number of factors, including the type of firm and the corporate governance system. To acquire a more complete picture, more study is needed to determine the unique characteristics of the Palestinian setting.

Diverse perspectives exist on how board size may affect profits management. According to (Zagha, 2008), smaller boards may be more efficient in overseeing management and monitoring performance, but larger boards may lead to less effective oversight.

In one study, (Yermack, 1996) found a negative relationship between board size and business value in 452 American industrial enterprises from 1984 to 1991. His findings imply that smaller boards, which are linked with superior financial ratios and higher CEO performance incentives, outperform their bigger counterparts. Smaller boards were shown to produce more powerful incentives, such as increased monetary remuneration and a larger likelihood of termination if performance declined.

(Rahman, 2006), on the other hand, observed a positive relationship between board size and profits management in a sample of 97 Malaysian businesses from 2002 to 2003. This viewpoint emphasizes the concept that larger boards may be less successful at completing their tasks than smaller boards. In a similar study, (Lin, 2006) examined 212 US corporations in 2000 and discovered that bigger audit committees might improve supervision of the financial reporting process, resulting in higher profits quality by lowering the chance of financial statement restatements. However, in an assessment of 262 UK-listed corporations, (Mangena, 2005) discovered no significant association between audit committee size and financial reporting quality.

In conclusion, the available literature yields conflicting results on the relationship between board size and earnings management. While some research implies that smaller boards lead to better financial outcomes, others show that larger boards have a greater influence on the financial reporting process. The unique issue of Palestinian companies, which are predominantly family businesses, merits additional investigation, especially since these firms may encounter distinct obstacles than those in other nations.

2.2.6 Ownership Concentration

Ownership concentration, or the degree of centralization of ownership in a firm, is a critical part of corporate governance. There are two categories of owners: internal and external. Internal owners include employees and managers, whereas external owners are persons or organizations that are not directly involved in the company's management (Porta, 1998).

In family-owned enterprises, particularly in the Palestinian context, ownership concentration might indicate the efficacy and openness of the governance system. The more family members or people hold a major share of the firm, the higher the degree of concentration, and the possibility for a lack of independent voices in decision-making (CTC, 2017). This might make it difficult to adopt corporate governance best practices such effective separation of powers and checks and balances.

For example, many successful Palestinian firms are family-owned. The Institute of Certified Public Accountants in Palestine (ICPAP) claimed that family enterprises account for more than 70% of the private sector. These firms constitute the backbone of the Palestinian economy, creating jobs and driving economic progress. However, the significant concentration of ownership in many family businesses may impede the establishment of solid governance structures and limit their capacity to attract experienced experts and talent, resulting in performance concerns.

Because ownership is frequently linked to governance, it is critical to monitor and resolve ownership concentration in the context of corporate governance. A higher level of concentration may have a detrimental influence on decision-making, raise the likelihood of conflicts of interest, and even impede the development of company strategy (Yasin, 2018).

To address these challenges, the board and other relevant stakeholders should examine and address ownership concentration through strategies such as appointing independent directors, establishing more comprehensive shareholder rights, and welcoming outside investments (Maloney et al., 2016). These measures make corporate governance more inclusive and transparent, increase executive scrutiny, and safeguard minority shareholder interests.

Finally, ownership concentration should be considered when evaluating corporate governance standards in Palestinian family firms. Higher concentration levels may make it difficult to execute effective corporate governance rules. Awareness of these challenges is an important first step toward addressing the risks associated with significant ownership concentrations and encouraging best practices within these firms.

2.3 Local Studies

Corporate governance in Palestine has gained increasing attention in recent years, driven by the growing Palestinian economy and the desire to attract foreign investment. The purpose of this section is to list and provide an overview of the major themes and conclusions of scholarly research on corporate governance in the Palestinian context.

Corporate Governance in Palestine: An Overview

The Palestinian Capital Markets Authority (PCMA) issued a Code of Corporate Governance in 2013, outlining principles and best practices for listed companies. However, challenges remain in enforcement and compliance, particularly for smaller businesses and those outside the formal sector (Abed, 2012; Ashhab, 2010).

Studies raise concerns about board composition in Palestinian companies. Dominance of family members or close associates, and limited female representation, raise questions about independence and accountability (Al-Khatib & Abu-Shanab, 2017; Jaradat & Abu-Shanab, 2018).

Salah and Mahmoud (2017) emphasize how important good corporate governance is for encouraging accountability, transparency, and sustainability in the business sector. They list a number of challenges to the implementation of effective corporate governance in Palestine, including the prevalence of family-owned businesses, a lack of awareness and understanding of corporate governance principles among company directors and shareholders, and weak legal and regulatory frameworks.

The Organization for Economic Cooperation and Development lists six key principles of corporate governance:1) Ensuring the basis for an effective corporate governance 2) the rights and fair treatment of shareholders as well as important ownership roles 3) institutional investors, stock markers, and other intermediaries 4) the role of stakeholders 5) disclosure and transparency 6) the responsibilities of the board, in the other hand Managers use earnings management to overstate or understate the figures to serve their own interests (abdelkarim & zuriqi, 2020).

When managers of a firm utilize EM opportunistically for their self-interest rather than the benefit of stockholders, the result is detrimental to the firm. Meanwhile, when managers exercise discretion over earnings within GAAP to protect shareholders' interests, it is regarded as ethical and advantageous. (abu alhassan and others, 2023).

The Independence of the Board of Director: Jalal, Alkoni, & Nour, (2023) found that the recent attempts to legalize the Palestinian economy focused on the formation and building of effective boards of directors supported by practical committees, each of which was characterized by conditions and characteristics to achieve a sufficient level of transparency and integrity as well as building public and investor confidence in the Palestinian economic environment. There is an argument in the literature about the relationship between board independence and earnings management, this finding disagreed with results found by (abdelkarim & zuriqi, 2020) which find no statistically significant relationship between them.

