

Arab American University
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Master Program in Accounting and Auditing



**The Impact of Adherence to Corporate Governance Standards in
Earnings Management and Financial Performance in Palestinian
Companies Listed in Palestine Exchange.**

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**This Thesis Was Submitted in Partial Fulfillment of the Requirements
for the Master Degree in Accounting & Auditing**

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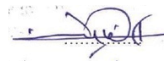
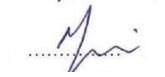

Thesis Approval

The Impact of Adherence to Corporate Governance Standards in Earnings Management and Financial Performance in Palestinian Companies Listed in Palestine Exchange.

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Declaration

I declare that, except where explicit reference is made to the contribution of others, this thesis is substantially my own work and has not been submitted for any other degree at the Arab American University or any other institution.

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Dedication

"To Those Who Made It Possible"

“Whoever said ‘I am capable of achieving it,’ attained it.”

And so, I declared I could, and even if journey resisted, I persisted and brought it to completion.

The journey was not short, nor should it have been, dream was not near, and path was not paved with ease, Yet, I did it—I achieved it.

To one who adorned my name with most beautiful titles..., who supported me without limits and gave selflessly,

To one who taught me that life is battle where weapons are knowledge and learning,

To one who instilled in my soul noble values—my first supporter in my journey, my pillar, my strength, and my refuge after Allah,

To my pride and my honor—my father.

To one for whom Allah placed paradise beneath her feet, whose heart embraced me before her hands, and who lightened my hardships with her prayers,

To tender heart, source of my strength and success, and lamp that illuminated my path—my mother.

To my steadfast pillar and security of my days, To inspiration behind my success,

To those who strengthened my resolve and were my wells of support,

To best part of my days, my joy, and my pride—my brother and sisters.

To companion of my journey and my dreams, my beloved daughter,

To all of you, I dedicate fruit of my humble effort, which I pray Allah will make source of beneficial knowledge.

Raneen Maher Ali Frehat

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Allah Almighty said in His Holy Book: "And whoever is grateful is only grateful for their own good."

At outset of my speech, I must first and foremost express my gratitude to Allah Almighty, who granted me ability to reach this academic milestone and paved way for me to be here today to defend my master's thesis.

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Additionally, I extend my heartfelt thanks to all esteemed members of committee.

The Impact of Adherence to Corporate Governance Standards in Earnings Management and Financial Performance in Palestinian Companies Listed in Palestine Exchange.

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Abstract

This study examines impact of adherence to corporate governance standards in earnings management and financial performance among Palestinian companies listed in Palestine Exchange, study population includes all companies listed in exchange, with sample focusing in companies that met specific criteria from 2015 to 2022, diverse range of industrial companies formed study sample, representing various sectors including pharmaceuticals, food production, aluminum, paints, carton, and plastic industries, Modified Jones Model was used to measure earnings management practices, distinguishing between optional (discretionary) and non-optional accruals to assess extent to which companies engage in earnings management, Additionally, corporate governance factors such as board size, CEO duality, board independence, and presence of an audit committee were analyzed to understand their influence in earnings management practices.

Data collection relied in detailed financial reports and publicly available documents, covering both dependent variables (earnings management) and independent variables (corporate governance factors), study employed rigorous statistical treatment process, including descriptive statistics, correlation analysis, and multiple regression analysis, results reveal that board independence significantly reduces earnings management, while CEO duality increases it, highlighting critical role of governance structures in mitigating managerial discretion, However, financial performance metrics demonstrate moderating effect, with ROA amplifying adverse impact of CEO duality and weakening protective influence of board independence, ROE, in other hand, enhances effectiveness of board independence and mitigates risks associated with CEO duality, These findings underscore importance of tailoring governance mechanisms to financial context of firms, emphasizing that governance and financial performance jointly influence earnings management practices, Based in these findings, several recommendations are made to strengthen corporate governance in Palestinian companies, including enhancing board structure and independence, increasing meeting frequency, separating CEO and chair roles, and reinforcing audit committee oversight, study provides insights into how adherence to corporate governance can reduce earnings management practices, thereby promoting transparency and supporting financial performance among companies in emerging markets.

Keywords: Corporate Governance, Earnings Management, Financial Performance, Palestine Exchange, Industrial Sector

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List of Definitions of Abbreviations

Abbreviations	Title
AAUP	Arab American University
PEX	Palestine Exchange
CG	Corporate Governance
EM	Earnings Management
ROE	Return on Equity
ROA	Return on Assets
BDS	Board Size
BDM	Board Meetings
CEO	Chief Executive Officer
DUAL	CEO Duality
BI	Board Independence
ADCOM	Audit Committee
TA	Total Accruals
NDA	Non-Discretionary Accruals
DA	Discretionary Accruals
GMM	Generalized Method of Moments
IFRS	International Financial Reporting Standards
NGO	Non-Governmental Organization
SPSS	Statistical Package for the Social Sciences
VIF	Variance Inflation Factor

Chapter One: Introduction

This Chapter presents Introduction and Background to Study, and contains Introduction, Statement of Problem, Research Objectives, Research Questions,

1.1 Background of Study

During past few years, business environment and organizations have witnessed important and significant transformations represented by emergence of lot of complex and interwoven financial and commercial information that is relied upon to make economic decrees by managers, analysts and investors, as well as multiplicity of accounting methods and methods that can be implemented in institutions and organizations, At same time, these plans, strategies, and methods gain general acceptance, which attempts to provide great possibility for officials, managers, and decree holders in these institutions to defraud financial information hugely and affect degree of profitability of institution to work in improving its financial statements for shareholders and investors, which led to emergence of gains management process, Or what teaches innovative practices (Ahmed, 2010).

Inventive accounting, earnings management, or what is called fraudulent accounting, relies in loopholes in accounting laws, principles, and standards to work to improve financial condition of company to achieve desires of managers and board members in institutions, which has led to emergence of many investment and financial crises that are result of these actions, Which reflected negatively in reliability and fairness of published financial statements and credibility of their preparers and auditors of that financial information, which resulted in collapse of many international institutions and organizations as result of those actions, and those actions played major role in emergence of international financial crisis (Thneibat, 2006: p, 97).

"The Arab world, with its enormous economy, represents a huge part of the global market. Family institutions are involved in all investment arenas, and the success of these family institutions is reflected in the names of the families that run and manage them. Family companies represent the majority of institutions in the economies of Arab countries, largely through the extension of family networks and branches, which represents a main variable in the economic systems of family enterprises. Given the strong familial ties and the concentration of ownership, there is a possibility that family businesses may resort to

creative accounting practices to protect family reputation, manage succession issues, or maintain internal control (Qabaja, 2008, p. 14)."

"Adherence to corporate governance standards plays a pivotal role in influencing a company's earnings management and overall financial performance. Corporate governance refers to the system of rules, practices, and processes by which a company is directed and controlled. It encompasses a set of principles and guidelines aimed at ensuring transparency, accountability, and fairness in the decision-making processes of an organization. When a company follows robust corporate governance standards, it can have a profound impact on its earnings management and financial performance (Elamer et al., 2021; Ahmed & Hamdan, 2022; Khairredine et al., 2020; Sultana et al., 2020; Mainoma & Nasir, 2023)."

"One significant aspect of corporate governance is the establishment of effective internal controls and checks and balances. These mechanisms are designed to prevent and detect fraudulent activities, including earnings manipulation. Adherence to corporate governance standards reduces the likelihood of management engaging in unethical practices to artificially inflate or deflate earnings (Glover et al., 2017; Joe et al., 2017). This, in turn, enhances the reliability of financial reports, fostering trust among investors, creditors, and other stakeholders (Elamer et al., 2021; Khairredine et al., 2020)."

