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Corporate Governance and its Impact on Earnings Management

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Thesis Approval

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Declaration

I certify that this thesis submitted for the Master's degree in Accounting and Auditing is the result of my own research, except where otherwise acknowledged and that this thesis (or any part of the same) has not been submitted for a higher degree to any other university or institution.

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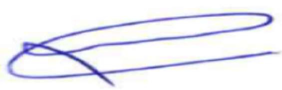
Signature: 

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Abstract

This study aims to investigate the Corporate Governance and its Impact on Earnings Management, By answering sub-questions, To what extent do Palestinian Industrial Corporations practice earnings management? Is there a relationship between board meetings and earnings management practices? Is there a relationship between the case Dual positions of executives, and the earning management practices? Is there a relationship between the audit committee's independence and earnings management practices? How corporate governance dimensions and control factors affect earnings management?

The analytical descriptive approach was used in this study. Primary data were collected from the hole (13) industrial firms listed on the PSE, the data engaged in this research is comprehensive, hailing from the Companies Directory issued by the PSE and spanning over five years, from 2017 to 2021, This study utilized the Microsoft Excel and Statistical Package for Social Sciences-SPSS V.25 for processing and analyzing data.

The results of the study show the nonexistence of discernible earnings management practices within these companies. The size of the board does not play a significant role in determining the level of earnings management practices. This implies that the size of the company does not significantly affect the quality of earnings reported. The dimensions of corporate governance and the controlling variables, such as company size, financial leverage ratio, and type of audit firm, did not demonstrate a significant impact on earnings management practices. The audit committee's practices do not directly influence the tendency or extent of earnings management practices in these entities.

Keywords: Corporate, Governance, Earnings, Management.

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Chapter One: Introduction

1.1. Overview

In this initial chapter, we will explore the broader historical context surrounding our study, articulate the research problem, underscore the significance of our research, outline the key research inquiries, delineate the study's objectives, elaborate on hypothesis formulation, introduce the conceptual framework guiding our study, and provide precise definitions of the variables under investigation.

1.2. General Background

Due to the ongoing globalization of markets and the prevalence of market-driven economies, accompanied by shifts in global market dynamics and heightened competition among economic entities, numerous research studies have advocated for the adoption of corporate governance mechanisms (Hitt, 2017). These mechanisms are proposed to enhance the credibility, transparency, and fairness of financial statement information, ultimately leading to an enhancement in the overall quality of financial reporting (Cohen, 2008).

In the context of many crises and financial scandals that beset the reliability of the published lists and the credibility of their authors and auditors, voices were raised to establish objective rules for the management of institutions through the Board of Directors in order to protect the interests of all parties interested in dealing with the institution, and to regulate the existing relations between the management of the executive institution and its board of directors and between its shareholders and other stakeholders, under the agency theory (OECD, 2015).

Although international accounting standards aim to distance accounting measurement from bias and objectivity, and to present and disclose financial information in a fair and transparent manner, the flexibility that these standards provided for economic unit management in choosing among alternative accounting policies, procedures, and methods, which may be exploited by management to achieve motives and special objectives, which would directly affect the remuneration (Gunny,2010).This, in turn, resulted in the development of the idea of " Earnings Management" (IASB, 2010).

Earnings management, often referred to as income smoothing or cosmetic accounting, collectively refers to the deliberate manipulation of financial records with the intent of enhancing the outward portrayal of a company's financial standing (Roychowdhury, 2006). Earnings management involves the strategic application of accounting techniques to present financial statements in an excessively favorable light, particularly concerning the business's activities and financial position. The principles and rules stipulated by accounting standards play a crucial role in guiding a company's management in exercising their judgment within these frameworks. Earnings management takes advantage of these established accounting standards to generate financial outcomes that either artificially boost or create a controlled, smoothed pattern of earnings (Graham, 2005).

Earnings management can be viewed as a set of managerial tactics employed to align financial reporting with specific objectives, particularly in challenging economic conditions. According to Healy and Wahlen (1999), they define earnings management as the practice wherein managers exercise their judgment during financial reporting and transaction structuring to modify financial statements. This modification may serve the purpose of either misleading certain stakeholders regarding the true economic performance of the company or exerting an influence on contractual outcomes contingent upon reported accounting practices.

In the context of agency theory, the concept of conflict of interest emerges as a primary catalyst for a company's engagement in earnings management, as elucidated by Dechow, Sloan, & Sweeney (1995). Within this framework, various incentives drive agents towards practicing earnings management: achievement of internal targets, meeting internal expectations, income smoothing, and window dressing, as identified by Stice and Skousen (2004). The manifestation of earnings management becomes a significant consideration, particularly when a company is committed to upholding corporate governance principles.

Also, companies use earing management to decrease their current net income in order to increase the income in the future, also defined as unethical practices in selecting estimates and policies accounting available that provide an opportunity for manipulation and fraud, resulting in incorrect and misleading financial data (Balaciu,2010).

The prevalence of earnings management practices, marked by their tendency to distort and obscure financial realities, has played a pivotal role in numerous corporate scandals and the subsequent downfall of major international corporations. Notably, infamous cases such as Enron and WorldCom serve as stark illustrations of this phenomenon. These practices often involve the manipulation of cash flows to meet financial obligations, a deficiency in effective oversight and control mechanisms, and a notable neglect of the implementation of accounting standards pertaining to disclosure and transparency (Ramanna, K., 2008). Moreover, instances of financial, accounting, and administrative misconduct, often involving complicity from prominent accounting and auditing firms like Arthur Andersen, have further exacerbated these issues, culminating in the collapse of these firms (Kastantin, 2005: 35-51).

It was found that the application of internal governance mechanisms helps to detect negative practices carried out by executive managers, which is reflected on the future performance of the company, as a result of the availability of credibility and reliability in the accounting information (Farber, 2005). It was also found that these practices exist in companies because of their impact on the market assessment of the company (which operates to manage its profits) because these practices carry deception and mislead users (Qiang & Terry, 2005).

As a result of these circumstances, there has been a growing interest in scrutinizing executive practices concerning earnings management, particularly those detrimental actions that have enduring adverse effects on a company's value. There's an increasing call for the disclosure of such practices and the diminishment of executives' sway over financial statements. Achieving this objective involves the implementation of regulations and guidelines tied to corporate governance prerequisites for publicly traded corporations. These measures serve a dual purpose: reinstating faith in accounting information and fostering equity among all stakeholders. Moreover, they facilitate the activation of comprehensive accounting disclosure to enhance transparency and ensure the provision of pertinent and dependable financial data within a timely framework (ICGN,2021).

1.3. Research Problem:

The accounting information that appears in the financial reports should be the mirror that reflects the full picture of the activities and businesses of the companies for a specific period of time, so that through which the company can evaluate its position and judge its financial performance, so all the related parties can make the right decision. This information might be misleading by the management for many reasons like reaching internal target; To fulfill internal expectation; Income smoothing.

Due to the limited accounting standards to prevent earning management practices that led the companies to broke or bankruptcy, the corporate governance wad implemented to control and reconcile the interests of the administration and the interests of shareholders and stakeholders, in this way we will have a safe financial report process and enhance the credibility and transparency of financial information.

In Palestine, the notion of corporate governance was initially introduced in 2005 (Abdelkarim and Amer in 2011). Subsequently, several educational initiatives were established to enhance understanding of the evolving principles of corporate governance. In 2008, the Palestinian Capital Market Authority (PCMA), the Palestinian Stock Exchange (PEX), and various associated organizations collaborated to formulate a corporate governance code rooted in the principles of corporate governance put forth by the Organization for Economic Cooperation and Development, as highlighted by Abdelkarim and Amer in 2011.

The corporate governance code is obligatory for all companies falling under the jurisdiction of the Palestinian Capital Market Authority (including publicly traded corporations). Its primary objective is to enhance performance, instill market trustworthiness, and stimulate investment by bolstering market confidence. These guidelines are rooted in Palestinian laws and regulations, making it a legal requirement for firms to adhere to them. To accommodate firms with regulations aligned with the prevailing company legislation, a set of recommendations and guidelines were introduced as an amendment. This amendment aims to provide companies with increased flexibility in their structure, size, operations, and management style, as outlined by the National Committee on Corporate Governance in 2009.

1.4. Importance of Study:

The significance of this study is underscored by its capacity to expose erroneous management and financial practices that signify a form of unethical conduct within the management echelons. In their capacity as custodians for shareholders, management holds a pivotal role, directly intertwined with the formulation of financial reports. In certain instances, these practices involve the manipulation of earnings, a conduct that runs counter to the interests of shareholders. Such manipulation is often orchestrated through the exploitation of accounting policies, thereby impacting overarching accounting metrics and, notably, profits and their distribution proportions. This manipulation capitalizes on the latitude offered by the diverse options inherent in binding accounting standards. Consequently, a pressing need has arisen to embrace contemporary managerial and supervisory mechanisms. This is achieved through the implementation of governance prerequisites across all organizational spheres, thereby establishing an organizational framework that not only ensures financial safeguards but also champions transparency and impartiality among stakeholders within various economic contexts.

Also, this study extends is evident from the importance of the issue of earnings management. As a negative phenomenon in view many corporations use their various methods to beautify or smoothing the image the numbers in these financial statements reflect the corporation's business result and accounting earning quality and its financial position.

1.5. Research Questions:

The study is carried out to answer the main question: “Is there a relationship between the independence of the board of directors and the earning management practices in the Palestinian public shareholding industrial corporations?”, However, this question is broken down to five research questions:

RQ.1 To what extent do Palestinian Industrial Corporations practice earnings management?

RQ.2 Is there a relationship between board meetings and earnings management practices?

RQ.3 Is there a relationship between the case Dual positions of executives, and the earning management practices?

RQ.4 Is there a relationship between the audit committee's independence and earnings management practices?

RQ.5 How corporate governance dimensions and control factors affect earnings management?