Board Size: The board size means the number of directors, (Abualhassan and others,2023) finds that larger board and existence of female members on the board of directors causes an increase in a high-level impact on earnings management. This agreed with (Asmar, Abu Alia, & Ali, 2018) results indicate that the board size affects disclosure quality positively. And disagreed with (Abdeljawad & Masri, 2020) results which says a negative relationship between board size and firms' performance.

Ownership Concentration: The ownership concentration has a positive role in the firms in advanced countries, despite the positive impact of ownership concentration in some developed counties, the dispersion of ownership is still better. (Aljadba, Nawai, & Binti Laili, 2019)

Abdelkarim & alawneh (2009) results indicate that ownership concentration has a good explanatory power of market value change. The others found that the high degree of ownership concentration in Palestinian firms affected the firm performance negatively and leads to increase the level of practicing earnings management. (Aljadba, Nawai, & Binti Laili, 2019).

Board Meetings: Board meeting frequency and financial performance of banks listed on Palestine Exchange in terms of both return on assets (ROA) and return on equity (ROE) are positively correlated. This means that boards that meet more frequently tend to generate higher performance. (Doufesh, 2016).

Number of board meetings was used as independent variable to test the relationship between the corporate governance and firm performance, the results shows there is a psitive effect between number of board meetings and firm performance. (sharif, 2018).

Internal Audit Function: The audit committee is a vital internal governance technique, which provides assistance to the board of directors in supervising the system of financial reporting and facilitating the external audit function. (Saleh, Oweidat, & Abdeljawad, 2020).

There is a lot of studies takes about auditing and earning management. They found that companies that were audited by one of the big audit firms were inclined to record a lower income and higher discretionary accruals, From the results, EM was found to relate negatively to audit quality, accounting conservatism, audit committee. (Abdeljawad, Abu Alia, & Yaaqbeh, 2020).

Also, While AC effectiveness appeared to be positively associated with board size and board independence, it is negatively associated with CEO duality. This points to a complementary governance relation. On the other hand, the negative relationship between AC effectiveness and each of institutional and government ownership suggests substitutive relations. (Hassan, Hijaz, & Naser, 2017).

2.4 Earnings Management

Earnings management is the attempt of an organization to manipulate its reported results (Beasure et al., 2010). It is critical to distinguish between a company's real earnings and the earnings reported to stakeholders and regulatory authorities (Gordon et al., 2002). Earnings management incorporates three approaches: management's impact on the company's accounting policies, the flexibility allowed by accounting principles, and engaging in fraudulent financial reporting (DeFond & Jin, 2001).

Much of the study in this area has focused on the incentives that lead directors to falsify reported earnings (Hintz, 2001). There are various reasons why directors may participate in earnings management, including personal goals or a desire to influence the company's share price (Chiou & Lee, 2007). This manipulation of reported earnings by directors is especially troubling since it can have significant consequences for stakeholders and the overall integrity of financial reporting (DeFond and Jin, 2001).

Not all kinds of earnings management include fraudulent activity; for example, a corporation may choose to change accounting standards to smooth reported results over many years (Gordon et al., 2002). Smoothing is seen as a relatively harmless kind of earnings management because it has the ability to improve the accuracy of future earnings estimates (Stone & Thomas, 2000). Nonetheless, it is critical to recognize that even seemingly harmless approaches of earnings management can have negative consequences (UK Accounting Standards Board, 2003).

According to the UK Accounting Standards Board (2003), directors who use creative accounting procedures to control reported earnings, such as modifying accounting assumptions, are failing to present a "true and fair view" of the company's financial status. This emphasizes the need of transparency and precision in financial reporting, ensuring that stakeholders have access to accurate and unbiased information.

While several studies have been conducted on earnings management in larger companies (e.g., Beasure, 2010; Chiou & Lee, 2007; Gordon, 2002; Hintz, 2001), there has been minimal study on accounting manipulations carried out by smaller businesses. However, this does not diminish the importance of investigating the financial operations of smaller firms. Ensuring that all organizations, regardless of size, follow ethical and transparent financial reporting practices is critical for fostering trust and confidence among stakeholders (Gordon et al., 2002).

To summarize, earnings management is a multidimensional topic including several tactics and factors. While certain kinds of profits management may appear innocuous or even profitable in the near term, it is critical to adhere to the norms of ethics and transparency in financial reporting. To provide an accurate picture of their financial status, organizations must emphasize shareholder interests as well as overall financial statement correctness (DeFond & Jin, 2001).

2.5 Previous Studies

Signaling theory, as defined by (Bae, 2018), is useful in managing information imbalance between managers and owners in competitive settings. It highlights management's proactive approach to distributing information and soliciting opinions from a wide range of stakeholders, including customers, investors, and society at large. This proactive involvement allows management to send indications about the company's operational outcomes, whether successful or not (DANG, 2020).

Bae's (2018) study of corporate governance aspects and sustainability disclosure practices in South Asian nations found a strong link between corporate governance systems and good market signals. This connection significantly minimizes information asymmetry, ensuring that multiple stakeholders send honest signals. Investors have a strong preference for firms with high levels of transparency, effective and independent supervisory boards, and fair treatment of shareholders, especially minority shareholders. Such characteristics build trust in investors on the prudent use of assets, resulting in beneficial returns (Zheka, 2005).

Financial statements are an important source of information for stakeholders, allowing them to evaluate a company's future cash flow and expected returns (DANG, 2020). Investors, in particular, gravitate towards firms with high-quality profits, recognizing their potential for higher returns (Lin, (2016). Despite these preferences, managers frequently use earnings management strategies when preparing and presenting financial statements to meet specific objectives (Lin, 2016). Such activities may include manipulative acts designed to inflate revenues, profits, or earnings through aggressive accounting tactics (Lin, 2011).

(Beatty, 2022) discovered a disproportionate trend of minor earnings rises versus decreases, which he attributed to earnings management measures. Similarly, (Burgstahler, 1997) discovered evidence that corporations manage claimed earnings to reduce falls and losses.

The corporate governance system is an important framework that includes the rules, regulations, and processes that regulate how a corporation operates. It acts as a protection against misrepresentative or fraudulent financial claims, protecting stakeholders' interests (Bajra, 2018). The governance system has an important role in building trust and openness inside firms by reducing agency costs, whether through legislative frameworks or internal corporate methods (Melgarejo, 2019).