"Furthermore, a strong corporate governance framework promotes transparency in financial disclosures. Transparent reporting ensures that relevant information is disseminated to stakeholders, enabling them to make informed decisions (Bassiouni, 2008; Zainal et al., 2021). When financial information is accurate and easily accessible, investors can better assess a company's financial health, which contributes to more efficient capital allocation and the investment decision-making process (Arafat et al., 2023; Hoti & Krasniqi, 2022)."

"In terms of financial performance, companies with sound corporate governance practices are more likely to attract investors and maintain a positive reputation in the market. Investors generally prefer companies that prioritize ethical behavior, accountability, and transparency, as these factors are indicative of a well-managed and responsible organization (Elamer et al., 2021; Areneke et al., 2023). As a result, adherence to

corporate governance standards can lead to increased investor confidence, improved stock valuation, and lower capital costs (Nguyen et al., 2023; Hoti & Krasniqi, 2022)."

"Additionally, strong corporate governance practices often lead to better strategic decision-making. Diverse, independent, and well-informed boards of directors are more likely to guide a company towards sustainable growth and value creation (Nguyen et al., 2023; Sultana et al., 2020). This strategic focus positively impacts financial performance in the long run, as the company is better positioned to navigate challenges, adapt to market dynamics, and capitalize on opportunities (Ahmed & Hamdan, 2022; Bui & Krajcsák, 2023)."

"In summary, adherence to corporate governance standards has a multifaceted impact on both earnings management and financial performance. It establishes a framework that discourages unethical practices, promotes transparency, enhances investor confidence, and facilitates sound strategic decision-making (Elamer et al., 2021; Glover et al., 2017; Nguyen et al., 2023). Companies that prioritize and implement strong corporate governance practices are generally better positioned for long-term success in a competitive business environment (Ahmed & Hamdan, 2022; Bui & Krajcsák, 2023)."

1.2 Statement of Problem:

"The main reason for the emergence of the concept of governance was the result of crises and scandals that afflicted international companies, and the subsequent collapse of the global economic system. Governance came to provide solutions to improve the climate of confidence in transactions in global markets and encourage investor turnout (Bassiouni, 2008; Palea, 2015; McDonough et al., 2020)."

"Governance is one of the tools used in limiting creative accounting activities or managing profits. Earnings management refers to those accounting activities that rely on gaps in laws, principles, and accounting standards to beautify a company's financial position in order to achieve the wishes of managers and members of boards of directors in different companies (Al-Qathami, 2010; Glover et al., 2017; Thesing et al., 2021)."

"The relationship between governance and profit management is very important for companies in the services sector in Palestine because of its positive role in encouraging investment and ensuring its continuity. Its role is highlighted in providing necessary

information to investors at the right time and at an appropriate cost, and auditing here has a prominent role in providing correct and reliable information (Assaf et al., 2019; Hassan, 2016; Abu Jahl, 2017). To use management and produce information that benefits stakeholders, the current study seeks to identify profit management in companies listed in the Palestine Stock Exchange."

The current study seeks to develop correct accounting solutions to problem of wrong practices in accounting, especially those related to earnings management practices, study seeks to investigate effect of applying principles of corporate governance in limiting profit management, in addition to its role in improving financial performance of companies, Hence current study will try to determine impact of adherence to corporate governance standards in earnings management and financial performance in Palestinian companies listed in Palestine Exchange.

1.3 Questions of Study:

The current study seeks to answer following sub-questions:

1. What is level of commitment to principles of corporate governance of Palestinian companies listed in Palestine Exchange?
2. What is level of earnings management practice in Palestinian companies listed in Palestine Exchange?
3. What is effect of **(board size, independence of board of directors, CEO Duality, and Audit Committee)** in earnings management in companies listed in Palestine Exchange?
4. What is role effect of financial performance (**return in equity**, return in assets, leverage) in relationship between application of corporate governance principles and earnings management in companies listed in Palestine Exchange?

1.4 Objectives of Study:

The current study will try to achieve following objectives:

- 1, To assess level of commitment to principles of corporate governance in Palestinian companies listed in Palestine Exchange.

2, To determine level of earnings management practices in Palestinian companies listed in Palestine Exchange.

3, To analyze effect of board size, independence of board of directors, CEO duality, and audit committee in earnings management in companies listed in Palestine Exchange.

4, To examine effect of financial performance (return in equity, return in assets, leverage) in relationship between application of corporate governance principles and earnings management in companies listed in Palestine Exchange.

1.5 Significance of Study:

The importance of this study stems from importance of subject, given that mechanisms of applying governance constitute an important part of total assets of company, and that managing it constitutes most important challenges facing management, in addition to importance of role that corporate governance plays in controlling behavior of managers, and defining roles of all parties in company, , which leads to improving management efficiency in general and profit management in companies listed in Palestine Exchange in particular.

The poor level of application of corporate governance rules in companies listed in Palestine Securities Exchange should be an incentive to reconsider and combine efforts from all concerned parties to implement corporate governance rules, which leads to improving investment environment for both listed and unlisted companies, while working to spread culture of corporate governance, in Palestinian society through scientific conferences and seminars that promote principles of governance and encourage their application, (Abu Bath, 2019, 43-44)

Accordingly, importance of study emerges by examining impact of corporate governance in managing profits in companies listed in Palestine Exchange for service companies in Palestine during period 2015 -2022 by taking number of variables to measure corporate governance (the size of board of directors, independence of board of directors, combination of positions of chairman of board of directors and executive director, and presence of an audit committee), which are variables that were not addressed in previous studies according to knowledge of researchers, and results of these can also help study is concerned with application of corporate governance, in addition to To investors and

related parties, in hope that this study will constitute frame of reference for future studies to address subject of study from other aspects.

1.6 Hypothesis of Study:

The study seeks to examine following hypotheses:

H1: Palestinian companies listed in the Palestine Exchange demonstrate a significant level of commitment to the principles of corporate governance.

H2: Palestinian companies listed in the Palestine Exchange exhibit significant levels of earnings management practices.

H3: Board size, independence of the board of directors, CEO duality, and audit committee significantly affect earnings management in companies listed in the Palestine Exchange.

H4: Financial performance (return on equity, return on assets) significantly moderates the relationship between the application of corporate governance principles and earnings management in companies listed in the Palestine Exchange.