1.6. Hypotheses

(HO1): Palestinian public shareholding industrial companies do not practice earning management.

(HO2): there is no relationship between the independence of the Board of Directors and the earning management practices in the Industrial Public Shareholding Company.

(HO3): there is no relationship between the size of the board of directors and the practices of earning management in companies.

(HO4): there is no relationship between the independence of the audit

(HO5): There is no statistically significant impact on size of the company on the Accounting Earning Quality.

(H06): the dimensions of corporate governance and the controlling variables represented by (company size, financial leverage ratio, type of audit firm) do not affect earnings management practices.

(H07): committee and the earing management practice in the Palestinian public joint-stock industrial companies

1.7. Conceptual Framework

The conceptual model of the study signifies the importance of those factors corporate governance and its impact on earnings managements presented in figure 1.1.

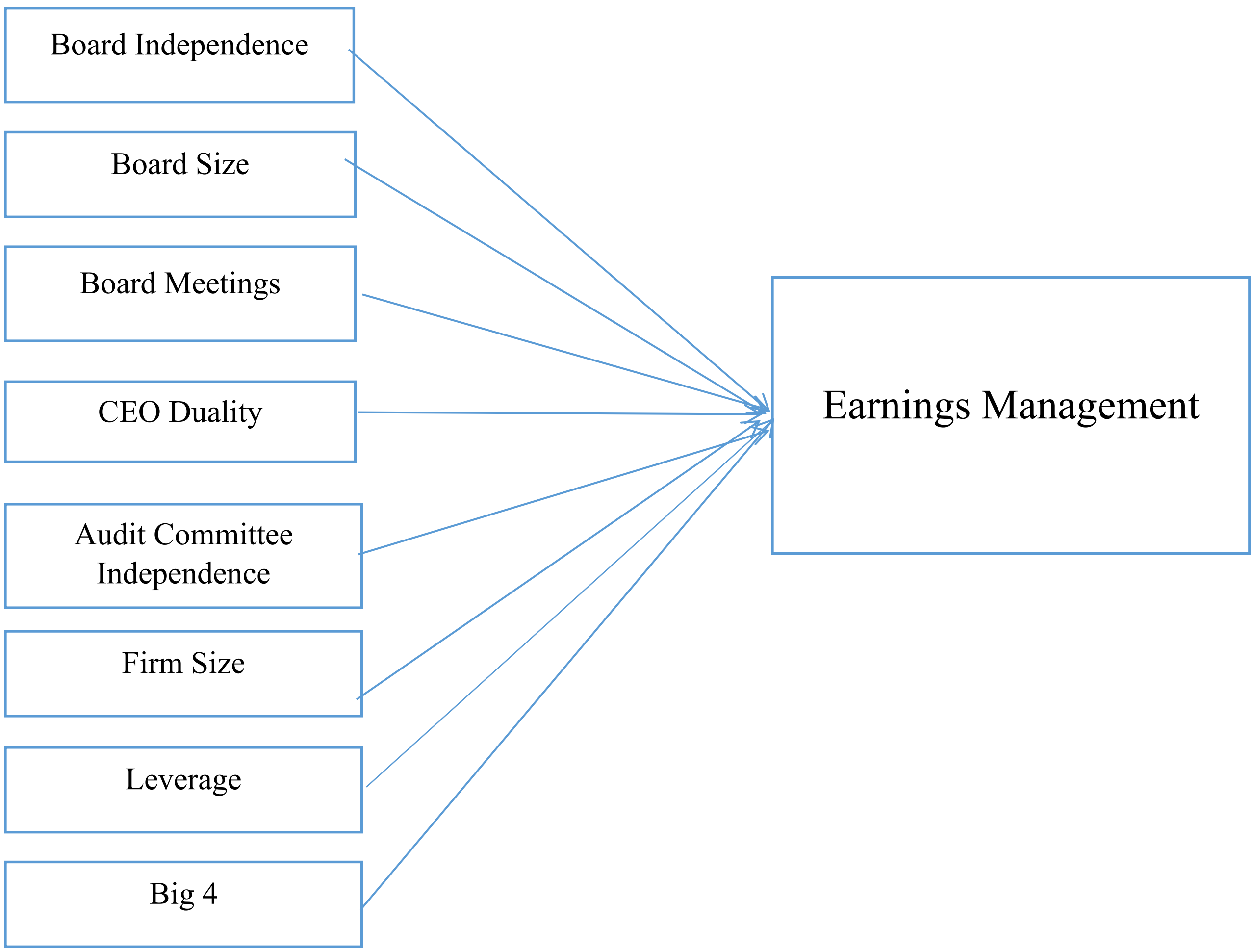

Figure 1.1: Conceptual Model of Study

Source: (Fich, 2016; Dechow, 1995)

1.8. Definitions of Variables:

1.8.1 Earnings Management:

The intentional manipulation of accounting techniques to present a desired picture of a company's financial performance, often exceeding standard accounting principles. This can involve manipulating accruals, estimates, timing, and off-balance sheet transactions (Bens, 2020). Motivated by factors like meeting expectations, avoiding defaults, boosting compensation, and influencing market sentiment. Can harm investors, creditors, and regulators. Mitigated by strong corporate governance, robust internal controls, and transparency (Leuz, 2016).

1.8.2 Board Independence:

Board independence: The absence of conflicts of interest and undue influence that enables directors to act objectively and in the best interests of all stakeholders, not just management or controlling shareholders. This independence allows for effective oversight and monitoring of financial reporting practices, potentially mitigating the risk of earnings management (Bhagat, 2020).

1.8.3 Board Size:

Board size: The total number of directors on a company's board of directors, impacting board dynamics, effectiveness, and its potential influence on earnings management (Guedri, 2023).

1.8.4 Board Meetings

Board meetings: Regularly scheduled gatherings where directors formally discuss, deliberate, and make decisions on critical matters impacting the company's strategy, performance, and governance (Fich, 2016).

1.8.5 CEO Duality:

CEO Duality: The simultaneous holding of the Chief Executive Officer (CEO) and Chairman of the Board of Directors (Chairman) positions by a single individual. This structure has both potential benefits and drawbacks, impacting corporate governance and potentially influencing earnings management practices (Fich, 2016).

1.8.6 Audit Committee Independence:

Audit committee independence: The state of being free from conflicts of interest or undue influence, allowing an audit committee to objectively and effectively fulfill its responsibilities, particularly overseeing the financial reporting process and mitigating potential earnings management (Gulati, 2013).

1.8.7 Firm Size:

Firm size: A measure of the relative magnitude of a company, often quantified by various financial metrics like revenue, total assets, market capitalization, or number of employees. (Chung, 2014).

1.8.8 Leverage:

Leverage: The extent to which a company finances its assets and operations through borrowed capital, magnifying potential returns on equity but also increasing financial risk (Chen, 2015).

1.8.9 Big 4:

Big 4: The dominant global accounting firms (Deloitte, PwC, KPMG, EY) influencing financial reporting and potentially impacting earnings management through Market Dominance, Audit majority of public companies, shaping standards and practices. Audit Quality and Independence, can deter manipulation, but conflicts of interest (non-audit services) raise concerns. Regulatory Scrutiny, motivates high standards, but concerns persist about potential pressure from clients (Francis, 2017).

Chapter Two :Theoretical Framework and Literature Review

2.1. Overview

Interest in corporate governance has witnessed a recent surge due to a confluence of factors, including the shift toward market-oriented economies, the cross-border movement of capital, the expansion of projects, the separation of ownership and management functions, and the vulnerabilities within internal control systems, particularly concerning management practices within enterprises. This environment has seen the downfall of substantial economic entities, exemplified by the collapse of prominent corporations like Enron, WorldCom, Tyco International, Adelphia, Parmalat, and the Taj Company, among others (Sarbanes-Oxley Act, 2002). As a response to these occurrences, businesses with shares traded in the United States of America are now mandated to adhere to a set of governance directives, underscoring the necessity of governance frameworks (Hitt, M.A., (2017).

The idea of corporate governance and its fundamental components were developed as a result of this law, and its procedures for ensuring the accuracy and accessibility of accounting information were put into motion. In a manner that assures the preservation of the interests of the parties connected to the facility in a transparent and timely manner (Tangjitprom, 2013), (Kamran, 2014).

Various definitions of governance have emerged in the literature and prior research, reflecting the absence of a unified consensus on its precise characterization. Among these definitions, one prevalent interpretation defines governance as "a collection of mechanisms aimed at safeguarding external investors from potential exploitation by both corporate managers and dominant shareholders within the company." This understanding is shared by scholars such as

Okpara (2011), Heenetigala and Armstrong (2011), and Hussian. (2015), as observed in the research conducted by La Porta et al. (2000).

One of the most comprehensive delineations of corporate governance originates from the Organization for Economic Co-operation and Development (OECD). In their depiction, corporate governance is characterized as "the intricate web of interactions encompassing the company's management, the board of directors, shareholders, and all other stakeholders connected to the company." It embodies the methodology that constructs the structure for defining, attaining, and supervising objectives, performance, and results. The board of directors and senior leadership must be incentivized suitably to pursue the established objectives, thereby serving the welfare of the company and its shareholders. An effective exercise of authority should facilitate robust oversight over the judicious utilization of corporate assets (OECD, 2015).

For emerging democracies whose businesses struggle with a poor legal system that makes it difficult to enforce contracts and effectively settle disputes, corporate governance has become crucial. In addition to the information's low quality, which resulted in lax control and oversight and let corruption and distrust develop. Accordingly, establishing sound principles and mechanisms for corporate governance results in the creation of the necessary safeguards against corruption and mismanagement, promotes transparency in the disclosure of information and financial statements, and removes the resistance of the powerful in companies to reform (Al-Mashhadani; and Fatwas, 2012). the use of excellent corporate governance to avert financial crises as a result of the global financial crisis of 2007, A practical perspective on using excellent corporate governance to avert future financial crises emerged as a result of the global financial crisis of 2007. This is because corporate governance is not a prescriptive ethical theory that must be adhered to.