(Willett, 2015) emphasized the need of strong legal safeguards for investors, citing the relevance of global ownership concentration and strong corporate governance systems in reducing knowledge asymmetry. Previous research has consistently demonstrated the effectiveness of governance tools such as board composition, independence, board meeting frequency, internal audit functions, board size, and ownership concentration in lowering agency costs, improving corporate performance, and raising financial reporting quality (Dang, 2020).

Chapter Three

Research Methodology

3.1 Research Method

In this study, I will use an analytical descriptive technique to investigate the effect of CG on profits management in Palestinian banks traded on the Palestine Exchange (PEX). This approach is rated most appropriate for the study because it includes description, analysis, comparison, and assessment in order to produce generalizations useful for knowledge and science. The analysis is mostly based on secondary data gathered from Palestinian banks' financial records.

3.2 Population

The banking sector in Palestine has a rich history, dating back to the early 20th century. The PMA, the central bank of Palestine, is responsible for overseeing the banking sector. It was created in 1994 and is based in Ramallah (PMA). The PMA is responsible for issuing bank licenses, regulating the banking sector, and maintaining the stability of the country's currency, the Jordanian dinar, which is used in Palestine (PMA).

The first Palestinian bank, Al-Quds Bank, was founded in 1920 in Jerusalem. After the establishment of Israel in 1948, the banking sector in Palestine suffered greatly. Many banks were nationalized by the Jordanian government, which controlled the West Bank until 1967. Jordanian banks such as Jordan National Bank and Arab Bank continued to operate in the West Bank following the Six-Day War in 1967, when Israel occupied the area (PMA).

Palestine's banking industry has grown steadily during the 1990s. There are now 13 licensed commercial banks in Palestine, seven of which are local and six of which are foreign, according to the Palestinian Deposit Insurance Corporation (PDIC). Al-Quds Bank, Bank of Palestine, Arab Islamic Bank, Palestine Islamic Bank, Safa Bank, The National Bank, and Palestine Investment Bank are among the local banks. Cairo Amman Bank, Ahli Bank, Housing Bank, Bank of Jordan, and Arab Bank, Egyptians Arab Land Bank, are among the foreign banks (PDIC).

3.3 Sample

The information analyzed was compiled from the accounting records of seven local Palestinian banks traded on the PEX between 2013 and 2022. Financial performance reports, statement of financial position, statement of income, and statement of cash flow are all available on both the banks' official websites and the PEX website.

Tabel 3. 1 Local Banks and their Branches

Bank Name	**Code**	**Number of Branches**
Al-Quds Bank	QUDS	39
Bank of Palestine	BOP	72
Arab Islamic Bank	AIB	27
Palestine Islamic Bank	ISBK	43
Safa Bank	SAFABANK	7
The National Bank	TNB	14
Palestine Investment Bank	PIBC	22

Source: Bank Websites

3.4 Variables of the Research

3.4.1 Dependent Variable: Earning Management (EM)

The research's dependent variable is EM which is estimated by the method of modified Jones Model which is a widely used for estimating EM. It is an extension of the authentic Jones Model, which was developed by Jones (1991). This Model incorporates an extra variable for accounts receivable accruals (AR_{it}), This allows to control the impact of alterations to accounts receivable on overall accruals (Jones, 1991):

To estimate EM with the MJ Model, the initial step involves estimating total accruals using the equation (Jones, 1991):

$$TA_{it} = NI_{it} - CFO_{it}$$

…………………………………………………………….……….………..…(1)

Where,

TA_{it} = total accruals in year t for firm i,

NI_{it} = Net income in year t for firm i,

CFO_{it} = Net cash flow from operations in year t for firm i,

Once the total accruals variable is created, the MJ Model is predestined using the following regression equation: (Jones, 1991):

$$\frac{TA_{it}}{A_{i,t-1}} = \beta_0 + \beta_1 * \frac{1}{A_{i,t-1}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + \ + e_i$$

……………………………..……….(2)

Where,

TA_{it}: Total accruals for firm i in period t

$A_{i,t-1}$: Total assets for firm i in period t-1

REV_{it}: Revenue for firm i in period t

PPE_{it}: Net property, plant, and equipment for firm i in period t

AR_{it}: Accounts receivable accruals for firm i in period t

To estimate regression equation coefficients and prediction errors, ordinary least squares regression on time-series data is performed, as proposed by Jones (1991). Discretionary accruals (DACit) represent the portion of overall accruals not explained by other variables in the model, where the explained portion is considered normal accruals. The residuals (eit) obtained from the regression equation represent discretionary accruals (Jones, 1991):

DAC_{it} = Total accruals – Normal accruals = Residuals

(e_{it})……………………….…………(3)

The association among EM and discretionary accruals is that greater discretionary accruals suggest a greater likelihood of EM.

3.4.2 Independent Variables

This study depends on eight independent variables which are:

1. Female Representation in Board of Directors: This variable will be represented by a dummy variable with a value of (1) when the board of directors includes female members and (0) when there are no females on the board.
2. Islamic Bank: This variable will be considered as a control variable and will be presented by a dummy variable, with a value of (1) for Islamic banks and (0) for commercial banks.
3. Foreign Representation in BOD: This variable will be presented by a dummy variable, with a value of (1) when the board of directors has foreign members and (0) when there are no foreign members on the board.

4. Independence of (BOD): The fraction of independent members on the board relative to the overall number of members.
5. Number of Board of Directors Meetings: Measured by the overall number of meetings conducted in the year.
6. Internal Audit Function: Measured by the number of members in the internal audit committee.
7. (BOD) Size: Estimated by the overall number of members on the board.
8. Ownership Concentration: Measured by the proportion of stock ownership for BOD members.

3.5 Data Analysis and Statistical Methods

This study utilized the statistical software (STATA) for conducting the essential statistical analysis to describe the variables and examine the research hypotheses, given its proficiency in analyzing panel data. Various descriptive statistical methods, statistical tests, and regression models were employed to test the research hypotheses.