1.7 Model of Study:

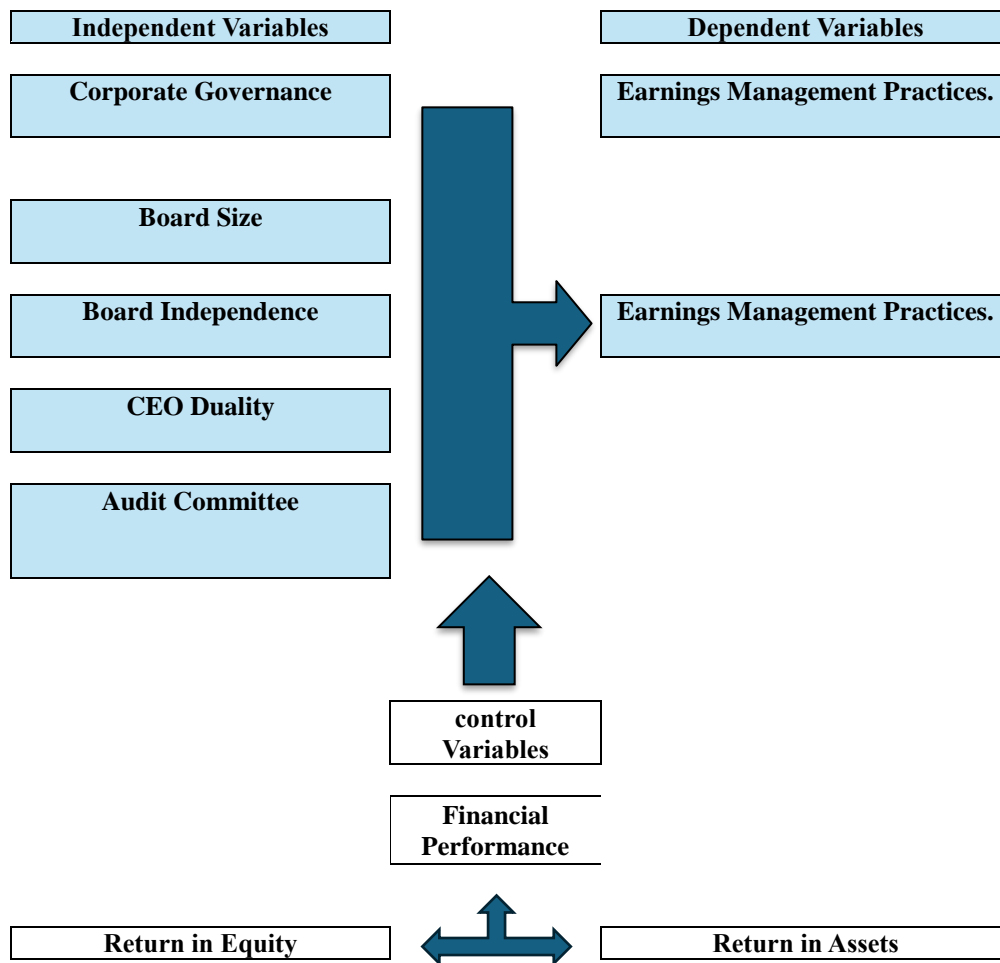


Figure (1.1): model of the study

Source: Prepared by the researcher based on (Elamer et al., 2021; Ahmed & Hamdan, 2022; Sultana et al., 2020; Nguyen et al., 2023).

1.8 Definition of Terms:

Corporate governance: is set of practices, systems, and mechanisms that organize and manage company's operations and activities, and defines relationships between company's various stakeholders, such as shareholders (owners), board of directors, executive management, investors, suppliers, local community, and others.(Afif Mulyana et al., 2023; Bui & Krajcsák, 2023a) Corporate governance aims to ensure that company is managed in way that ensures transparency and integrity, achieves corporate

responsibility, protects rights of shareholders and other interested parties, and enhances organizational efficiency and efficiency.

Corporate Governance (Operational Definition): "Corporate governance is a system of practices, systems, and mechanisms used to organize and manage a company's operations and activities, defining relationships among stakeholders such as shareholders, board of directors, executive management, investors, suppliers, and the local community. It aims to ensure transparency, integrity, corporate responsibility, protection of stakeholder rights, and enhanced organizational efficiency and effectiveness (Ali, 2007; Suleiman, 2008; Bassiouni, 2008). Operationally, corporate governance involves implementing policies and procedures that promote accountability, fairness, and transparency in the company's dealings to achieve these goals."

Earnings Management Practices (Operational Definition): "Earnings management practices refer to strategies and actions employed by company management to intentionally manipulate financial statements to achieve certain financial outcomes. This can involve altering accounting methods, timing of revenue recognition, and adjusting expense reporting to influence reported earnings. The goal of these practices is often to meet internal targets, influence stock prices, secure financing, or comply with regulatory requirements (Al-Qathami, 2010; Glover et al., 2017; Thesing et al., 2021). Operationally, earnings management is measured by the degree to which financial statements are adjusted or manipulated, often detected through abnormal accruals and financial ratio analysis."

Financial Performance (Operational Definition): "Financial performance refers to the measure of a company's profitability, financial health, and efficiency in using its resources. It is typically evaluated using key financial metrics such as return on equity (ROE) and return on assets (ROA). ROE measures a company's ability to generate profit from shareholders' equity, while ROA assesses how effectively a company uses its assets to generate earnings. Operationally, financial performance is quantified through these and other financial ratios, providing a comprehensive assessment of the company's financial condition and its ability to achieve financial objectives (Nguyen et al., 2023; Ahmed & Hamdan, 2022; Mainoma & Nasir, 2023)."

Chapter Two :Literature Review

Theoretical framework, and it contains an explanation of components of conceptual study, which are governance and profit management, and relationship between them, in addition to presenting studies related to subject of study.

Creative accounting practices and earnings management have long been subjects of critical concern in corporate governance literature. According to Nasrollah Ahadiat and Hassan Hefzi (2012), earnings management often involves deliberate manipulation of financial statements within the boundaries of generally accepted accounting principles (GAAP), yet such practices are frequently perceived by the public and professionals as unethical. Their study highlights that managerial decisions, although technically compliant, can mislead stakeholders about the true financial health of a company. Similarly, Youssef (2014) demonstrated how managerial discretion in goodwill impairment under Egyptian accounting standards allowed managers to present an artificially enhanced financial image, further exacerbating the gap between actual and reported firm performance. These findings reinforce the idea that creative accounting techniques can compromise the informational integrity of financial statements, increasing asymmetry between management and investors.

The impact of such practices becomes even more pronounced during corporate crises. The collapse of Enron, often cited as a textbook example, vividly illustrates the destructive power of earnings management. Enron's executives exploited accounting loopholes and special purpose entities to conceal debt and inflate earnings, creating a false sense of financial strength that ultimately led to the company's dramatic downfall. Studies such as that of Abdelkarim and Zuriqi (2020) emphasize that weak corporate governance structures—characterized by ownership concentration and ineffective board oversight—can create fertile ground for earnings manipulation. Similarly, Hassan, Naser, and Rafiq (2016) noted that inadequate governance mechanisms are often associated with reduced firm performance and increased vulnerability to financial scandals. These crises serve as powerful reminders of the importance of robust governance systems to deter earnings management and protect market integrity.

Recent research, including that of Bui and Krajcsák (2023), has shifted attention to the proactive role of corporate governance in curbing creative accounting and stabilizing firm

performance. Their findings underscore that good governance practices—such as strong board independence, effective audit committees, and transparency—positively impact financial outcomes and investor confidence. Strengthening governance frameworks is critical not only for improving financial performance, as highlighted in multiple studies, but also for preventing the kind of accounting abuses that precipitate crises like Enron. As corporate environments become increasingly complex, the ability to enforce ethical standards and transparency through governance reforms remains a key defense against the systemic risks posed by creative accounting practices.

2.1 Review of Related Literature

2.1.1 Concept of Corporate Governance:

We can say that good and honest governance has great role in stimulating investment, by ensuring investment environment that applies its laws, and accordingly, “Code of Governance for Companies Listed in Capital Market” has been added, and this Code helps protect shareholders and guarantee their rights through companies’ commitment to what is stated in it, (Code of Corporate Governance in Palestine, 2016, 3)

The Governance Code provides for “fair treatment of all shareholders regardless of value of their shares, an invitation to attend meetings of General Assembly, disclosure of financial statements in accordance with International Financial Reporting Standards (IFRS) IFRS), (Code of Corporate Governance in Palestine, 2016, 17)

There is no unified definition of governance because its meanings overlap economically, organizationally, financially and socially, Investors are interested in extent to which corporate governance rules are applied, (Abdel-Wahhab, 2007, 18+26)

2.1.1.1 Governance rules and principles:

- 1. How to Make Decisions:** "One of the key principles of corporate governance is the establishment of clear and effective decision-making processes. Governance frameworks require that decisions within an organization are made systematically, based on objective analysis, stakeholder consultation, and alignment with the company’s strategic goals. Well-structured decision-making promotes accountability and minimizes the risks of conflicts of interest or mismanagement (Ali, 2007; Suleiman, 2008; Ahmed & Hamdan, 2022)."