On the other hand, the importance of corporate governance to achieve both economic and legal development and the social welfare of the economy and societies has increased significantly in recent times. On the economic level, the importance of following sound rules of corporate governance is growing for the following reasons (Abu Awwad; Al-Kabbji, 2014):

- To provide an appropriate level of reassurance to investors and shareholders regarding achieving an appropriate return on their investments, while working to preserve their rights, especially to minority shareholders.
- Maximizing the market value of the institution and strengthening the competitiveness of the institution in the global financial markets.
- At the legal level, legal experts focus on institutional governance mechanisms, which are designed to uphold the rights of various parties. These parties encompass shareholders, the board of directors, managers, employees, lenders, banks, and a multitude of other stakeholders.

An effective governance system plays a crucial role in safeguarding the interests of all stakeholders involved with the company. It serves as a regulatory framework governing the relationships between the company's executive management, its board of directors, and its audit committee. This, in turn, mitigates the company's risks and enhances the market value of its shares. A robust governance system also contributes to enhanced leadership quality, overall operational efficiency, and the quality of the company's outputs. Furthermore, it aids in optimizing the utilization of the organization's assets, reducing capital costs, and aligning the company with the aspirations of society (Campa & Donnelly, 2014).

Earnings management can be defined as a strategic set of manipulation tactics that empower managers to meet specific reporting objectives within a given economic context. As elucidated by Healy and Wahlen (1999), earnings management transpires when managers exercise their discretion during financial reporting and transaction structuring to modify financial statements. This modification can serve the dual purpose of either misleading certain stakeholders about the genuine economic performance of the company or exerting influence over contractual outcomes contingent upon reported accounting practices.

Market incentives is a main reason for earning management when stock market, particularly the market prices of the company's shares, is linked to many of the incentives for earning management. Earnings management intervenes to produce accounting profit statistics that are compatible with profit estimates released by market analysts, or to raise stock prices when calculating compensation based on these prices on a given date. As with stock options or initial stock offerings, the goal is to raise market values.

Although the accrual-based accounting profit is considered the best measure of the company's performance, it is considered one of the most important variables that investors rely on in making their investment decisions, and one of the important indicators for determining the company's share price in the market, as it reflects the management's efficiency in using the available resources. That management may misuse the freedom granted to it in choosing accounting policies, which provide it with tools to influence profit numbers to show the operating results of those economic units in the best way, and not what should be, through the flexibility available in international accounting standards, as it provided those criteria for managing the freedom to choose between the accounting alternatives used, and the development of accounting policies other than what is stated in the accounting standards, in addition to the freedom to disclose or not disclose items that have an impact on profits, in addition to the optional aspect of the accrual basis, and management estimates, which are considered one of The tools used by executive managers to influence the profit numbers in the financial statements, which is fully reflected in the economic performance of the enterprise, so that it becomes inexpressive about real performance, which is known in all of the above accounting thought as earning management (Nakashima & Ziebart, 2015), (Sani 2012), (Mohammad 2016).

There are many definitions of earnings management, and the most widely used definition is “Healy & Wahlen 1999: Earnings management occurs when managers control financial reports and the structure of operations and events to change those reports, either to mislead the relevant parties about the company’s economic performance, or to influence the results of the contracts on which the accounting figures depend. As defined by (Bhundia, 2012) as “taking deliberate steps within generally accepted accounting principles to make the profits declared in conformity with those desired.” As defined by (Scott & Pitman, 2005) as “using various methods of deception or tricks to distort images of financial performance (Cornetta 2008) stated that earnings management means “executives intend to display accounting data and information that do not have transparency or full disclosure in a timely manner, which leads to conflict between the establishment and between related parties that lack sufficient experience, which leads to misleading and deceiving these parties.

Corporate governance can be described as a regulatory framework that outlines the rights and responsibilities of various stakeholders, encompassing shareholders, management, creditors, government entities, employees, and both internal and external parties involved in a corporation's affairs (Nasution and Setiawan, 2007). An alternative perspective, as put forth by Sutedi (2012), defines corporate governance as a structured process utilized by corporate entities, including shareholders or capital owners, supervisory boards, and boards of directors. Its primary objective is to enhance business success and corporate accountability, ultimately striving for long-term shareholder value while also considering the interests of other stakeholders, all within the bounds of legal and ethical standards. Corporate governance essentially emerges as a response to the complex interplay between management and investors, addressing the potential for agency problems where company managers (managers) may not efficiently operate to maximize the wealth of the company's owners (investors).

Company owners, for example, can manage funds and make other business choices for and on behalf of the owner with this separation. The manager can't do anything with this power. So, when the rules and controls is achieved and implemented this will increase the earing quality and decrease the earning management.

Corporate governance has a negative relation with earning management and positive relation with earning quality the more governance applied the less earning management occurred the most earning quality achieved.

To effectively instill governance and harness its potential as a viable remedy against financial and administrative corruption, it becomes imperative to delineate its operational domains. Among the crucial aspects are the following:

- ❖ Cultivating Commitment and Culture: Governance serves as a catalyst for fostering a mindset rooted in commitment and a culture of responsibility. This engenders an organizational atmosphere where ethical practices are upheld and embraced (Schein, 2017).

- Documentation and Transparency: A pivotal facet of governance lies in the comprehensive documentation of all proceedings within businesses and institutions. This practice enhances transparency, ensuring that actions and decisions are well-documented and accessible for scrutiny (Tricker,2015).

These initiatives collectively contribute to the successful integration of governance as a tool to combat corruption and enhance financial and administrative practices.

Improving transparency and achieving clarity the stronger the governance, the more effective it is, the better the degree of transparency, and the more

The degree of clarity, which are basic and necessary requirements to attract local and international investments.

Due to the lack of accounting standards to prevent the management to practices the earning management that lead us to find another way to limitation these practices after many companies broke and bankruptcy from there the corporate governance was implemented to reconcile the interests of the administration and the interests of other related parties, and this led to have safety of the financial report process and enhance the credibility and transparency of financial information.

Earning management practices may be desirable if the company's manager uses his personal discretion and judgment in preparing financial statements that reflect the real economic performance of the enterprise, and the purpose of which is to improve the benefit of future profits, as managers use caution in achieving the company's goals, and to communicate information transparently to stakeholders.

Here, managers manage profits out of efficiency, and sometimes it is called good earnings management. Earnings management may have undesirable practices if the manager uses his discretion to mislead stakeholders and hide the real operating profit from them. The latter is called opportunistic earnings management. Management through which the manager seeks to maximize his own benefit, using unacceptable negative practices; (Chen & Tasi, 2010).

Chen (2006) have expounded on the motivations behind managers' involvement in earnings management. This practice is often undertaken with the intent of minimizing either the cost of capital or political costs, or alternatively, maximizing personal compensation through mechanisms like bonus plans and stock options. The reduction of capital or political costs stands to benefit businesses, while the pursuit of enhanced compensation primarily serves the interests of management, potentially at the expense of shareholders. This approach to earnings management can, to a certain extent, be mitigated by engaging high-quality auditors. The underlying assumption is that top-tier auditors are more likely to deliver audits of higher quality, consequently generating information of elevated credibility.

Executives may partake in earnings management through multiple avenues, including the manipulation of accounting estimates, methodologies, and operational decisions. This influence extends to domains like sales, shipment schedules, and adjustments to research, development, and maintenance spending accruals.

The motives of earnings management depend on the nature of the relationship between management and stakeholders, and these motives are as follows:

- Contractual Incentives: When the contract between management, shareholders and other stakeholders, or between the enterprise and executives depends on operating results, in terms of incentives and rewards, which executives seek to maximize in the present or future. Contracting incentives are: borrowing contracts and management bonus contracts. Where borrowing contracts are written in a specific way to limit management actions that benefit stakeholders in the company at the expense of creditors. As for management bonus contracts, a study (Cormier & Martinez, 2006) showed that management incentives, when linked to the results of the company's economic performance, the management chooses the accounting policy that leads to an increase in profit in the current period at the expense of future periods to achieve their personal interests.

- Market Incentives: The widespread utilization of accounting information by investors and financial analysts as a basis for stock valuation can create a strong motivation for managers to engage in earnings manipulation. This manipulation may be driven by a desire to impact short-term stock price performance, align accounting profit figures with earnings predictions disseminated by market analysts, and ultimately exert influence on market sentiment.
- Regulatory Incentives: These incentives come into play when there is a perception that reported profits hold sway over the actions of legislators and government authorities. Managers may, therefore, engage in earnings management with the aim of influencing the decisions and actions of legislators or government officials. This strategic manipulation can serve to alleviate political pressures and diminish the impact of regulatory measures within the organization. Entities that are of particular interest to the government and public opinion can be subjected to governmental decisions that impose political costs. Notably, significant fluctuations in the profits of these entities can attract government attention. When profit fluctuations take the form of substantial increases, they might be perceived as an indicator of monopoly power. Conversely, if these fluctuations manifest as significant profit declines,

they could be seen as a sign of insolvency and disarray within the organization, prompting government intervention in both scenarios (Coffee,2005).

2.2. Corporate governance and its impact on earnings management:

The pillars of corporate governance are based on a set of standards, pillars, and determinants that constitute a framework through which it is possible to ensure the disclosure of accounting information in a transparent, fair, credible, and timely manner, protecting the rights of stakeholders, and ensuring the division of supervisory, executive, and administrative responsibilities, and the consequent increase in investor confidence, The stability and efficiency of the market, and the reduction of risks to which the enterprise may be exposed. And that activating the pillars of corporate governance does not enable them - also - to limit their powers in the management of the company by exposing the negative practices of executive managers only, but also enables the profits and the misuse of shareholders' funds, and the negative impact of those practices on the profits and prices of shares and the value of the company. Governance is as follows:

Ethical behavior Financial reports are considered the main means of communication between the preparers of financial reports and their users, and the institution is seen as a set of contracts between the parties that provide production factors (owners, creditors, management, and workers), and each party seeks to achieve its own interests that may conflict with the interests of others, which leads to problems Agency between the parties associated with the economic unit as a result of the different objectives of each of them.