To assess the influence of CG on EM in Palestinian banks traded on the Palestine Exchange (PEX), the study employed regression analysis. In this analysis, the dependent variable is EM (DAC), while the independent variables consist of the governance variables, as illustrated in the following equation:

$$DAC_{it} = \beta_0 + \beta_1 Female_{it} + \beta_2 Foreign_{it} + \beta_3 Independence_{it} + \beta_4 meetings_{it} + \beta_5 Audit_{it} + \beta_6 Size_{it} + \beta_7 Concentration_{it} + \beta_8 Islamic_{it} + e_{it} \ldots\ldots\ldots\ldots\ldots (4)$$

Where,

DAC_{it}: Discretionary accruals for firm i in period t

eit: Error term for firm i in period t

3.5.1 Econometric Model

Two estimation approaches were employed to calculate the regression models: the fixed effects and the random effects.

3.5.1.1 Fixed Effects Model:

The FE model is used to understand the individual behavior of each set of cross-sectional data (each company) independently. This is accomplished by allowing the fixed term in the model to vary between companies while keeping the regression coefficients for the independent variable's constant across all organizations. The inclusion of fixed effects for companies in the model is justified by the presence of certain hidden variables that influence the dependent variable but remain constant across time. It is expected that these variables do not change over the study period (Anderson & Hsiao, 2010).

3.5.1.2 Random Effects Model

When the FE model requirements are not met, the RE model is used for estimation. The Hausman test is used to decide whether to use fixed or random effects models. The Hausman test is a statistical test used in econometrics to determine whether a less parametric model or a more restricted model is preferred over a more general model. Hausman established the Hausman test in 1978. It is customary in econometrics to select models according to their parsimony and goodness-of-fit. Compared to a more generic model, a less parametric model is simpler since it contains fewer parameters (Hausman, 1978). But perhaps not as effectively as a more comprehensive model in capturing all the subtleties of the data. Conversely, a more generic model could be hard to understand and contain an excessive number of parameters. The Hausman test helps determine which model is preferred. The less parametric model is more efficient than the more generic model, according to the Hausman test hypothesis. In other words, the less parametric model yields coefficient estimates that are more accurate (Hausman, 1978).

The researcher must provide two models in order to perform the Hausman test: the limited model, which is less parametric, and the unrestricted model, which is more generic (Hausman, 1978). In this study, the RE model is appropriate to the alternate hypothesis, which assumes the FE is appropriate for the study data. If the null hypothesis is dismissed, giving a test probability value of less than or equal to 0.05, the FE model is preferred, and vice versa. This is how the test statistic is computed:

Mathematical Formula: $T = ((\beta_r - \beta_u)' \times X' \times X \times (\beta_r - \beta_u))/(T \times tr(X' \times X \times S_u^{(-1)}))$

where β_r and β_u are the coefficient vectors of the restricted and unrestricted models, respectively, X is the design matrix, tr () denotes the trace of a matrix, and S_u is the covariance matrix of the unrestricted model. The test statistic T has a chi-square distribution with degrees of freedom equal to the difference in the number of parameters between the restricted and unrestricted models (Hausman, 1978).

The less parametric model is more effective and ought to be used if the test statistic is significant at a particular level of significance, according to the researcher (Hausman, 1978). The broader model ought to be selected in its place if the test statistic is not significant because there is insufficient data to support the hypothesis that the less parametric model is more effective (Hausman, 1978).

In econometrics, the Hausman test is used for several purposes, such as assessing simultaneity, endogeneity, and functional form misspecification. In empirical research, comparing many models and selecting the best one is a common usage for it (Hausman, 1978).

3.5.2 Diagnosis Tests

To ensure that the econometric model is effective and efficient, the following diagnostic tests will be performed:

Investigating Contemporaneous Correlation & Cross-Sectional Dependence

The enigma of cross-sectional dependence is tested by using Pesaran's test of cross-sectional independence (Pesaran, 2004), which has the null hypothesis that residues across entities are not associated (no cross-sectional dependence) .

3.5.2.1 Examination of Heteroscedasticity

The problem of heteroscedasticity is tested by using updated Wald test for groupwise heteroscedasticity, with the null hypothesis of that there is no heteroscedasticity. This test is used only for FE model (Crawley ,2013).

Assessment for Serial Correlation

The issue of serial correlation is examined by using Wooldridge test for autocorrelation in panel data, which has the null hypothesis of that there is no first-order autocorrelation. This test is applied to both FE and RE models (Wooldridge, 2002).

Chapter Four

Analysis and Interpretation of Data

4.1 Overview

The following part focused on the examination of empirical data and the testing of hypothesis. It comprises a descriptive evaluation of the research variables as well as hypothesis testing with regression analysis to determine the connection among EM and governance characteristics in Palestinian exchange-traded banks.