2. **Transparency and disclosures in decisions:** "Transparency and comprehensive disclosure are fundamental pillars of good corporate governance. Companies are expected to provide timely, accurate, and complete information regarding their operations, financial performance, and decision-making processes. Transparency builds trust among investors, regulators, and other stakeholders, enhancing the overall integrity of the organization (Palea, 2015; Bassiouni, 2008; McDonough et al., 2020)."
3. **Authority and responsibility of managers and employees:** "Clearly defining the authority and responsibilities of managers and employees is essential to achieving organizational efficiency and ensuring accountability. Governance rules mandate that each role within the company has distinct duties, limits of authority, and lines of accountability, which collectively reduce operational ambiguity and enhance decision-making quality (Nguyen et al., 2023; Elamer et al., 2021; Glover et al., 2017)."
1. **4-Information that is disclosed:** "The type and quality of information disclosed by companies significantly affect stakeholders' ability to make informed decisions. Governance principles emphasize that disclosures must not only include financial information but also operational, strategic, and risk-related data to ensure a comprehensive understanding of the company's position and prospects (Zainal et al., 2021; Beneish, 2001; Goh et al., 2015)."
2. **Protecting rights of young actors:** "Corporate governance frameworks increasingly recognize the need to protect the rights of young participants in economic activities, whether as investors, entrepreneurs, or employees. Safeguarding their rights involves promoting equitable treatment, providing access to information, and creating opportunities for participation in decision-making processes, thus fostering inclusivity and sustainable corporate growth (Areneke et al., 2023; Hoti & Krasniqi, 2022; KPMG, 2021)."

2.1.1.2 Governance objectives:

1. Ensure review of company's financial performance: "An essential function of corporate governance is to ensure continuous and rigorous review of the company's financial performance. This process enables the board and stakeholders to monitor financial health, assess profitability, and identify early signs of financial mismanagement. Regular financial performance evaluations enhance accountability and support better strategic decision-making (Nguyen et al., 2023; Ahmed & Hamdan, 2022; McDonough et al., 2020)."
2. Ensure existence of administrative structures "Effective corporate governance relies heavily on the existence of strong administrative structures that define roles, responsibilities, and reporting relationships within the company. Well-designed administrative frameworks foster operational efficiency, minimize risks of conflict, and promote transparency (Elamer et al., 2021; Glover et al., 2017; Suleiman, 2008)."
3. The presence of independent monitoring "Independent monitoring is a cornerstone of sound corporate governance, ensuring that management actions are objectively reviewed and aligned with the interests of shareholders and stakeholders. Independent directors, audit committees, and external auditors all contribute to a robust oversight mechanism that enhances trust and mitigates risks (KPMG, 2021; Chircop & Novotny-Farkas, 2016; Beneish, 2001)."
4. Having fair deal : "Corporate governance frameworks emphasize the importance of fairness in all dealings among stakeholders. Fair treatment ensures that no party, whether major shareholders, minority shareholders, or employees, is disadvantaged, and that decisions are made objectively and equitably (Areneke et al., 2023; Elamer et al., 2021; Palea, 2015)."
5. Efficiency and transparency: "Efficiency and transparency are twin pillars that sustain strong corporate governance systems. Efficiency ensures that resources are allocated optimally, while transparency builds trust by allowing stakeholders to access accurate and timely information about the company's operations and financial status (Bassiouni, 2008; Hoti & Krasniqi, 2022; McDonough et al., 2020)."

6. Ensure that results are disclosed: "Disclosure of financial and operational results is a critical requirement of corporate governance that enhances transparency and supports informed decision-making by investors and stakeholders. Effective disclosure practices reduce information asymmetry, support market efficiency, and build a company's reputation for honesty and accountability (Zainal et al., 2021; Goh et al., 2015; Beneish, 2001)."

2.1.1. 3 Governance determinants

There must be set of determinants that ensure an efficient and proper application of governance rules, determinants include two groups:

2.1.1. 3.1 internal determinants:

1. **Applicable laws:** "The establishment and regulation of corporate governance practices are heavily influenced by applicable laws and legal frameworks. These laws set the minimum standards that companies must follow to ensure transparency, protect stakeholder rights, and maintain corporate accountability. In many countries, governance laws provide detailed guidance on board structure, disclosure requirements, shareholder rights, and conflict of interest management (Ali, 2007; Palea, 2015; McDonough et al., 2020). Effective legal frameworks are crucial in enhancing investor confidence and ensuring the stability and credibility of financial markets."
2. **Administrative structures :** "Administrative structures within a company play a central role in shaping the effectiveness of corporate governance systems. These structures define how responsibilities are distributed among executives, boards of directors, and various committees, ensuring proper checks and balances. A clear and efficient administrative framework supports accountability, reduces agency conflicts, and enhances operational efficiency (Elamer et al., 2021; Ahmed & Hamdan, 2022; Nguyen et al., 2023). The strength of a company's administrative structure is often reflected in its ability to adapt to changes, maintain transparency, and safeguard stakeholder interests."
3. **Powers and duties:** "The powers and duties assigned to the board of directors and management are fundamental to the integrity and success of a corporate

governance framework. Clearly defined powers ensure that decision-making authority is appropriately distributed, while specific duties emphasize accountability to shareholders and other stakeholders. Responsibilities such as financial oversight, strategic planning, and risk management are central to maintaining organizational stability and ethical conduct (Suleiman, 2008; Glover et al., 2017; KPMG, 2021). The effectiveness with which powers and duties are exercised often determines the company's resilience to crises and its long-term sustainability."

2.1.1. 3 .2 external determinants:

- 1. role of non-governmental organizations:** "Non-governmental organizations (NGOs) play an important role in enhancing corporate governance practices by promoting transparency, accountability, and ethical behavior within companies. NGOs often act as watchdogs, advocating for greater disclosure and the protection of stakeholder rights, particularly in emerging economies where legal enforcement may be weak (Areneke et al., 2023; Elamer et al., 2021). Through their efforts, NGOs help create an environment where corporate governance standards are not only imposed by law but also demanded by society, thereby strengthening the ethical and social responsibility of companies."
- 2. Laws and regulations:** "Laws and regulations serve as the fundamental pillars supporting effective corporate governance systems. They define the minimum standards for corporate behavior, regulate the rights and responsibilities of stakeholders, and establish enforcement mechanisms for compliance. Robust legal frameworks ensure companies operate with transparency and accountability, fostering investor confidence and contributing to market stability (Ali, 2007; Palea, 2015; McDonough et al., 2020). The strength and clarity of governance-related laws are directly correlated with the quality of corporate governance practices within a jurisdiction."
- 3. efficiency of regulatory bodies and parties:** "The efficiency of regulatory bodies and other oversight parties is critical to the successful implementation of corporate governance principles. Efficient regulatory institutions ensure that laws and standards are effectively enforced, irregularities are swiftly addressed, and

companies are held accountable for their actions. Weak or inefficient regulatory frameworks, in contrast, often enable unethical behavior and undermine trust in the financial system (KPMG, 2021; Chircop & Novotny-Farkas, 2016; Hoti & Krasniqi, 2022). Therefore, strengthening regulatory capacity and ensuring independence are key priorities for enhancing governance quality."