The objectives of the management are to follow the accounting methods that lead to an increase in net profit, and thus increase its share of the incentives, support its job positions and achieve a personal reputation for its members, while this may conflict with the objectives of the shareholders, because it leads to increased incentives and rewards for management, employees and an increase in payments Taxes, as the chances of manipulation in the financial statements increase. Earnings management, as outlined by Healy and Wahlen (1999), encompasses the utilization of discretion and estimation in economic transactions that have an impact on the financial statements disclosed. This practice is motivated by two primary objectives: the first is to deliberately mislead certain stakeholders regarding the genuine performance of the company, while the second seeks to exert influence over contractual consequences contingent upon the performance figures reported in the financial statements (Healy and Wahlen, 1999).

Numerous research endeavors have been conducted with the objective of investigating the characteristics of corporate governance, aiming to establish a connection between corporate governance practices and earnings management. However, limited attention has been devoted to exploring the impact of corporate governance on the actual implementation within companies. Notably, within the context of Palestine, research addressing the correlation between corporate governance practices and earnings management is scarce, as indicated by Abdelkarim and Amer (2011).

According Hu (2010) suggests a correlation between corporate governance practices and discretionary accruals, with stronger corporate governance practices associated with a reduced incidence of discretionary accruals, indicating a lower level of earnings manipulation.

Corporate Governance and Earnings Management In 2011, Dr. Naser Abdelkarem and Leila Amer of Birzeit University conducted the pioneering study in Palestine, investigating the relationship between corporate governance attributes and earnings management. This research focused on assessing the connection between earnings management, the dependent variable, and various independent factors, including board independence, board size, ownership concentration, CEO duality, and audit quality.

Earnings management was quantified by employing the Modified Cross-Sectional Jones Model, a method used to calculate discretionary accruals (Abdelkarim and Amer, 2011). According to Abdelkarim and Amer (2011), this model, as cited from Dechow et al. (1995), is considered superior to other models for identifying earnings management.

Earnings management, as per Al Saedi (2018), serves as a strategic tool wielded by business managers to achieve specific objectives that benefit their interests. In Al Saedi's 2018 research, which aimed to explore the connection between earnings management practices among industrial listed companies in Qatar, it was discerned that these companies did not engage in earnings management within their financial reports. This absence of earnings management practices was attributed to the competitive and well-developed nature of the Qatari market, which offered companies the opportunity to attain favorable earnings outcomes without resorting to manipulative practices. Furthermore, the study highlighted the importance of utilizing the Modified Jones Model as an effective tool for monitoring and assessing earnings management activities (Al Saedi, 2018).

2.3 Activating the role of stakeholders to ensure the effectiveness of corporate governance:

The Audit Committee plays an important role in corporate governance. It is a permanent committee approved by the Board of Directors. It consists of no less than three non-executive members, provided that among them are members of the Board of Directors who are not shareholders in the company, if any. The Board of Directors has the right to appoint independent experts. Among its members, the majority of audit committees meet every quarter, and they are usually present in all organizations, especially public shareholding companies and government sectors (Palestinian Securities Law, No. (12) of 2004), (Palestinian Amended Companies Law, 2008), (Palestinian Code of Governance, 2009), and delegates to the committee work powers in accordance with the established provisions, as well as examining areas that are commensurate with its agenda.

Whereas, the performance of the audit committee's tasks does not mean expanding the scope of the board of directors' responsibilities or increasing the burdens placed on it, but rather its tasks are limited to assisting the board of directors in performing its tasks efficiently and effectively, and in fulfilling its responsibilities and carrying out its basic tasks, especially in the field of accounting systems, preparing financial reports, Supporting internal control systems, and supporting the independence of internal and external auditors. The precise definition of the functions of the Audit Committee is one of the beneficial matters for both the members of the Committee and other parties, as this leads to an increase in awareness among the members of the Committee regarding the nature of their tasks, and at the same time leads to highlighting these tasks to other parties that the Committee deals with, such as the Board of Directors and the external and internal auditor in the form Which leads to the non-overlapping of these tasks between the different parties (Suleiman, 2006; Al-Souss, 2012).

Institutional governance and the system in place in the organization, as it is responsible for monitoring and ensuring the quality of financial reports and control systems in the company, resolving disputes between management and the auditor, providing advice regarding the choice between accounting methods and policies, evaluating the company's internal control systems, and supervising internal audit procedures (Kim & Yoon, 2008).

2.4. Risk Management

Risk management is a dynamic process in which all appropriate steps are taken to identify and deal with the risks affecting the objectives. It is an area to reach the prevention of risk and reduce the size of losses when the risk occurs, and work to prevent the recurrence of those risks by studying the reasons for the occurrence of each risk when it occurs, in order to avoid it in the future, and the management of risks extends to the measures of funds necessary to compensate for the losses that occur so as not to stop work and production (Abu Awwad; and Al-Kabbji, 2014). As risk management allows the institution to establish and review its internal controls, and to submit reports indicating the integrity of these controls to shareholders.

The internal control framework consists of all routine control arrangements, procedures and processes that drive the organization towards achieving objectives. In order to ensure that the establishment avoids the occurrence of financial shocks, stumbles, or financial failure, this is done by developing the necessary strategies that limit the opportunistic motives of the executive managers, and that both the board of directors and the company's departments, as well as the executive managers, participate in developing these strategies, and stress the necessity of having the characteristics of Good accounting information, and the quality of the financial statements, in order not to affect the reputation of the establishment in the market and expose it to reputational risks, verify the symmetry of the information, achieve the interests of the related parties, reduce exposure with them and protect their rights, and verify that there is no fluctuation in the net profit, and ensure the validity of Operational decisions, to avoid operating risks resulting from the failure of management to perform its duties, and to ensure that management follows the laws and legislation approved by the regulatory authorities, regarding disclosure in the financial statements so that the establishment is not exposed to legal risks, and to try to limit the practices followed by executive managers.

In Palestine, the concept of corporate governance made its initial appearance in 2005, as documented by Abdelkarim and Amer (2011). Subsequently, various educational initiatives were launched to enhance understanding of the evolving landscape of corporate governance. Three years following its inception, the Palestinian Capital Market Authority (PCMA), in conjunction with the Palestinian Stock Exchange (PSE) and several affiliated organizations, collaboratively formulated a corporate governance code. This code was founded upon the principles of corporate governance established by the Organization for Economic Cooperation and Development (OECD), as highlighted in the research conducted by Abdelkarim and Amer (2011).

The Corporate Governance code is required of all firms that operate under the PCMA (publicly traded corporations), and their goal is to increase performance, market dependability, and raise the investment wheel by boosting market reliability. As a result, corporations are required by law to apply these codes. Because there were regulations that were consistent with the existing company legislation, a set of suggestions and guidelines were introduced in an amendment to offer the firms greater flexibility in their form, size activities, and management style (National Committee on Corporate Governance, 2009). The code guidelines were developed from Palestinian laws and regulations.

2.5. Previous studies and study hypotheses

Study (Nakashima & Ziebart, 2015) which verified the law (Japanese Sarban Oxley (J-SOX) and does it have an effect on earnings management and the quality of earnings in the Japanese shareholding companies?

The study, which does not suffer from any weakness, and the sample used in the study collected its data from the year 2001 to the year 2010 from the Nikkei financial market. The study also aimed to show the differences in the application of corporate governance and accepted regulatory laws and their impact on earnings management and the quality of profits for Japanese companies compared with the results of Previous studies of American companies, The results showed that the differences in differences in Japanese companies compared to previous studies on the environment of American companies were few, and that the model of receivables management and real profits management increased for Japanese companies, which revealed that there was one weakness in the application of the Japanese J-SOX law, Regression analyzes indicate that there are differences in the management of accruals in both groups before and after the application of the Japanese J-SOX law, but the real earnings management was rejected in K Both groups did not before and after the application of the Japanese J-SOX law, and the quality of receivables and the accuracy of cash flow forecasts improved in the period after the application of J-SOX. In general, the results showed that the application of J-SOX law in Japanese companies does not affect earnings management. Therefore, the regulators must reconsider the tasks of both management and internal auditors, who are considered pillars of governance.

Study (Campa & Donnelly, 2014), Which aimed at evaluating corporate governance reforms in Italy based on a comparative analysis of profit management, through a comparative study of profit management in Britain as they are within the European Union and their economies are similar in terms of size, compared to the 1990s, which showed at the time that companies in Britain were practicing profit management less than their counterparts in Italy. The final sample included 382 companies from both countries, and the study covered three years since 2005, and company data was collected from the financial markets of both countries. Governance was measured through nine characteristics of governance represented by (ownership structure, the composition and structure of the board of directors, the auditor, the size of the board of directors, the ratio of non-executive and independent directors, the independence of the company's president, the duplication of the CEO, the independence of the audit committee, the type of auditor's opinion).

The results showed the opposite of what was in the year 1990 after the reforms that took place on corporate governance in Italy - that companies in Italy do not practice earnings management as is more prevalent in companies operating in Britain, and that the effect of the level of governance in Italy in reducing profit management was significantly Larger compared to companies operating in Britain.