4.2 Descriptive Analysis for the Study Variable

4.2.1 Dependent Variable: Earnings Management (DAC)

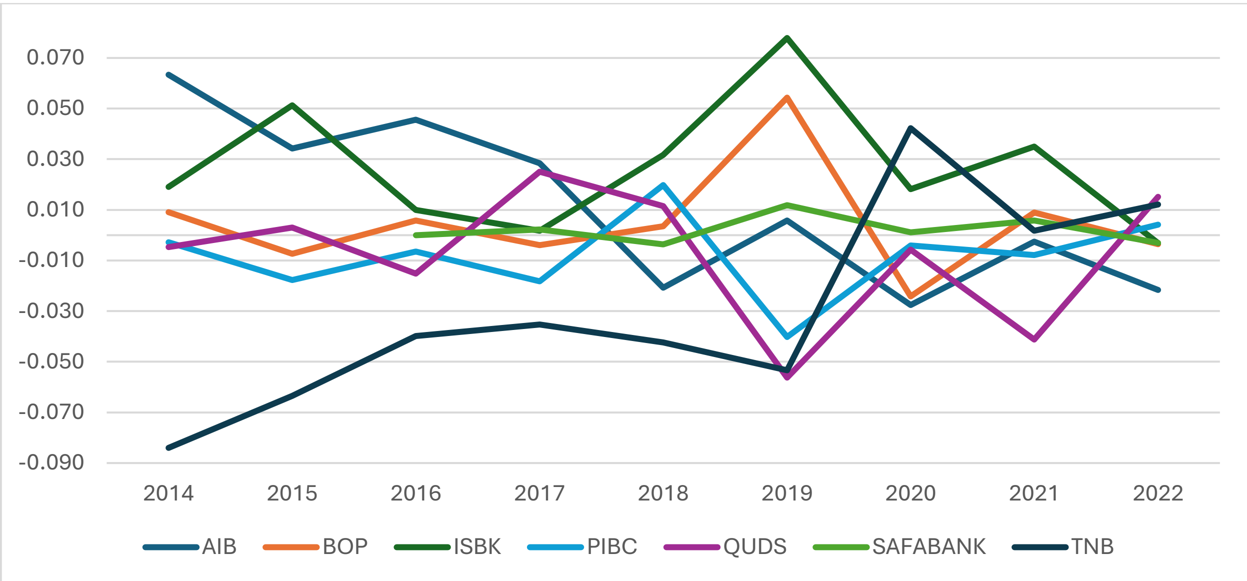

Figure 4. 1: Mean of Earning Management Variable by Years and Banks.

Source: prepared by the researcher

Figure 4.1 displays that the mean value for earning management variable represented by discretionary accruals, peaked at approximately (0.08) in the case of ISBK bank in

2019. In 2014 TNB had the lowest earning management value of around (-0.08) (see figure 4.1).

Table 4. 1: Descriptive Analysis of Earning Management Variable.

	Mean	**SD**	**Skewness**	**Kurtosis**	**Min**	**Max**
AIB	0.012	0.033	0.225	1.670	-0.028	0.063
BOP	0.005	0.021	1.303	4.638	-0.024	0.054
ISBK	0.027	0.026	0.786	2.765	-0.003	0.078
PIBC	-0.008	0.017	-0.318	3.177	-0.040	0.020
QUDS	-0.008	0.027	-0.702	2.397	-0.056	0.025
SAFABANK	0.002	0.006	0.571	2.188	-0.004	0.012
TNB	-0.029	0.040	0.494	2.214	-0.084	0.042

Source: prepared by the researcher

Table 4.1 displays that the mean value for earning management variable represented by discretionary accruals for all the period of study, peaked at approximately (0.027) in the case of ISBK bank. TNB had the lowest earning management value of around (-0.029).

4.2.2 Independent Variables (Governance Variables)

Table 4. 2 Descriptive Analysis of Independent Variables

Stats	**Female**	**Foreign**	**Independence**	**Meetings**	**Audit**	**Size**	**Concentration**	**Islamic**
Mean	0.61	0.40	0.21	6.87	3.42	10.70	0.45	0.40
SD	0.49	0.49	0.08	1.17	0.80	0.92	0.26	0.49
Skewness	-0.46	0.40	-0.62	0.96	1.43	-0.78	0.18	0.24
Kurtosis	1.21	1.16	4.82	2.32	4.92	3.75	2.08	0.40
Min	0.00	0.00	0.00	6.00	2.00	8.00	0.04	0
Max	1.00	1.00	0.44	9.00	6.00	13.00	0.89	1

Source: prepared by the researcher

Table 4.2 reveals that the participation of females on the board of directors of Palestinian banks averaged around (61%) from 2013 to 2022. This indicates that that

61% from the Palestinian banks board of directors has females' members during that period. Conversely, foreign representation on the board of directors of Palestinian banks averaged around (40%) from 2013 to 2022, signifying that 40% from the Palestinian banks board of directors has foreign members during that period. Additionally, table 4.2 demonstrates that the independence ratio in the board of directors for Palestinian banks stood at approximately 21% over study period. This means that, on average 21% of board members represented themselves and did not represent any companies or institutions. Moreover, the average frequent of annual meetings for BOD in Palestinian banks was about 6.9 meeting per year, and the average number of members in audit committees was approximately 3.4. Furthermore, table 4.2 indicates that members of board of directors in Palestinian banks owned around 45% of the total stocks, on average. Furthermore, Islamic variable averaged around (40%) from 2013 to 2022, signifying that 40% from the Palestinian banks are Islamic banks.

4.2.3 Fixed Effect Estimation

The findings of the FE model, displayed in table 4.3, reveal that just two factors, BOD independence and BOD size, have a substantial beneficial influence on EM at the 5% range. R2 for this model is around 36%, implying that the model that has been estimated explains approximately 36% of the discrepancies in earning management.

Table 4. 3: FE Estimation Model for the Impact of Governance on the EM

Independent Variables	Coefficient	Std. err	p-value
Constant	-0.094	0.053	0.084
Female	-0.002	0.018	0.905
Foreign	0.024	0.015	0.103
Independence	0.157	0.056	0.007*
Meetings	0.000	0.005	0.989
Audit	-0.013	0.007	0.082
Size	0.012	0.005	0.010*
Concentration	-0.084	0.053	0.122
Islamic	Omitted		
R^2	0.3636		
F(7,46)	3.75		
p-value (F)	0.0027		

Source: prepared by the researcher

4.2.4 Testing for Cross-Sectional Dependence/Contemporaneous Correlation

The matter of cross-sectional dependency is investigated using Pesaran's test of cross-sectional independence evaluation, with the null hypothesis that remnants across entities are not associated (no cross-sectional reliance).

Table 4. 4: Cross-Sectional Dependence for the Fixed Effect Estimation

```
Pesaran's test of cross sectional independence =    -1.200, Pr = 0.2302

Average absolute value of the off-diagonal elements =     0.448
```

Source: prepared by the researcher

Based to the Pesaran's assessment of cross-sectional independence, displayed in table 4.4, we are unable to dismiss the null hypothesis at 5% level of significance since the p-value for test (0.448) is more than 5%, indicating that there is no cross-sectional dependency.

4.2.5 Testing for Heteroscedasticity

The challenge of heteroscedasticity is investigated using modified wild test for groupwise heteroscedasticity, which no heteroscedasticity assumed under the null hypothesis.