The determinants, whether internal or external, are related to other factors related to economic and social system and to awareness of members of society, It is also linked to competitive and legal environment within company, They all work to increase confidence in economy and deepen role of capital market, Governance encourages growth of private sector and supports its competitive capabilities, And help generate profits and create job opportunities, (Abu Hamam, 2019, 29)

2.1.1.2 importance of governance

"Corporate governance is one of the most important processes necessary for any company to fully perform its functions, confirm the integrity of its board of directors, and ensure that the company fulfills its obligations and achieves its objectives in a sound legal and economic manner. Governance is viewed as a system that activates capabilities, operates and employs resources, and increases the efficiency of their use (Abdul Wahab, 2017, p. 23)."

2.1.1.3 obstacles to implementing corporate governance in Palestine

As result of bad Palestinian situation under restrictions and obstacles resulting from repressive Israeli occupation policies, reality of Palestinian economy affected market situation in terms of trading volume and prices during first years of Intifada, but this did not prevent market from developing in other aspects, as it was affected by political conditions more than economic conditions, Palestinian economy has suffered from problems in applying rules of governance in companies listed and unlisted in Palestine Stock Exchange, most important of these problems and obstacles is that most companies in Palestine are owned by family, and family members affect individuals, Towards internal and external competition, connection between Palestinian economy and Israeli economy, weakness of auditing profession and its standards in Palestine, which negatively affects performance of its shareholding companies, (Abu Hamam, 2019, 42)

Problems and difficulties that faced application of corporate governance in Palestinian shareholding companies: There is deficiency in organizing principles of governance for internationally recognized companies in legislation applied to joint-stock companies in Palestine, and there is defect and failure in following up companies' application of principles of governance by competent regulatory and supervisory bodies, in addition to occurrence of many cases of economic collapse and financial bankruptcy for number of large public shareholding companies in At world level, Therefore, there was call for preparing transparent financial statements, and there were many supporters, Here we will review some of arguments in favor of preparing transparent financial statements (Thesing et al., 2021).

The provision of transparent and useful information is one of basic conditions for purpose of market discipline, If markets leave themselves, markets cannot generate sufficient levels of disclosure, just as financial and capitalist market trends in eighties caused increased volatility in financial markets, which led to an increase in need for information as means, To ensure financial stability and with increasing liberalization of financial markets, pressure has increased to provide restricted information in public and private sectors, and because provision of information is considered essential to support stability of markets, regulatory authorities also consider quality of information as high priority, and therefore improving quality of information by markets pushes enterprises to improve Its internal information systems to gain reputation for providing high-quality information, in addition to above arguments, timing of disclosure is also very important, Public disclosure requirements should be carefully graded and tightened gradually and in long run, establishment of system of full disclosure is beneficial even if some problems are encountered in long term, Short because cost of non-transparency incurred by entity is ultimately higher than cost of communication with transparency, (Tarek, 2016)

Management is in constant need of examining interim financial statements in order to strengthen confidence of shareholders and confidence of external control, concept of examining lists is concerned with providing negative confirmation whether there is need to make significant or fundamental modifications to financial statements, in field of examining financial statements, auditor gives medium assurance that financial statements are free from material distortions (Abdul-Wahab, 206, 2017).

2.1.1.4 Corporate governance measurable variables

"Corporate governance measurable variables are essential tools for assessing the quality and effectiveness of a company's governance structures. These variables allow for the evaluation of how well a company adheres to governance principles, fostering accountability, transparency, and the protection of stakeholders (Elamer et al., 2021; Khaireddine et al., 2020; Nguyen et al., 2023)."

One of most critical measurable variables is board composition and structure, This includes size of board, ratio of independent to executive directors, and existence of key subcommittees like audit and compensation committees, board with higher proportion of independent directors is often better at oversight and reducing potential conflicts of interest between management and shareholders, Additionally, well-structured board subcommittee system enhances governance by ensuring focused attention in specific areas such as financial auditing, executive compensation, and nominations (Gerged et al., 2021; Koerniadi & Krishnamurti, 2014).

Transparency and disclosure are also vital measurable variables, quality and timeliness of company's financial reporting provide insights into its commitment to openness with stakeholders, Companies are increasingly assessed in their Environmental, Social, and Governance (ESG) disclosures, which reflect their sustainability efforts and social responsibility, These non-financial disclosures are important for understanding how well company is integrating broader societal concerns into its governance model (Pemberton & Ng, 2021; Bauer et al., 2021).

The rights and engagement of shareholders are another area of focus, Measurable variables here include voting power afforded to shareholders and mechanisms for engagement in decision-making processes, Active shareholder participation, particularly through activism and engagement, is considered critical factor in ensuring that management remains accountable to owners of company (Gerged et al., 2020).

Another critical variable in corporate governance is executive compensation, This includes alignment between executive pay and company's performance, Variables like CEO pay ratios and performance-based incentives are used to ensure that executive

compensation is linked to long-term value creation rather than short-term financial gains, which can lead to governance issues (Koerniadi et al., 2014).

Finally, risk management and accountability are crucial measurable variables, Effective internal controls and an independent audit committee help manage risks and ensure accountability, Additionally, audit quality serves as measurable indicator of rigor and independence with which company's financial statements are scrutinized (Mathew et al., 2018; Saeed et al., 2018).

"In corporate governance, several key variables such as board size, meeting frequency, and CEO duality play a crucial role in determining a company's effectiveness and strategic oversight (Nguyen et al., 2023; Ahmed & Hamdan, 2022; Elamer et al., 2021)."

Board size refers to total number of directors in board, Smaller boards, typically with 5-8 members, are often associated with more effective communication, faster decision-making, and better overall performance, Research shows that as board size increases beyond certain point, decision-making can become more bureaucratic, and benefits of increased expertise may be outweighed by coordination challenges (Yermack, 1996; Jensen, 1993), in other hand, larger boards are believed to bring wider range of perspectives and resources, especially when dealing with complex industries or larger companies (Pemberton & Ng, 2021), optimal size for board, therefore, varies depending in company's specific needs and environment.

Meeting frequency is another important variable, Boards that meet frequently tend to have better oversight and control over management decisions, high number of board meetings is often associated with proactive board that is actively engaged in strategic planning and risk management, However, too many meetings can also be counterproductive if they become repetitive or procedural without substantive decision-making (Koerniadi & Krishnamurti, 2014),

CEO duality, where CEO also serves as chairman of board, is topic of ongoing debate, Proponents argue that combining two roles ensures unified leadership and faster decision-making, However, critics point out that CEO duality can lead to concentration of power, reducing board's ability to independently monitor and challenge CEO's actions, Studies suggest that separating two roles can enhance corporate governance by providing clearer

checks and balances between board and executive management (Fama & Jensen, 1983; Saleh et al., 2021).

"These variables—board size, meeting frequency, and CEO duality—are crucial indicators of how well the board can perform its oversight function, align management decisions with shareholder interests, and maintain strong governance practices (Nguyen et al., 2023; Ahmed & Hamdan, 2022; Elamer et al., 2021)."

2.1.2 Earning Management:

There is no doubt that practice of practical life is driven by specific motives that act as guide to achieving specific goals, and by nature of situation, this matter applies to actions undertaken by management towards amount of gains to be targeted, but question that arises is whether phenomenon of managing gains is goal in barrier itself driven by nature of performance, company and its practice of its normal activities, which is an agreed upon matter, or are there other motives involved in that societal situation? in this regard, researchers agree that there are two motives for managing gains, first of which is linked to achieving internal benefits for management, while second is related to influencing users of accounting data by clarifying merit of facility, in order to ensure its survival and continuity in competition market (Beneish, 2001:pp4-6)

"It becomes clear from the earlier discussion that there are many motives that urge management to manage its profits with the aim of improving relationships with creditors, investors, and employees, in addition to reducing the negative effects of income fluctuations during successive periods. Therefore, management selects from among accounting alternatives those that maximize its benefit, taking advantage of the flexibility allowed by the applications of accounting standards, which can impact profits in one direction or another. Among the methods and approaches used are the following (Scott & Pitman, 2005)."