Study (Farooque et al., 2013) Which aimed to measure the relationship between market return, governance and earnings management from the perspective of emerging markets as it is in Indonesia. The study used optional accruals and earnings coefficient as a measure of earnings management and market return to indicate the quality of earnings, the structure of ownership, and the size of the board of directors as measures of good governance. Indonesia Stock Exchange during the period 2007-2010, and the modified «Jones» model was applied to measure earnings management. The results showed that there is a negative relationship between earnings management and market return, and that the size of the board of directors and financial leverage affect the market return but are not affected by the ownership structure, and that both intermediate variables affect earnings management, and that the results confirm that the size of the board has a greater predictive ability than the structure ownership, and in reducing (deterring) the practice of earnings management, and in explaining the weakness of the relationship between earnings management and market return, and similarly, the financial leverage variable further strengthened the relationship between earnings management and market return, while the size of the company tends to weaken the practice of earnings management, and has The study called for strengthening the application of corporate governance in Indonesia in order to restrict earnings management practices and improve earnings quality.

Study (Tangjitprom, 2013), Which dealt with the role of corporate governance in reducing the negative impact of earnings management in American companies, so that the study sample consisted of 5153 companies for data collected for the study from 2002-2010 from the World Scope base, and the governance data for those companies from the ASSET4 base, which is a subsidiary of Thomson Reuter. The study showed that earnings management can be detrimental to company value if earnings management practices are opportunistic, while it can be beneficial if managers aim to show information that supports future earnings and limits reported earnings volatility.

The results showed that earnings management has a negative impact on the company's value, so that the company's value was measured using Tobin's Q scale, while the negative impact can be neutralized through the application of corporate governance, which helps in reducing opportunistic management practices, while companies that Governance is applied to a high degree in which the impact of profit management is less. The study used control variables represented by (financial leverage, company size, and growth), and these variables interacted positively with governance and earnings management.

Study (Emna et al., 2014), which dealt with the relationship between real earnings management and governance characteristics in the context of the risk of corporate underwriting failure, using a final sample consisting of 4174 American companies that were offered for subscription during the period from 1998 to 2011, and the companies' data were collected From the COMPUSTAT industrial research files, data for the measures of discretionary receivables, real earnings management and governance characteristics were collected from the Jay Ritter IPO Website database. The results of the study showed that there is a relationship between real earnings management and governance characteristics and the risk of failure in the initial public offering of companies. Among the characteristics of Governance that is associated with a negative relationship with the risks of failure in the initial public offering are both the independence of the board of directors and the size of the board. As for each of the independence of the audit committee and the duplication of the CEO, there is no relationship with the risks of failure in the initial subscription.

Study (Al- sinawi, et al., 2015), who examined in a study for them the extent to which the elements of institutional governance related to auditing and company management are available from the reality of the 48 public shareholding companies listed on the Palestine Stock Exchange until 2013. The study tested the organizational elements of governance, specifically the extent to which the availability of the elements of the external audit process of the company's accounts, the elements of the general assembly of shareholders, and the elements of the board of directors. The researcher used the questionnaire as a data collection tool. The study sample companies have the committees required by the corporate governance model, and that there is a shortage in the availability of the evaluator of the general assembly of shareholders and the evaluator of the board of directors. The study recommended the development of legislation requiring public shareholding companies to apply the corporate governance model.

2.6. Hypotheses and Model Development:

H1: Palestinian public shareholding industrial companies do not practice earning management:

The analysis found no evidence suggesting that Palestinian public shareholding industrial companies practice earnings management. With the lack of statistical significance, it can be confidently stated that the data aligns with the null hypothesis, implying the nonexistence of discernible earnings management practices within these companies.

H2: Relationship between the independence of the Board of Directors and the earning management practices in the Industrial Public Shareholding Company:

Board independence lists all of the independent directors that are currently serving on the board (Aslam & Haron, 2020). Board independence is crucial because it strengthens the Corporates Governance mechanism and increases the board's efficacy as a control mechanism.

The prior study (Saona, Muro, & Alvarado, 2020) shows how the interplay between independent nonexecutive directors and earnings management might result in conflict. Board independence can successfully control earnings management, stop managers from abusing their positions of power, and maintain investor interest.

According to the study by da Costa (2017), the board's inclusion of non-executive directors is a result of a probable shortage and a deteriorating relationship between the board of directors and the corporate governance structure.

However, a number of researches revealed contradictory findings (Saona, Muro, & Alvarado, 2020), and several studies indicated that financial statement manipulation was less likely to occur when the board was independent (Uwuigbe et al., 2015). On the other hand, multiple earlier research (Chen, Cheng, & Wang, 2015; Fuzi, Halim, & Julizaerma, 2016) reveal a negative correlation between board independence and earning management. A larger percentage of independent directors in governance boards is thought to boost the financial report's integrity and offer confidence about the caliber of earnings, according to previous research's perspective and a variety of factual evidence.

The research literature presents differing perspectives on the relationship between board independence and earnings management. Uadiale (2012) asserts that a higher proportion of board independence is associated with a reduced likelihood of earnings management. This viewpoint aligns with the findings of Beasley (1996).

However, these conclusions contrast with the results reported by Abdelkarim and Amer (2011), who identified a positive relationship between board independence and earnings management. Additionally, the studies conducted by Gulzar and Wang (2011) and Hashim and Devi (2008) did not reveal a statistically significant association between board independence and earnings management.

H3 relationship between the size of the board of directors and the practices of earning management in companies

Research by González and Garca-Meca (2014) suggests that smaller board sizes may be associated with higher risks of organizational failure. As highlighted by Aslam, Ur-Rehman, and Iqbal (2021), an optimal board size typically ranges between eight and nine members. Beyond this threshold, concerns regarding coordination issues and reduced board effectiveness may arise.

Contrasting viewpoints are observed in the literature, with some studies indicating that larger boards tend to perform their oversight functions less efficiently than smaller ones (Wali & Masmoudi, 2020). Huynh (2020) conducted research revealing a negative correlation between board size and earnings management, suggesting that larger boards may mitigate the practice of earnings management and decrease the reliance on discretionary accruals.

In a similar vein, El Siri, Lambrinoudis, and Alhadab (2020) argued that larger boards, due to their extensive experience, contribute to reducing profit-maximizing practices within organizations. Board size, determined by the number of members, has been empirically linked to business performance (Gulzar and Wang, 2011). Notably, Abdelkarim and Amer (2011) reported a negative association between board size and earnings management in 2009, while noting a positive relationship in 2010. Conversely, studies by Gulzar and Wang (2011) and Hashim and Devi (2008) found no significant relationship between board size and earnings management.

H4: relationship between the independence of the audit

The independence of audit committees plays a significant role in overseeing earnings management practices, as highlighted by Alzoubi (2019). Several studies have investigated the relationship between audit committee independence and income management, revealing notable disparities in their findings. For instance, research by Mouratidou (2020) suggests that organizations with lower levels of audit committee independence are more susceptible to financial statement fraud.

Interestingly, Huynh (2020) presents a contrasting view, indicating that audit committees comprised mainly of independent directors can have a substantial negative impact on earnings management. Conversely, El Diri, Lambrinoudakis, and Alhadab (2020) argue that a fully independent audit committee has no discernible effect on earnings management practices.

These varying findings underscore the complexity of the relationship between audit committee independence and earnings management. It is noteworthy that the introduction of audit committees aligns with agency theory, aiming to mitigate information asymmetry and enhance management accountability and financial reporting quality (Shen & Chih, 2004). This theoretical perspective is further supported by Shen and colleagues (2007), emphasizing the role of audit committees in reducing information asymmetry and improving management accountability and the quality of financial reporting

H5: statistically significant impact on size of the company on the Earning Quality: previous

on the influence of profitability on earnings quality yielded inconclusive results (Ma & Ma, 2017; Laoli & Herawaty, 2019). According to the findings of earlier studies, there are other characteristics that might decrease the influence of profitability on profits quality. Another component that arises as a moderating variable is independent commissioners. According to agency theory, managers with greater information can alter financial statements when there are conflicts of interest between agents and principals. Because independent commissioners are responsible for reviewing the running of corporate operations in accomplishing its goals, their presence can help to avoid management fraud. Companies with a significant number of independent commissioners are thought to boost company profitability; if the degree of profitability is high, qualifying profits can be generated. Thus, independent commissioners can be considered to reduce the influence of profitability on earnings quality.

H6 dimensions of corporate governance and the controlling variables represented by (company size, financial leverage ratio, type of audit firm) do not affect earnings management practices:

Larger organizations typically face heightened scrutiny from external stakeholders, including investors, financial analysts, and government regulatory bodies. Consequently, they tend to exercise greater caution when managing their financial statements. As a consequence of this increased scrutiny, larger companies are generally less inclined to engage in earnings management practices.

Conversely, smaller-scale companies may be more prone to earnings management. This inclination towards earnings management in smaller companies may stem from factors such as a reduced level of external scrutiny or a perception that manipulating financial statements can confer certain advantages.

This observation aligns with the findings of J. Abad et al. (2016), who suggest that the likelihood of earnings management tends to decrease as a company's size increases. In contrast, smaller companies may exhibit a higher propensity for earnings management due to these factors.

Leverage signifies the extent to which a company's assets are financed by debt, with the debt being obligations owed to creditors rather than shareholders or investors. In addition to raising funds through the issuance of stocks, companies can secure financing through debt policies. In a debt arrangement, it is crucial for the company to receive favorable evaluations from creditors regarding its capacity to repay debt (Dreachslin et al., 2017). Consequently, corporations may resort to deceptive practices, such as earnings management, to enhance reported earnings. This strategy is employed with the aim of bolstering the company's negotiating position during debt negotiations, alleviating concerns among creditors, and potentially securing leniency in terms of credit conditions.

Audit quality plays a pivotal role in shaping the reliability of financial information (Yasar, 2013). Previous research efforts have primarily revolved around investigating the interplay between audit quality indicators, including aspects like the presence and expertise of the audit committee, as well as the involvement of the top four auditing firms (Abdelkarim and Amer, 2011).