Table 4. 5: Heteroscedasticity Test for the Fixed Effect Estimation

```
Modified Wald test for groupwise heteroskedasticity
in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (7)  =      330.44
Prob>chi2 =      0.0000
```

Source: prepared by the researcher

Due to the heteroscedasticity test result in table 4.5, we deny the null hypothesis at 5% of significance since the p-value for test (0.000) is less than 5%, indicating the presence of a heteroscedasticity problem.

4.2.6 Examining Serial Correlation.

The challenge of serial correlation is investigated using woold ridge test for autocorrelation in panel data, with the null hypothesis that there is no first-order autocorrelation.

Table 4. 6: Serial Correlation Test for the Fixed Effect Estimation

```
Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
    F(  1,       6) =      0.039
           Prob > F =      0.8508
```

Source: prepared by the researcher

Due to the serial correlation assessment result in table 4.6, we are unable to reject the null hypothesis at 5% level of significance since the p-value for test (0.8508) is more than 5%, which is taken as evidence that there is no serial correlation concern.

4.3 Random Effect Regression Results

Table 4. 7: Random-Effect Estimation Model for the Effect of Governance on the Earning Management

Independent Variables	Coefficient	Std. err	p-value
Constant	-0.103	0.045	0.023
Female	-0.011	0.008	0.178
Foreign	0.015	0.007	0.040*
Independence	0.131	0.048	0.006*
Meetings	0.002	0.003	0.601
Audit	-0.008	0.005	0.094
Size	0.009	0.004	0.023*
Concentration	-0.052	0.024	0.030*
Islamic	0.054	0.014	0.000*
R^2		0.5206	
Wald Chi2(8)		55.38	
p-value		0.000	

Source: prepared by the researcher

The outcomes of the RE model in table 4.7 reveal that there is a substantial positive effect on EM at 5% level for four variables: foreign representatives on the BOD, independence of the board, the size of the board, and the dummy variable for Islamic banks.

Additionally, the variable of board member ownership concentration has a considerable detrimental influence on EM there at 5% level. R^2 for this model is at 52%, implying that the estimated model explains around 52% of the changes in EM.

4.3.1 Testing for Cross-Sectional Dependence/Contemporaneous Correlation

The matter of cross-sectional dependency is investigated via Pesaran's cross-sectional independence assessment, given the null hypothesis that residuals across entities are not associated (no cross-sectional dependence).

Table 4. 8: Cross-Sectional Dependence for the Random Effect Estimation

```
Pesaran's test of cross sectional independence =    -1.284, Pr = 0.1991

Average absolute value of the off-diagonal elements =     0.493
```

Source: prepared by the researcher

Using Pesaran's test of cross-sectional independence, illustrated by table 4.8, we are unable to reject the null hypothesis at 5% level of significance since the p-value for test (0.493) is more than 5%, demonstrating that there is no cross-sectional dependence.

4.4 Hausman Test

To decide between the two models (fixed and random effect), the Hausman was conducted, which basically tests whether the unique errors (ui) are correlated with the regressors, the null hypothesis is they aren't (the preferred model is random effects).

Table 4. 9: Hausman Test Between Fixed and Random Effect Models

```
                   ──── Coefficients ────
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |      fe           re          Difference       Std. err.
-------------+----------------------------------------------------------------
    FemDummy |  -.0021258    -.0109083        .0087825        .0156766
    forDummy |   .0244885     .0153139        .0091747         .012697
       indep |   .1566473     .1309072          .02574        .0292296
    Meetings |   .0000709     .0017296       -.0016587        .0039483
       Audit |  -.0131037    -.0083524       -.0047513        .0054255
        Size |   .0124411     .0087433        .0036978        .0025272
Concentrat~n |  -.0838106    -.0524058       -.0314048        .0473972
------------------------------------------------------------------------------
                          b = Consistent under H0 and Ha; obtained from xtreg.
           B = Inconsistent under Ha, efficient under H0; obtained from xtreg.

Test of H0: Difference in coefficients not systematic

    chi2(7) = (b-B)'[(V_b-V_B)^(-1)](b-B)
            =   3.71
Prob > chi2 = 0.8130
```

Source: prepared by the researcher

Given the test results in table 4.9 we accept the null at 5% level of significance because the p-value of the test is about (0.8130) which is above 5%. So, we can conclude that the preferred model is the random effect estimation.

4.5 Cross-Sectional Time-Series FGLS Regression

Table 4. 10: Random GLS Estimation Model for the Effect of Governance on the Earning Management

Independent Variables	Coefficient	Std. err	p-value
Female	-0.008	0.005	0.089
Foreign	0.028	0.005	0.000*
Independence	0.084	0.031	0.008*
Meetings	-0.004	0.002	0.014*
Audit	-0.012	0.002	0.000*
Size	0.005	0.002	0.011*
Concentration	-0.051	0.020	0.012*
Islamic	0.063	0.012	0.000*
Wald Chi2(8)		104.19	
p-value		0.0000	

Source: prepared by the researcher

In light of the forgoing findings and statistical evaluations, the research will use a RE model via the generalized least squares GLS technique with an options of panels heteroscedasticity, as illustrated in table 4.10. The findings of the random impact GLS model in table 4.10 demonstrate that there is a substantial positive effect on EM at 5% level for four variables: foreign representatives on the BOD, independence of board, the size of the board, and the dummy variable for Islamic banks. Furthermore, there is a substantial negative influence on EM at 5% level for three variables: the number of annual meetings, the number of audit committee members, and the variable of ownership concentration among board members.

Chapter Five

Findings, Conclusions, and Recommendations

5.1 Findings

H.0: There is a significant impact between corporate governance characteristic and earnings management in Palestinian banking sector.

The below comments will explain the impact of corporate governance characteristics on earnings management:

H.0.1: There is a significant impact between the composition of BOD as a corporate governance characteristic and earnings management in Palestinian banking sector.