- "Using optimistic estimates regarding the useful life of fixed assets with the aim of reducing depreciation expenses and thus magnifying reported gains is one method of earnings management (Scott & Pitman, 2005)."
- "Using optimistic estimates when classifying debts and credit facilities granted, allowing room to reduce provisions made to cover doubtful debts and thus amplify

reported gains, is another method employed in earnings management practices (Scott & Pitman, 2005)."

- "Engaging in fraud related to the timing of recording gains associated with the sale of assets, such as securities and fixed assets, which leads to influencing the reported gains figures, is also recognized as a method of earnings management (Scott & Pitman, 2005)."
- "Some managers resort to using optimistic market values when estimating balances as a basis for comparing cost or sale prices, thereby engaging in earnings management to inflate reported gains (Scott & Pitman, 2005)."
- "Some managers treat certain maintenance expenses as capital expenditures by charging them against the value of assets, thereby enhancing reported financial gains through reduced expense recognition (Scott & Pitman, 2005)."

2.2 Review of Related Previous Studies

The study of Bui and Krajcsák (2023) titled "The Impacts of Corporate Governance on Firms' Performance" discussed the relationship between corporate governance and financial performance in publicly listed companies in Vietnam. The study adopted a quantitative methodology, analyzing data from companies listed in the Vietnamese stock market over the period from 2019 to 2021. The main findings revealed that good governance practices positively contribute to a company's financial performance, highlighting the importance of strong corporate governance frameworks for enhancing firm value. The results emphasized that evaluating the quality of corporate governance practices is crucial for investors to mitigate investment risks and make informed financial decisions. The study recommended strengthening corporate governance systems to ensure improved financial outcomes and greater market confidence.

The study of Alkhalidi (2023) titled "Corporate Governance and Earnings Persistence: An Empirical Study of Palestine" discussed the link between corporate governance practices and earnings persistence. The study aimed at examining how board effectiveness influences the sustainability of earnings. It adopted the Generalized Method of Moments (GMM) methodology and was conducted on a sample of 18 companies listed on the Palestine Exchange between 2014 and 2019. The results showed that effective

corporate governance practices, particularly board effectiveness, significantly enhance earnings persistence, indicating stronger financial sustainability.

Al-Juhani, T., & Turki, (2022) study aimed to identify impact of corporate governance in level of disclosure in financial statements in cement companies, to know effect of applying corporate governance in level of disclosure in financial statements of cement companies, to identify extent of impact of investor protection rule in accounting disclosure with presence of financial reports, use descriptive analytical approach study population consisted of Saudi companies affiliated with cement companies sector and registered in stock market, and for study tool, researchers used financial reports published for companies: 2019-2021 AD, study period (2019-2021) is greater than (90%), and study revealed that most companies did not comply with full disclosure of item No, (7), which is volume of transactions with board members, and results showed weak commitment by companies to disclose item “transaction pricing methods for parties.” with percentage of less than (43%), results of study showed commitment of most companies to disclose fourth item, which is application of relative importance of disclosing accounting information in lists percentage of finance is more than (85%), and among most important recommendations recommended by researchers: Work to exert more effort and follow up in developments related to application of governance rules by Capital Market Authority, spreading culture of corporate governance by introducing concept, rules and mechanisms of governance in plans and curricula Studies in universities in accounting department, encouraging scientific research with regard to disclosure and transparency in financial markets, need for Capital Market Authority to prepare record containing experts in field of corporate governance so that companies can benefit from their expertise in this field.

Muhammad Fawzi Khashabeh, N., Naji, Hussein Muhammad Saleh, & Amira, (2022) study, researcher dealt with determining relationship between banking governance and financial performance in Iraqi commercial banks operating in Iraq in order to improve level of this performance, main objective of research was to determine extent of impact of banking governance in financial performance, An effective framework for governance in an effort to protect rights of shareholders and investors and to highlight role of stakeholders in order to ensure fair and equal treatment among all, disclosure and transparency, and responsibilities of boards of directors of these banks in achieving

desired improvement in performance of banks in Iraq, Good leverage ratios, profitability and service activity.

The study of Aljadba, Nawai, and Laili (2021) titled "The Impact of Corporate Governance on Earnings Management in Palestine: The Moderating Effects of Political Instability" discussed the moderating role of political instability in the relationship between corporate governance quality and earnings management. The study aimed at exploring how political instability affects the effectiveness of governance mechanisms. It adopted a quantitative methodology and was conducted on a sample of non-financial firms listed on the Palestine Exchange between 2011 and 2018. The results showed that political instability weakens the effectiveness of audit committees in constraining earnings management, highlighting the need for stable governance environments.

The study of Abdelkarim and Zuriqi (2020) titled "Corporate Governance and Earnings Management: Evidence from Listed Firms at Palestine Exchange" discussed the relationship between corporate governance mechanisms and earnings management. The study aimed at investigating how board attributes and company characteristics influence earnings management practices. It adopted the modified cross-sectional Jones model methodology and was conducted on a sample of 33 companies listed in the Palestine Exchange. The results showed significant correlations between earnings management and variables such as ownership concentration, company size, and return on assets, suggesting that certain corporate governance attributes influence the extent of earnings management practices.

The study of Hassan, Naser, and Rafiq (2016) titled "The Influence of Corporate Governance on Corporate Performance: Evidence from Palestine" discussed the relationship between board structure, the presence of audit committees, ownership concentration, and corporate performance. The study adopted an empirical analytical approach, focusing on a sample of non-financial companies listed on the Palestine Exchange during the period from 2010 to 2012. The main findings revealed a negative association between certain governance mechanisms and firm performance indicators, suggesting that the effectiveness of corporate governance practices may vary depending on the contextual environment. The study recommended the need to adapt and contextualize corporate governance frameworks to better fit the specific characteristics

and economic realities of the Palestinian market to enhance corporate performance and sustainability.

The study of Youssef (2014) titled "The Role of Corporate Governance Mechanisms in Restricting Managerial Discretion in Goodwill Impairment Losses in Egyptian Companies" discussed the extent to which managers exercise discretion in determining impairment losses of purchased goodwill resulting from business combinations. The study adopted a quantitative empirical methodology and was conducted on a sample of 50 companies listed on the Egyptian Stock Exchange for the year 2007, covering the period from 2007 to 2009, following the mandatory compliance with Egyptian Accounting Standards No. 29 and No. 31 issued in 2006. The main findings indicated a negative relationship between the impairment loss of goodwill and both the percentage of senior management ownership of company shares and income volatility, while a positive relationship was found between goodwill impairment losses and strong corporate governance mechanisms, measured by board independence and ownership concentration. The study recommended enhancing corporate governance structures to limit opportunistic managerial behavior and to improve the informational content of financial statements by reducing information asymmetry between management and stakeholders.

The study of Nasrollah Ahadiat and Hassan Hefzi (2012) titled "Perceptions of Business Professionals on Earnings Management Practices" discussed the phenomenon of dividend management as a deliberate manipulation of corporate financial statements to achieve specific goals. The study adopted a survey-based methodology, collecting data through a questionnaire that included examples of earnings management practices observed by auditors and expanded through previous research. The main findings revealed that certain earnings management practices, although compliant with generally accepted accounting principles (GAAP), are perceived as unacceptable by the public and business professionals. The study contributed to the existing body of knowledge by highlighting the divergence between technical compliance and ethical acceptability. It recommended raising awareness about the ethical dimensions of earnings management and encouraging stricter standards to align managerial practices with public expectations.