According to Yasar (2013), there appears to be no discernible connection between audit quality and earnings management, be it for significant entities audited by big four firms or for Turkish enterprises (Gulzar and Wang, 2011). Insufficient evidence has been uncovered to establish a definitive correlation between the existence of an audit committee and earnings management. This finding aligns with the conclusions drawn by Abdelkarim and Amer (2011) in their analysis of 2010 data. This particular data set, evaluated by a prominent Asian Economic and Financial Review, failed to indicate a significant link.

However, an examination of 2009 data conducted by Abdelkarim and Amer (2011) revealed a contrary pattern. For that year, a negative association was identified between large enterprises audited by the big four firms and earnings management. This suggests that the presence of a big four audit firm could potentially mitigate the extent of interaction with earnings management practices (Abdelkarim and Amer, 2011).

H7 committee and the earing management practice in the Palestinian public joint-stock industrial companies:

The absence of evidence to reject the null hypothesis, which posits the absence of a significant relationship between the practices of the audit committee and earnings management within Palestinian public joint-stock industrial companies, indicates that the activities of the audit committee do not have a direct and discernible impact on the likelihood or extent of earnings management practices within these organizations. In other words, the study's findings do not support the idea that the audit committee's practices play a significant role in influencing earnings management behaviors in these particular entities.

Previous research in the field of corporate governance and earnings management has predominantly focused on two key aspects:

- Earnings Quality: Many studies have examined how various governance attributes impact the quality of reported earnings. This research seeks to understand how corporate governance practices can enhance or diminish the reliability of financial information disclosed by companies (Dechow,2002).
- Governance and Earnings Management: Some studies have delved into the relationship between corporate governance mechanisms and earnings management practices. These investigations often look at specific governance characteristics, such as the presence of audit committees or board independence, and their influence on the propensity for earnings management (Klein, 2002).

The discrepancies in findings across these prior studies can be attributed to several factors, including:

- Statistical Methodologies: Different studies may employ distinct statistical methods to analyze their data, which can lead to varying results

- Time Periods: The time frames over which data is collected and analyzed can vary between studies. Economic conditions and regulatory frameworks may change over time, influencing the relationship between governance and earnings management.
- Legislative Frameworks: Corporate governance regulations and practices can differ significantly from one country to another. These variations in governance environments can impact the relationship between governance and earnings management (Subramaniam,2009).

In summary, the diversity in research findings in this area underscores the complex and multifaceted nature of corporate governance's influence on earnings management. Researchers must consider these factors when interpreting and comparing the results of different studies.

However, the present study distinguishes itself from prior research in several ways. It stands apart due to differences in variables, measurement techniques, statistical methodologies employed, and the research objectives pursued. The study's primary goal is to comprehensively elucidate the role of corporate governance in regulating earnings management practices. This involves quantitative analysis of data collected from the population of industrial public shareholding companies in Palestine, a topic that has received limited attention, particularly in the context of the Palestinian business environment. In this respect, the current study offers a distinctive perspective and contributes significantly to the discourse on corporate governance and earnings management.

This study represents an extension of the existing research on earnings management within the context of Industrial Corporations in Palestine. It is distinct from previous studies due to the unique nature of the Palestine emerging market, which is characterized by limited available data concerning events or incentives similar to those discussed earlier. Unlike prior research that has often focused on specific events or incentives, this study takes a different approach. Instead of attempting to shed light on earnings management practices in Palestine linked to particular events or incentives, this study concentrates on exploring earnings management in the Palestinian context. This exploration is centered around its impact on corporate governance. The rationale behind this approach stems from the fact that the relationship between earnings management and the quality of accounting earnings has been briefly touched upon in the literature. As a result, this study investigates the phenomenon of earnings management in Palestine, particularly how it interacts with and influences corporate governance. This unique focus differentiates it from previous studies and offers insights within a distinct setting.

Chapter Three: Research Methodology

3.1. Overview

This chapter aims to expound on and justify the research methodology. The chapter will cover various aspects such as the selection of the research approach, identification of the population and sample, data collection method, and statistical data analysis techniques.

3.2. Research Approach

Since the aim of this study is to determine the relationship between corporate governance and Earnings management, the appropriate approach is the analytical descriptive approach.

3.3. Population and Sample

Our study area comprises the hole of 13 industrial firms listed on the PSE, regarded as pivotal economic entities within the Palestinian context. This selection was motivated by the potential these corporations hold in offering profound insights into the relationship between corporate governance structures and earnings management practices.

3.4. Data Collection Method

The data engaged in this research is comprehensive, hailing from the Companies Directory issued by the PSE and spanning over five years, from 2017 to 2021. This ample timeframe encapsulates a balance of short-term fluctuations and long-term trends, providing a holistic view of the interplay between corporate governance and earnings management.

3.5. Statistical Data Analysis Techniques

This study utilized the Microsoft Excel and Statistical Package for Social Sciences-SPSS V.25 for processing and analyzing data. The following statistical treatments were used are:

- Descriptive statistics.
- Correlation.
- Multiple regression analysis.
- A heteroskedasticity test to ascertain the consistency of the variance of the errors.
- The Variance Inflation Factor (VIF) will be utilized to evaluate the linear correlation between variables, providing a robust indicator of potential multicollinearity.

Chapter Four: Data Analysis and Interpretation

4.1. Introduction

Unraveling the intricacies between corporate governance and earnings management requires a meticulous, data-driven exploration. This chapter seeks to fulfill this mandate, delving deep into the empirical landscape of the Palestinian industrial sector listed on the Palestine Stock Exchange (PSE).

This data, together with the statistical analyses, will be subjected to an in-depth interpretation aimed at demystifying the dynamics between corporate governance and earnings management within the Palestinian context. As such, the ensuing segments of this chapter lay the groundwork for the empirical analysis and the subsequent exploration of the research objectives, ultimately enriching the wider discourse surrounding ethical financial practices and corporate governance.

4.2. Description of Variables and Their Statistical Properties

Our detailed examination of the data begins with the analytical dissection of the variables of interest. Each of these variables, namely, Earnings Management (Y), Board Independence, Board Size, Board Meetings, CEO Duality, Audit Committee Independence, Firm Size, Leverage, and Big 4, carries a unique essence to this study and adds depth to the understanding of corporate governance's impact on earnings management (Table 1).

Table 1. Description of Variables and Their Statistical Properties

	Y	Board Independence	Board Size	Board Meeting	CEO Duality	Audit Committee Independence	Firm Size	Leverage	Big 4
Mean	0.483	0.836	8.050	5.783	0.583	0.083	7.259	1.687	0.567
Median	0.000	0.857	8.000	6.000	1.000	0.000	7.380	1.204	1.000
Maximum	1.000	1.167	11.000	7.000	1.000	1.000	8.049	4.683	1.000
Minimum	0.000	0.625	5.000	5.000	0.000	0.000	5.890	0.014	0.000
Std. Dev.	0.504	0.135	1.845	0.613	0.497	0.279	0.583	1.579	0.500
Skewness	0.067	-0.032	0.106	0.150	-0.338	3.015	-0.826	0.443	-0.269
Kurtosis	1.004	2.183	2.157	2.485	1.114	10.091	2.823	1.674	1.072
Jarque-Bera	10.000	1.678	1.889	0.890	10.033	216.612	6.894	6.356	10.013
Probability	0.007	0.432	0.389	0.641	0.007	0.000	0.032	0.042	0.007
Sum	29.000	50.186	483.000	347.000	35.000	5.000	435.523	101.204	34.000
Sum Sq. Dev.	14.983	1.080	200.850	22.183	14.583	4.583	20.084	147.052	14.733
Observations	60.000	60.000	60.000	60.000	60.000	60.000	60.000	60.000	60.000

The Earnings Management, denoted as Y, presents an average of 0.483, with a standard deviation of 0.504, illustrating a modest variation among the industrial companies. The extreme values range from a minimum of 0.000 to a maximum of 1.000, highlighting the divergence in earnings management practices across the sampled corporations.

The variable of Board Independence, encapsulating the degree to which board members exercise independent judgment, possesses an average of 0.836. The standard deviation stands at 0.135, pointing towards a relatively consistent level of board independence across the examined companies. The values swing between a low of 0.625 to a peak of 1.167, demonstrating differing levels of board autonomy within the industry.

The Board Size, the count of directors presiding over a firm, carries an average of 8.050. With a standard deviation of 1.845, it suggests variation in the size of the boards across different corporations. The values extend from a modest 5.000 to an upper limit of 11.000, indicating substantial differences in board compositions within the Palestinian industrial sector.

Shifting focus to Board Meetings, we find an average of 5.783 meetings annually, with a standard deviation of 0.614. This modest standard deviation suggests relatively uniform meeting frequency across the sampled companies. However, with values ranging from 5 to 7, it reflects the varying emphasis companies place on the frequency of board engagements.

CEO Duality, the condition where the CEO also serves as the board chair, is fairly prevalent in the sample, with an average of 0.583. The standard deviation stands at 0.497, indicating significant variation in this aspect across the companies. The minimum and maximum values, 0.000 and 1.000 respectively, depict the two polar scenarios - corporations where CEO duality is absent and those where it is fully present.

The Audit Committee Independence, revealing the level of independent oversight over the auditing process, posts an average of 0.0833. The substantial standard deviation of 0.278, along with a minimum of 0.000 and a maximum of 1.000, denotes a significant diversity in the degree of autonomy of audit committees across the industrial firms.

The Firm Size, as reflected by the logarithm of the total assets, carries an average of 7.259. The standard deviation stands at 0.583, indicating a certain degree of variability in the size of the firms. The values span from a minimum of 5.889 to a maximum of 8.049, capturing the wide-ranging scale of corporations within the Palestinian industrial sector.

Leverage, denoting the ratio of debt to equity within a firm, bears an average of 1.687. With a standard deviation of 1.579, it suggests considerable disparities in the leverage ratios of the firms. The leverage values span a broad range, from a minimal 0.014 to a hefty 4.683, underlining the vast divergence in financial structuring within the sector.