The GLS model estimation findings in Table 4.10 dismiss the null hypothesis that there is no link among the composition of the (BOD) and EM at the significance level ($\alpha < 0.05$). The p-value of the coefficient of the foreign variable is below 5%. Thus, we conclude a statistically substantial favorable impact, at ($\alpha \leq 0.05$), of having foreign representatives on the boards of Palestinian banks on earnings management.

This finding may be attributed to the notion that foreign members bring a fresh perspective and have fewer ties to existing networks, potentially leading to enhanced management oversight and reduced earning manipulation. They could introduce novel accounting practices and financial insights, influencing how earnings are managed. Furthermore, participation in international markets might exert additional pressure on banks with foreign members, resulting in less aggressive earning management and a more conservative approach to accounting practices.

H.0. 2: There is a significant impact between the Independence of BOD as a corporate governance characteristic and earnings management in Palestinian banking sector. Based on the GLS model results in Table 4.10, we dismiss the null hypothesis ($\alpha \leq 0.05$) that there is no correlation between the independence of the (BOD) and EM, as the coefficient has a p-value of below than 5%. The independence of Palestinian banks' BOD has a considerable favorable influence on EM ($\alpha \leq 0.05$), according to our findings.

This result can be clarified by noting that independent members of the (BOD) are less vulnerable to managerial influence, encouraging impartial scrutiny and decreasing the possibility of profits manipulation. Additionally, their diverse skills and perspectives can enhance the board's capability to thoroughly scrutinize financial statements and identify any attempts at manipulating earnings. Moreover, banks with independent members on their board of directors may be perceived as possessing higher transparency and credibility, potentially leading to the adoption of more precise and conservative reporting methodologies.

H.0.3: There is a significant impact between the number of BOD Meetings as a corporate governance characteristic and earnings management in Palestinian banking sector.

Relying on the GLS model findings in Table 4.10, I discarded the null hypothesis ($\alpha \leq 0.05$) that there is no association among the number of (BOD) Meetings and EM. As the coefficient has a p-value of below 5%. We found that the number of BOD meetings in Palestinian banks had a substantial detrimental impact on earnings management ($\alpha \leq 0.05$).

This outcome is likely associated with instances where a meeting of the Board of Directors (BOD) led to unfavorable results for the bank, such as a decrease in stock value or negative media coverage. It is plausible that this correlation stems from reverse causality, wherein companies facing financial challenges may convene more BOD meetings to address these issues, rather than the meetings themselves causing the problems.

H.0.4: There is a significant impact between the number of internal audit function as a corporate governance characteristic and earnings management in Palestinian banking sector.

Due to the estimation outcomes from GLS model in table 4.10 above, I discarded the null hypothesis at the ($\alpha \leq 0.05$), that there is no connection among the number of members in the internal audit committee and EM, since the p-value for the coefficient is below 5%. Consequently, I conclude that there is a statistically substantial adverse impact at ($\alpha \leq 0.05$) of number of audit committee o members in Palestinian banks on the EM. The explanation for this outcome might be attributed to the fact that larger committees may result in diminished individual accountability, as each member tends to rely on others to identify mistakes or inconsistencies. This has the potential to generate possibilities for hidden manipulation.

H.0.5: There is a significant impact between the BOD size as a corporate governance characteristic and earnings management in Palestinian banking sector. Drawing from estimation Outcomes from GLS model outlined 4.10 above, we dismiss the null hypothesis at ($\alpha \leq 0.05$) of that there is no correlation among BOD EM, since the p-value for the coefficient is below 5%. For that reason, we conclude that there is statistically important favorable impact at ($\alpha \leq 0.05$) of BOD size in Palestinian banks on the EM. The reason behind this outcome can be clarified via a variety of views and specific expertise provided by a bigger board, leading to more rigorous scrutiny, and questioning of management proposals.

This, in turn, has the potential to uncover inconsistencies or attempts to manipulate financial information.

H.0.6: There is a significant impact between the effect of Ownership Concentration as a corporate governance characteristic on EM in the Palestinian banking sector.

Following the GLS model estimation results outlined in Table 4.10 above, I disprove the null assumption at a significant level ($\alpha < 0.05$). This rejection signifies the existence of a relationship involving ownership concentration, (BOD) members, and earnings management, given that the p-value for this coefficient is below 5%. We conclude that ownership concentration among BOD members in Palestinian banks has a significantly detrimental impact on earnings management ($\alpha < 0.05$).

This outcome can be elucidated by the fact that concentrated ownership can create stronger incentives for members of the (BOD) to prioritize their personal interests, leading to potential conflicts of interest. BOD members with substantial ownership shares may make decisions favoring their own holdings, even when it is not the bank's or its other shareholders' best interests. It can also lead to information imperfection, where a highly focused group may have access to unique information that is not available to other shareholders, giving them the ability to manipulate markets or take advantage of other investors.

Furthermore, since there are fewer shareholders to hold BOD members accountable, concentrated ownership may result in diminished accountability. As a result, these board members might be less likely to suffer repercussions if they take unethical or harmful actions.

5.2 Comments on Findings

The study concludes that higher levels of earnings management are associated with foreign representation on the boards of Palestinian banks. This finding aligns with previous studies on the effectiveness of foreign directors in promoting good governance (Gul and others, 2007).

This correlation may be explained by the assumption that having foreign directors involved encourages openness and deters dishonest behavior.

Furthermore, the research suggests that increased earning management in Palestinian banks is a result of BOD's independence. This outcome may be explained by elements like elevated shareholder activism, tightened internal controls, or a more conservative management group, all of which could mitigate manipulation and raise earning management levels as a result.

Additionally, the research finds a passive correlation between EM and the frequency of BOD meetings in Palestinian banks. This outcome could be explained by reverse causality, in which banks that are having financial difficulties might call more BOD meetings to discuss these problems.

Similarly, the study found that lower EM is associated with an increased number of members on the audit committee in Palestinian banks. This link can be made clear by considering the possibility that larger committees could result in a decrease in individual accountability because each member would be dependent on the others to point out errors or inconsistencies, which could allow for undercover manipulation.