Abdel Nasser Nour (2012) study aimed to identify extent to which Jordanian public shareholding companies practice earnings management methods, and this was reflected

in reliability of companies' financial statements, One-way analysis of variance, and Scheffe test. The results of study concluded that there are different effects of methods and procedures used to manage profits in Jordanian public shareholding companies in reliability of published financial statements, and that most practiced tools in scope of carrying out fictitious operations fall within scope of fraud and fraud, and least effective is that practice in scope of What is known as income smoothing. The study recommended that Companies Control Department and other control and supervision bodies, especially Central Bank, Ministry of Trade and Industry, and Securities Commission, verify activation of corporate governance systems in Jordanian public shareholding companies, especially what is He commented in rules for providing independence conditions for members of their boards of directors as well as for their auditors, while strengthening oversight role of audit committees, in addition to applying deterrent penalties to executives who practice harmful methods in managing profits.

Al-Qathami (2010) study aimed to identify earnings management practices in Saudi joint stock companies and to show extent of impact of group of factors in direction of those companies in practice of earnings management, study was applied to sample of (87) companies listed in Saudi financial market, results of study concluded that Saudi institutions and companies practice voluntary entitlement in negative way, and it turns out that service and service companies practice entitlement in negative way, while agricultural companies practice it in positive way, and that profitable companies practice profit management in negative way, and companies with losses practice profit management in positive way, and it was found that there is no statistically significant relationship between earnings management practice and firm size.

Shah, (2009) study: study aimed to test relationship between quality of governance and profit management by applying it to sample of 53 Pakistani companies, There is direct correlation between quality of governance and profit management, and this relationship is weak, which indicates weakness of effectiveness of governance mechanisms in studied companies in controlling and monitoring earnings management.

(Agarwal, 2008) study aimed to test strength of relationship between corporate governance and creative accounting, based in set of factors that researcher thought could be used in framework of good corporate governance towards creative accounting

practices, questionnaire consisting of 17 questions was distributed to sample of 48 professional accountants in India, study concluded that there is an inverse relationship between auditing, internal control system and creative accounting, as effect of each of them appears in positive way to reduce these practices, Creativity significantly, and factor of increased competition leads to reduction in agency problems between board of directors and shareholders, and thus limit creative accounting practices.

(Oriot, et al., 2008) study aimed to identify degree of Spanish companies' practice of earnings management, study tool was applied to sample consisting of (35) of largest companies listed in Spanish financial market, where indicators used by these companies in managing their profits were identified, including presence of some changes in accounting standards from year to year, and existence of authorizations for application of Accounting treatments not included in systems applied in those companies, as well as inclusion of operations related to previous financial years in profit and loss account.

(Jaiswall, 2006) study aimed to demonstrate effects of changing inventory valuation methods within framework of creative accounting in company's profitability, as it confirmed that choice in inventory pricing methods does not change reality of company's economic events, but it affects taxes in one hand and value of retained profits in other hand, and study concluded that need to activate role of corporate governance, through improving performance of each of audit committees and financial analysts, so that each of them can continuously monitor stock and earnings per share rate in order to avoid presenting shady impression in pricing of company's stock through creative accounting.

(Osma, 2005) study aimed to test impact of high level of governance mechanisms in reducing phenomenon of profit management in Spanish companies, as it was conducted in sample of 78 non-financial companies using data for period 1999-2001, and study concluded that percentage of external members in board of directors does not affect practices of Earnings management, and presence of independent members within audit committee does not limit these practices.

(Norman and Kamran, 2004) study aimed to test discretionary benefits in Malaysian companies that have financial crises, and which entered into debt rescheduling negotiations for violating debt contracts, to determine whether managers of those companies adopt an increase in income benefits during debt rescheduling period, study

was applied to sample of (153) companies for period from 1994 to 2000, results of study concluded that there is evidence that companies that suffer from financial crises practice declining earnings management, Debt rescheduling with lenders, and that these entitlements are negatively more than another sample of companies that did not enter into debt rescheduling negotiations.

(Holland & Remsay, 2003) study aimed to identify extent to which Australian companies practice earnings management by applying model of Burgstaher and Dichev, 1997, profitability of previous years, and study recommended necessity of disclosing and disclosing these practices to all parties benefiting from financial reports.

Table (2.1) Summary of Previous Studies

No.	Researcher's Name	Subject of Study	The Most Important Result of the Research	Data Sources	Research Method
1	Bui & Krajcsák (2023b)	Corporate governance and financial performance in Vietnam	Good governance practices positively affect financial performance, crucial for limiting investment risks	Financial statements (2019–2021)	Quantitative Analysis
2	Alkhalidi (2023)	Corporate governance and earnings persistence in Palestine	Effective board governance enhances earnings persistence and strengthens financial sustainability	Palestine Exchange data (2014–2019)	Generalized Method of Moments (GMM)
3	Al-Juhani & Turki (2022)	Impact of governance on disclosure in Saudi cement companies	Weak compliance with full disclosure; strong disclosure on financial information; recommendations to enhance governance	Financial reports (2019–2021)	Descriptive Analytical Approach
4	Muhammad Fawzi Khashabeh et al. (2022)	Banking governance and financial performance in Iraq	Good governance improves leverage, profitability, and service activity	Financial reports of Iraqi banks	Quantitative Analytical Approach
5	Aljadba, Nawai, & Laili (2021)	Corporate governance and earnings management in Palestine	Political instability weakens audit committee effectiveness	Financial reports of Palestinian firms (2011–2018)	Quantitative Analysis
6	Abdelkarim & Zuriqi (2020)	Corporate governance and earnings management in Palestine	Governance attributes influence earnings management (ownership concentration, company size)	Financial reports (33 companies)	Modified Jones Model
7	Hassan, Naser, & Rafiq (2016)	Corporate governance and performance in Palestine	Negative relationship between some governance mechanisms and firm performance	Non-financial companies data (2010–2012)	Empirical Analytical Approach

8	Youssef (2014)	Managerial discretion in goodwill impairment in Egypt	Strong governance reduces opportunistic impairment choices	Egyptian Stock Exchange (2007–2009)	Quantitative Analytical Approach
9	Nasrollah Ahadiat & Hassan Hefzi (2012)	Public perception of earnings management practices	Identified management actions viewed negatively despite being within GAAP	Survey of business professionals	Survey Research
10	Abdel Nasser Nour (2012)	Earnings management methods in Jordan	Different profit management techniques impact reliability of statements	Jordanian companies	Statistical Analysis (ANOVA, Scheffe)
11	Al-Qathami (2010)	Earnings management in Saudi companies	Sectoral differences in earnings management; no relation to firm size	Financial reports (87 companies)	Quantitative Study
12	Shah (2009)	Governance quality and profit management in Pakistan	Weak governance leads to earnings management	Pakistani companies (53)	Quantitative Empirical Analysis
13	Agarwal (2008)	Corporate governance and creative accounting in India	Auditing and internal control reduce creative accounting practices	Survey of accountants (48 responses)	Survey Research
14	Oriot et al. (2008)	Earnings management practices in Spanish companies	Flexibility in accounting standards used for earnings management	Financial data of 35 companies	Analytical Review
15	Jaiswall (2006)	Creative accounting via inventory valuation in India	Inventory methods affect taxes and retained earnings; governance needed	Indian companies	Descriptive Analytical Study
16	Osma (2005)	Governance mechanisms and earnings management in Spain	External board members and audit committees do not reduce earnings management	Spanish non-financial companies (1999–2001)	Quantitative Analysis
17	Norman & Kamran (2004)	Earnings management in Malaysian distressed companies	Financial distress linked with income-decreasing earnings management	Malaysian companies (153 firms, 1994–2000)	Empirical Statistical Analysis
18	Holland & Remsay (2003)	Earnings management practices in Australian companies	Companies engage in earnings management; need for transparency	Australian companies using Burgstaher & Dichev model	Quantitative Analytical Study

Source: prepared by the researcher

Chapter Three: Methodology

3.1 background:

"The global financial crises have received great attention from many economists and analysts, leading them to emphasize the need for a strong governance system and efficient financial management. Strengthening these systems is seen as essential to increasing the ability to deal with unexpected crises and to prevent the risk of future collapses (Palea, 2015; McDonough et al., 2020; Chircop & Novotny-Farkas, 2016)."

and accordingly, current study seeks to search in role of governance in limiting practice of earnings management in companies listed in Palestine Exchange, where practice of earnings management is related to income statements through sales, operating expenses, result of non-recurring activities, and unusual and exceptional items, As for statement of financial position, role of external auditor is represented in Conducting tests and examining cash, current investments, receivables, and intangible assets, in addition to contingent or conditional assets and liabilities.