Finally, the Big 4 variable, representing whether a company's auditing process is overseen by one of the big four auditing firms, averages at 0.567. The standard deviation of 0.500, coupled with a minimum of 0.000 and a maximum of 1.000, reflects the varying reliance of firms on these globally reputed auditors.

In essence, the statistical analysis provides a comprehensive overview of the variables at play, delineating the mean, the dispersion, and the extremes of each. These descriptors serve as a foundation for the further hypothesis testing and correlation analysis that will follow, ultimately leading to a nuanced understanding of corporate governance's interplay with earnings management in the Palestinian context.

4.3. Hypotheses Testing

4.3.1 Correlation Analysis

Subsequent to the variables' description, a series of hypotheses were tested, seeking to comprehend the relationships between earnings management, the dependent variable, and various aspects of corporate governance and controlling mechanisms, the independent variables. The correlation coefficient, a pivotal statistical tool, was utilized to discern the magnitude and direction of association between the variables under investigation (Table 2).

On 6th March 2023, a covariance analysis incorporating ordinary correlation was conducted, encompassing a sample of 60 observations. An intricate network of relationships was unveiled in the correlation matrix, each carrying a specific level of significance. These relationships aid in enhancing our understanding of the dynamics within the industrial firms listed on the Palestine Stock Exchange.

The correlation between Board Independence and Earnings Management yielded a coefficient of 0.007, with a probability of 0.956. This probability significantly exceeds the conventional 0.05 threshold, indicating a failure to establish a statistically significant relationship between the two variables. Consequently, no substantial evidence is available to support or refute the associated hypothesis.

A correlation coefficient of -0.026 was noted between Board Size and Earnings Management, accompanied by a probability of 0.841. Given the high p-value, a statistically significant correlation could not be established. This pattern of non-significance was echoed in the relationship between Board Meetings and Earnings Management, with a correlation coefficient of -0.149 and a p-value of 0.256.

Table 2. Correlation Analysis

BIG_4	LEVERAGE	FIRM_SIZE	AUDIT_COMMITTEE_INDEPENDENCE	CEO_DUALITY	BOARD_MEETING	BOARD_SIZE	BOARD_INDEPENDENCE	Y	Correlation Probability
								1.000000	Y

							1.000000	0.007366	BOARD_INDEPENDENCE
							-----	0.9555	
						1.000000	-0.339199	-0.026432	BOARD_SIZE
						-----	0.0080	0.8411	
					1.000000	-0.080150	0.166632	-0.149011	BOARD_MEETING
					-----	0.5427	0.2032	0.2558	
				1.000000	0.032432	0.078528	-0.256997	0.005637	CEO_DUALITY
				-----	0.8057	0.5509	0.0475	0.9659	
			1.000000	0.010193	-0.388430	-0.008240	-0.128498	-0.050280	AUDIT_COMMITTEE_INDEPENDENCE
			-----	0.9384	0.0022	0.9502	0.3278	0.7028	
		1.000000	0.030934	-0.084545	0.097550	0.098795	0.242760	0.075731	FIRM_SIZE
		-----	0.8145	0.5207	0.4584	0.4526	0.0616	0.5652	
	1.000000	0.178990	0.414080	0.236190	-0.118148	-0.227589	-0.033885	-0.028898	LEVERAGE
	-----	0.1712	0.0010	0.0692	0.3686	0.0803	0.7972	0.8265	
1.000000	-0.295392	0.054212	0.141973	-0.193294	0.020282	0.170961	0.043787	-0.096470	BIG_4
-----	0.0219	0.6808	0.2792	0.1389	0.8778	0.1915	0.7397	0.4634	

The correlation between CEO Duality and Earnings Management was found to be 0.006, with a high associated probability of 0.966, denoting no significant statistical relationship. Audit Committee Independence, yielding a correlation coefficient of -0.050 and a probability of 0.703, similarly failed to establish a substantial link with Earnings Management.

The Firm Size variable did not establish a statistically significant correlation with Earnings Management, as signified by a correlation coefficient of 0.076 and a p-value of 0.565. Leverage, with a correlation coefficient of -0.029 and a probability of 0.826, also showed no noteworthy relationship with Earnings Management. The Big 4 variable, representing whether the company's audit is conducted by one of the top four audit firms, with a correlation coefficient of -0.096 and a probability of 0.463, did not establish a significant relationship either.

Therefore, based on the table and the interpretation of the correlation coefficients and corresponding p-values, it can be concluded that statistically significant correlations between the dimensions of corporate governance or the controlling variables and earnings management practices were not identified in the sampled industrial companies on the Palestine Stock Exchange. However, it should be highlighted that these findings only examine linear associations and do not necessarily imply the absence of other forms of relationships. The upcoming multivariate regression analysis will provide further insights into these complex relationships.

4.3.2 Multivariate Regression Analysis

Following the correlation analysis, a multivariate regression analysis was conducted, a more robust statistical method, to further dissect the relationships between earnings management and several dimensions of corporate governance and controlling variables. The analysis was conducted using the Least Squares method on the same sample of 60 observations, as previously employed for the correlation analysis.

As shown in table (3), the dependent variable in the regression model was Earnings Management (Y), while the independent variables included Board Independence, Board Size, Board Meetings, CEO Duality, Audit Committee Independence, Firm Size, Leverage, and the Big 4 auditing firm indicator. These variables, deemed important factors in the corporate governance structure and financial practices, were regressed against the earnings management measure to better understand their collective influence.

Table 3. Multivariate Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.939027	1.142161	0.822150	0.4148
BOARD_INDEPENDENCE	-0.061943	0.590140	-0.104963	0.9168
BOARD_SIZE	-0.019090	0.042833	-0.445683	0.6577
BOARD_MEETING	-0.171200	0.124042	-1.380183	0.1736
CEO_DUALITY	0.029731	0.150121	0.198046	0.8438
AUDIT_COMMITTEE_INDEPENDENCE	-0.154903	0.309430	-0.500609	0.6188
FIRM_SIZE	0.115917	0.129345	0.896183	0.3744
LEVERAGE	-0.030020	0.056451	-0.531785	0.5972
BIG_4	-0.097609	0.154252	-0.632786	0.5297
R-squared	0.059457	Mean dependent var		0.483333
Adjusted R-squared	-0.088079	S.D. dependent var		0.503939
S.E. of regression	0.525664	Akaike info criterion		1.689173
Sum squared resid	14.09247	Schwarz criterion		2.003325
Log likelihood	-41.67518	Hannan-Quinn criter.		1.812055
F-statistic	0.403001	Durbin-Watson stat		2.186305
Prob(F-statistic)	0.913691			

Each independent variable's coefficient represents its individual contribution to the earnings management when holding all other variables constant. The coefficients, standard errors, t-statistics, and corresponding probabilities were calculated and recorded for each variable.

Interpreting the coefficients in the context of the model's equation: Earnings Management (Emi) = 0.940 - 0.062 * Board Independence - 0.019 * Board Size - 0.171 * Board Meetings + 0.030 * CEO Duality - 0.155 * Audit Committee Independence + 0.116 * Firm Size - 0.030 * Leverage - 0.098 * Big 4.

These coefficients indicate the magnitude and direction of the relationship of each variable with Earnings Management. However, the associated probabilities for all variables exceeded the standard 0.05 threshold, thereby suggesting that none of the individual variables significantly influence Earnings Management.

The Durbin-Watson statistic, used to detect the presence of autocorrelation in the residuals, was found to be 2.186, which is close to the optimal value of 2. This implies that there is no serious autocorrelation problem in the model, validating the robustness of the regression results. The F-statistical probability value was recorded as 0.914, significantly higher than the 0.05 level, indicating that the combined effect of the dimensions of corporate governance and controlling variables on Earnings Management is statistically insignificant.

The adjusted R-squared, a measure of the proportion of variance in the dependent variable that can be explained by the independent variables, was calculated as -0.088. This negative value suggests that the model, as specified, does not explain a substantial portion of the variability in Earnings Management. However, it is important to note that a low R-squared does not necessarily indicate an inappropriate model, especially in a complex, multifaceted context like corporate governance.

Based on these results, it can be inferred that the tested hypotheses hold true for the sampled industrial companies listed on the Palestine Stock Exchange. Specifically, these findings provide support for the hypotheses that Earnings Management is not practiced to a significant extent and that there are no significant relationships between the various aspects of corporate governance and Earnings Management practices. Additionally, the results also suggest no statistically significant influence of the company's size, the financial leverage ratio, or the type of audit firm on Earnings Management practices. As a whole, these findings reveal an intricate landscape of corporate governance and Earnings Management practices within the examined context.

4.4. Variance Inflation Factor (VIF) Analysis

Following the regression analysis, a Variance Inflation Factor (VIF) analysis was executed to assess the extent of multicollinearity amongst the independent variables. Multicollinearity pertains to a situation where two or more variables in a multiple regression model are highly correlated, leading to distorted or less reliable coefficient estimates. The VIF is a commonly used measure to quantify the severity of multicollinearity (Table 4).

In the present analysis, the same sample of 60 observations was employed as in previous statistical investigations. For each variable, the Uncentered and Centered VIF values were computed, while the Coefficient Variance was also reported.

The VIF values for Board Independence, Board Size, Board Meetings, CEO Duality, Audit Committee Independence, Firm Size, Leverage, and Big 4 indicator were all significantly below the commonly used threshold of 5. Specifically, the VIF values ranged from 1.189 for CEO Duality, the least collinear variable, to 1.695 for Leverage, the most collinear variable.

These low VIF scores suggest that multicollinearity is not a serious concern in the multivariate regression model used in this study. Essentially, the dimensions of corporate governance and controlling variables included in the model do not exhibit high levels of linear interdependence. Thus, the model's estimated coefficients are expected to be reliable, free from the distortions that high multicollinearity could cause.