Lastly, the research shows that ownership concentration negatively affects the degree of EM. The idea that concentrated ownership creates greater incentives for Board of Directors (BOD) members to give priority to personal interests, potentially resulting in conflicts of interest, can be used to explain this outcome. This aligns with previous research suggesting that when ownership is more concentrated, BOD members are more likely to prioritize personal interests, potentially leading to conflicts of interest and a lack of accountability (Barclay and others, 2004).

5.3 Conclusions

The intricate relationship among EM and CG has a notable impact on investors' confidence and financial stability. The potential of governance to reduce the risks related to earnings management is supported by empirical evidence. The following summarizes the study's main conclusions:

- The study found a strong link ($\alpha \leq 0.05$) among the composition of the (BOD) and EM in the Palestinian banking sector. where the level of EM in the Palestinian banking industry is statistically positively impacted by foreign participation in the BOD.
- At a significance level of ($\alpha < 0.05$), there is a substantial positive link among the independence of the (BOD) and EM in Palestinian banking.
- A significant negative correlation ($\alpha < 0.05$) exists among the frequency of (BOD) meetings and EM in the Palestinian banks.
- There is statistically negative significant relationship among the internal audit committee size and EM in Palestinian banking industry.

- The size of the (BOD) has a considerable a substantial positive link with EM in the Palestinian banking sector.
- There is a highly significant negative association between ownership concentration, and EM in the Palestinian banking industry.

5.4 Recommendations

The findings of the research include the suggestions that follow for reducing the risk of EM and enhancing the degree of quality of financial reporting in the Palestinian banking industry:

- Banks are advised to conduct a thorough assessment of their existing board composition and governance procedures. This evaluation should focus on achieving a harmonious balance of diverse perspectives while ensuring robust internal controls and effective risk management. Opportunities for enhancement in transparency and communication should be identified.
- Banks should carefully evaluate the contributions of their foreign representatives, ensuring they bring essential skills and experience to the banking industry and risk management. In order to create a diverse and effective board, it is imperative to determine whether the experience and perspectives of foreign directors align with those of local directors.
- Although independent directors are advantageous, banks must ensure that they possess the necessary expertise and a complete comprehension of the bank's activities. Make sure their benefits and interests are in line with the stability and long-term success of the bank.

- Banks shouldn't just increase the size of their audit committees; instead, they should focus on the quality of the committees. Give people's skills, knowledge, and dedication more weight than just counting on bigger numbers.
- Banks should not rely entirely on their internal audit committee to avoid earnings manipulation. It is preferable to develop strong internal controls, risk management frameworks, with transparent reporting processes throughout the organization.
- Employee and management compensation schemes must be aligned with long-term performance and ethical behavior. Banks should also promote open communication and employees’ culture in order to avoid and deal with any misconduct.
- To limit the potential impact of concentrated ownership on financial procedures and decision-making, develop strong internal controls and risk management procedures.
- Encourage transparent discussion about board decisions and financial reports. Communicate with shareholders and stakeholders on a regular basis regarding ownership structures and any conflicts of interest.
- Researchers should also consider using more sophisticated statistical methods, such as instrumental variables regression, to address potential endogeneity problems.

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الملخص

تنطوي حوكمة الشركات على مجموعة من العلاقات بين إدارة الشركة، مجلس إدارتها، مساهميها وأصحاب المصالح الآخرين. كما توفر الهيكل الذي من خلاله يتم تحديد أهداف الشركة، ووسائل تحقيق هذه الأهداف ومراقبة الأداء. وقد نُسبت إدارة الأرباح إلى نقص الممارسات الجيدة لحوكمة الشركات. تركز هذه الدراسة على العلاقة بين مؤشرات حوكمة الشركات وإدارة الأرباح. تعتبر الممارسات الجيدة لحوكمة الشركات مهمة في تحقيق أهداف المؤسسات المالية وتعزيز ثقة المستثمرين. وفي هذه الدراسة، تم جمع البيانات الموازية من خلال التقارير السنوية للبنوك الفلسطينية السبعة المدرجة في بورصة فلسطين للأعوام من 2013 إلى 2022، والتي تتضمن تقارير الأداء المالي للبنوك. إن المتغيرات المستقلة (خصائص حوكمة الشركات) هي تركيز الملكية، حجم مجلس الإدارة، وظيفة التدقيق الداخلي، عدد اجتماعات مجلس الإدارة، استقلالية مجلس الإدارة، وممثلي مجلس الإدارة الأجانب. بالإضافة إلى ذلك، يجب أخذ البنوك الإسلامية والممثلات الإناث في الاعتبار كعوامل تحكم. إن المتغير التابع في هذه الدراسة هو إدارة الأرباح التي تم تقديرها باستخدام طريقة نموذج جونز المعدل. خلصت الدراسة إلى أن ممثلي الأجانب، واستقلالية مجلس الإدارة، وحجم مجلس الإدارة في البنوك الفلسطينية يقللون من إدارة الأرباح. ومن ناحية أخرى، وجدت الدراسة أن هناك علاقة سلبية بين عدد اجتماعات مجلس الإدارة، وعدد أعضاء لجنة التدقيق، وتركيز الملكية في البنوك الفلسطينية وإدارة الأرباح. تقترح الدراسة عدة توصيات، مثل أن يكون لدى المديرين المستقلين المعرفة المناسبة وأن تتماشى مصالحهم مع نجاح البنك على المدى البعيد. أن تكون الضوابط الداخلية القوية وأطر إدارة المخاطر أمورًا حيوية، إلى جانب عمليات الإبلاغ الشفافة. ينبغي أن تحفز خطط تعويض الموظفين الأداء والسلوك الأخلاقي على المدة البعيد. وضرورة وجود نقاشات شفافة حول قرارات مجلس الإدارة والتقارير المالية ، إلى جانب التواصل المنتظم مع المساهمين وأصحاب المصالح حول هياكل الملكية وتضارب المصالح.

الكلمات المفتاحية: حوكمة الشركات، إدارة الأرباح، قطاع البنوك، لجنة التدقيق، الضوابط الداخلية، تشكيل مجلس الإدارة، الشفافية