Table 4. Variance Inflation Factor (VIF) Analysis

Centered VIF	Uncentered VIF	Coefficient Variance	Variable
NA	283.2625	1.304532	C
1.360921	54.26663	0.348265	BOARD INDEPENDENCE
1.333530	27.14863	0.001835	BOARD SIZE
1.235220	112.9795	0.015386	BOARD MEETING
1.189384	2.854521	0.022536	CEO DUALITY
1.588138	1.732515	0.095747	AUDIT COMMITTEE INDEPENDENCE
1.215992	192.6213	0.016730	FIRM SIZE
1.695854	3.664462	0.003187	LEVERAGE
1.268661	2.927680	0.023794	BIG 4

Furthermore, it should be noted that the centered VIF values were used in the interpretation as they account for the possibility of an intercept in the model. The uncentered VIF values, which do not make this adjustment, were significantly higher for some variables but these do not provide a reliable assessment of multicollinearity when an intercept is present.

Overall, these findings validate the robustness of the regression results, providing further assurance that the relationships identified between earnings management and the various corporate governance and control variables are not artefacts of high multicollinearity. The implications of these findings suggest that these variables can indeed be considered independently in their effects on earnings management, adding to the interpretative and explanatory power of the model.

4.5. Heteroskedasticity Test

As a part of our comprehensive statistical analysis, a Heteroskedasticity Test was conducted to further assess the integrity of the model used in this study. In econometric modelling, the assumption of homoscedasticity – that the variance of the error terms is constant across all levels of the independent variables – is critical for the reliability of the regression estimates. A violation of this assumption, known as heteroskedasticity, can result in inefficient parameter estimates and misleading conclusions about the significance of the model's variables (Table 5).

Specifically, the Breusch-Pagan-Godfrey test was applied to verify the null hypothesis of homoskedasticity. This test produces an F-statistic and an observed R-squared statistic, both of which are used to compute p-values for the test. In the current analysis, the F-statistic was found to be 0.929 with a corresponding p-value of 0.501. The observed R-squared statistic was 7.633, leading to a p-value of 0.470 for the chi-square test. Furthermore, the scaled explained sum of squares statistic was computed to be 0.693, which yielded a p-value of nearly 1.000 for the associated chi-square test.

Table 5. Heteroskedasticity Test: Breusch-Pagan-Godfrey

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
Null hypothesis: Homoskedasticity			
0.5008	Prob. F(8,51)	0.929186	F-statistic
0.4701	Prob. Chi-Square (8)	7.632765	Obs*R-squared
0.9995	Prob. Chi-Square (8)	0.693329	Scaled explained SS

All three p-values comfortably exceeded the conventional 0.05 threshold for statistical significance, thereby failing to provide evidence against the null hypothesis of homoskedasticity. In other words, there is no strong evidence to suggest that the error variance is not constant across the range of the independent variables in the model, thus, it can be said that the model does not suffer from heteroskedasticity.

The absence of heteroskedasticity strengthens the statistical validity of our model and reinforces the reliability of the conclusions drawn from it. The implication of this result is that the standard errors of the coefficients in the model, and hence the tests of significance of the variables, are trustworthy. Consequently, the findings from this analysis can be confidently used for inference and prediction in the context of earnings management practices.

4.6. Summary of Hypotheses Testing

1. H01: The analysis found no evidence suggesting that Palestinian public shareholding industrial companies practice earnings management. With the lack of statistical significance, it can be confidently stated that the data aligns with the null hypothesis, implying the nonexistence of discernible earnings management practices within these companies.

2. H02: The research did not identify a statistically significant relationship between the independence of the Board of Directors and earnings management practices. Consequently, the independence of the board does not appear to influence the likelihood or extent of earnings management in the context of Industrial Public Shareholding Companies in Palestine.

3. H03: The data did not exhibit a meaningful correlation between the size of the board of directors and the propensity for profit management in these companies. This result suggests that the size of the board does not play a significant role in determining the level of earnings management practices.

4. H04: No discernible relationship was found between the independence of the audit committee and the practices of profit management. The independence of the audit committee does not seem to have a direct bearing on the occurrence or intensity of earnings management practices in the Palestinian public joint-stock industrial companies.

5. H05: The analysis did not indicate a statistically significant impact of the company's size on the quality of accounting earnings. This implies that the size of the company does not significantly affect the quality of earnings reported.

6. H06: The dimensions of corporate governance and the controlling variables, such as company size, financial leverage ratio, and type of audit firm, did not demonstrate a significant impact on earnings management practices. This suggests that these aspects of corporate structure and governance do not notably influence earnings management behavior in these companies.

7. H07: There was no evidence to refute the null hypothesis stating the lack of a significant relationship between the practices of the audit committee and profit management within Palestinian public joint-stock industrial companies. The absence of such a relationship suggests that the audit committee's practices do not directly influence the tendency or extent of earnings management practices in these entities.

Chapter Five: Conclusions and Recommendations

5.1. Overview

This chapter summarizes the main conclusions of the study, provides the necessary recommendations, discusses some limitations to the study, and finally gives directions for future researchers.

5.2. Conclusions

The comprehensive analysis of the multiple regression model, correlation coefficients, Variance Inflation Factor (VIF), and Breusch-Pagan-Godfrey test for heteroskedasticity has yielded insightful findings that can be summarized as follows:

The correlation analysis did not show any statistically significant correlations between profit management (the dependent variable) and the dimensions of corporate governance or the controlling variables, which include board independence, board size, board meetings, CEO duality, audit committee independence, firm size, leverage, and the presence of a Big 4 auditor. All the correlation coefficients were low, indicating weak relationships, and all the p-values were greater than 0.05, suggesting that these correlations were not statistically significant.

The multiple regression model provided similar findings. The coefficients of the regression model were not statistically significant at the 0.05 level, confirming the lack of a significant linear relationship between profit management and the dimensions of corporate governance or the controlling variables. The model's F-statistic and associated p-value further validated the null hypotheses, indicating that the independent variables collectively did not have a significant effect on profit management.

The Variance Inflation Factor (VIF) analysis revealed that the independent variables did not suffer from multicollinearity. All the centered VIF values were below the threshold of 5, signifying that the variables were not highly correlated with each other and that each one contributed uniquely to the model.

Lastly, the Breusch-Pagan-Godfrey test for heteroskedasticity showed that the model did not suffer from problems with the homogeneity of variance. The test's p-values were all greater than 0.05, indicating that the null hypothesis of homoskedasticity could not be rejected.

Taken together, these findings support the validity of the seven proposed hypotheses: Palestinian public shareholding industrial companies do not practice earnings management, and there is no significant relationship between the dimensions of corporate governance, controlling variables, and earnings management practices in these companies. The rigorous statistical analyses thus indicate that corporate governance factors and controlling variables do not play a significant role in earnings management practices within the context of Palestinian public shareholding industrial companies.

5.3. Recommendations

Based on the research results, the recommendations are as follows:

1) The need to operationalize the role of corporate boards of directors, focusing on the independence of the board of directors, by increasing the number of independent non-executive directors or fully independent of management, and selecting members with competence, expertise and integrity.

2) Palestinian public shareholding industrial companies should work towards maintaining increasing levels of profits and desist from making losses so as to preclude downward management of earnings.
3) Search for factors that affect these companies earing management practices.

5.4. Limitations of Study

The study only uses eight independent variables while there are many other variables that can affect real earnings management.

5.5. Recommendations for Future Research

4) To further advance the findings of this study, future researchers are encouraged to research on corporate governance and its impact on earnings management, in more companies, and for more than five years, and corporate governance of each country is different because the culture of each country is different. The difference in corporate governance can be used as development of future research for other country. More studies and research should be conducted on corporate governance and the earning management.

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الملخص

تهدف هذه الدراسة إلى التحقيق في حوكمة الشركات وتأثيرها على إدارة الأرباح، من خلال الإجابة على الأسئلة الفرعية: إلى أي مدى تمارس الشركات الصناعية الفلسطينية إدارة الأرباح؟ هل هناك علاقة بين اجتماعات مجلس الإدارة وممارسات إدارة الأرباح؟ هل هناك علاقة بين المناصب المزدوجة للمديرين التنفيذيين وممارسات إدارة الأرباح؟ هل هناك علاقة بين استقلال لجنة المراجعة وممارسات إدارة الأرباح؟ كيف تؤثر أبعاد حوكمة الشركات وعوامل التحكم على إدارة الأرباح؟

تم استخدام النهج الوصفي التحليلي في هذه الدراسة. تم جمع البيانات الاولية من (13) شركة صناعية مدرجة في السوق الفلسطينية. البيانات المستخدمة في هذا البحث شاملة، مستمدة من الدليل الصادر عن بورصة فلسطين للأوراق المالية وتمتد على مدى خمس سنوات، من 2017 إلى 2021. استخدمت هذه الدراسة برنامج اكسل وبرنامج الحزم الإحصائية للعلوم الاجتماعية (SPSS) لمعالجة وتحليل البيانات.

تظهر نتائج الدراسة عدم وجود ممارسات واضحة لإدارة الأرباح داخل هذه الشركات. لا يلعب حجم مجلس الإدارة دورًا كبيرًا في تحديد مستوى ممارسات إدارة الأرباح. وهذا يعني أن حجم الشركة لا يؤثر بشكل كبير على جودة الأرباح المُبلَغ عنها. لم تظهر أبعاد حوكمة الشركات والمتغيرات التحكمية، مثل حجم الشركة ونسبة الرفض المالي ونوع شركة التدقيق، تأثيرًا كبيرًا على ممارسات إدارة الأرباح. لا تؤثر ممارسات لجنة المراجعة مباشرة على الاتجاه أو مدى ممارسات إدارة الأرباح في هذه الكيانات.

الكلمات المفتاحية: حوكمة الشركات، إدارة الأرباح.