This study aims to know management of profits in companies listed in Palestine Stock Exchange, This requires obtaining annual financial statements in public shareholding companies listed in Palestine Stock Exchange in various parts of West Bank, descriptive analytical approach was used, which describes management of profits in companies listed in Palestine Stock Exchange, Results when analyzing questionnaire, To achieve objectives of study in knowing impact of governance in managing profits in companies listed in Palestine Stock Exchange, SPSS program was used to analyze practical model used in this study.

3.1 Population and Respondents:

The study population consists of all companies listed in Palestine Stock Exchange, while study sample consists of companies listed during period 2015-2022 and following conditions are met:

1. company must be listed in Palestine Exchange during study period.
2. annual financial reports of company should be available during study period.
3. That all required data be available during study period.

"The researcher established specific conditions to select the study sample in alignment with the research objectives. The study population consists of all companies listed in the Palestine Stock Exchange, while the study sample includes only companies listed during the period 2015–2022 that meet the following criteria: (1) the company must have been listed on the Palestine Exchange throughout the study period, (2) the company's annual financial reports must be available for the entire period, and (3) all required data must be accessible during the study period".

3.3 Respondent Companies Profile:

"The industrial sector is robust, with a variety of companies contributing to its diversity and strength. There are a total of eleven companies operating in this sector, each specializing in different areas such as pharmaceuticals, food production, aluminum, paints, carton, and plastic industries. These companies play a crucial role in the economic landscape by providing essential products and services, creating jobs, and fostering innovation. Their presence in the industry is marked by their listing on the stock exchange, which reflects their financial health and commitment to transparency and growth (Abdullah et al., 2023; Awwad & Razia, 2021)."

Among these companies, Birzeit Pharmaceuticals, Jerusalem Pharmaceuticals, and Beit Jala Pharmaceutical lead pharmaceutical segment, offering wide range of medical products, Vegetable Oil Industries, Palestine Poultry, and Golden Wheat Mills are key players in food production industry, ensuring steady supply of essential food items, National Aluminum and Profile (NAPCO) and Jerusalem Cigarette cater to specialized markets with their unique products, Companies like Arab Company for Paints Products, National Carton Industry, and Palestine Plastic Industries diversify industrial landscape further, each adding value through their specific product lines, table below provides summary of these companies, highlighting their names and listing dates.

Table (3.1): summary of industrial companies, highlighting their names and listing dates.

Company Name	Abbreviation	Listing Date
Jerusalem Pharmaceuticals	JPH	20/01/1997
Arab Company For Paints Products	APC	05/03/1997
Jerusalem Cigarette	JCC	24/07/1997
The Vegetable Oil Industries	VOIC	09/08/1999
Palestine Plastic Industries	LADAEN	30/12/2002

Palestine Poultry	AZIZA	31/12/2002
Birzeit Pharmaceuticals	BPC	22/12/2004
Golden Wheat Mills	GMC	17/05/2005
The National Carton Industry	NCI	06/08/2006
National Aluminum And Profile	NAPCO	30/11/2011
Beit Jala Pharmaceutical	BJP	03/05/2015

Source: prepared by the researcher

3.4 Instrumentation:

The study instrument employed is detailed datasheet designed to collect and analyze variables for industrial companies listed in Palestine Exchange from 2015 to 2023, This datasheet captures range of variables, both dependent and independent, to assess extent of earnings management practices among these companies, primary dependent variable is practice of earnings management, measured through modified Jones model, This model evaluates accrual basis of accounting, distinguishing between optional accruals (used for managing profits and creative accounting) and non-optional accruals (reflecting normal business operations and performance), total accruals are sum of these optional and non-optional accruals, For each company, absolute value of optional accruals is calculated and compared to average value; company with accruals below average is considered not to practice earnings management for that year.

The datasheet also captures independent variables related to corporate governance, including size of board of directors, CEO duality (where roles of chairman and CEO are combined), board independence, and presence of an audit committee, These governance variables are crucial in determining influence of corporate governance in earnings management practices, size of board is measured by number of board members, while CEO duality is assigned value of one if roles are combined and zero if they are not, Board independence and presence of an audit committee are similarly quantified, with values of one indicating their presence and zero indicating their absence, Additionally, control variables such as company size, debt ratio, sales growth, and return in assets are included to provide comprehensive analysis of factors influencing earnings management practices.

3.5 Data Gathering Procedures:

The data gathering process for our study involves several meticulously planned steps to ensure collection of accurate and comprehensive data from industrial companies listed in Palestine Exchange from 2015 to 2023, Initially, detailed datasheet is designed to capture

all relevant variables, including dependent variables such as earnings management practices, and independent variables related to corporate governance and control factors, design of this datasheet is informed by existing literature, expert consultations, and pilot testing to ensure its robustness and comprehensiveness. The process begins with identifying and compiling list of all industrial companies listed in Palestine Exchange within specified timeframe, This list is verified against official records to ensure completeness, Data is then collected from multiple sources, including annual financial reports, company disclosures, and other publicly available documents, These sources provide critical information in earnings management practices, board size, CEO duality, board independence, audit committees, company size, debt ratios, sales growth, and return in assets, Each company's financial reports are scrutinized to extract data in accruals, both optional and non-optional, as these are key indicators of earnings management practices.

The final dataset undergoes thorough review before analysis, ensuring that it is ready for subsequent steps in research process, such as reliability and validity testing, and hypothesis testing, This meticulous approach to data gathering ensures robustness and credibility of study's findings.

Table (3.2): study variables

Category	Variable	Description	Measurement
Dependent Variable	Earnings Management	Extent to which practice of earnings management is adopted in companies listed in Palestine Exchange	Measured using modified Jones model, Total accruals include optional and non-optional accruals.
Independent Variables	Governance	Expressed through various aspects of corporate governance.	N/A
	Board Size	Number of board members in company.	Number of board members
	CEO Duality	Combination of positions of Chairman and CEO.	Value of 1 if positions are combined, 0 if not combined.
	Board Independence	Independence of Board of Directors.	Specific measurement not provided
	Existence of an Audit Committee	Presence of an audit committee in company.	Value of 1 if audit committee exists, 0 if it does not exist.
Control Variables	Debt Ratio	Debt ratio of company.	Specific measurement not provided
	Return in Assets	Return in assets.	Specific measurement not provided

Sources: Prepared by the researcher based on (Abdullah et al., 2023; Ahmed & Hamdan, 2022; Elamer et al., 2021; Glover et al., 2017).

Measuring Earnings Management Practices:

"Earnings management practices are often measured using the Modified Jones Model. This model relies on accruals, which are the sum of revenues and expenses in the income statement that did not result in cash flows during the period of activity. Accruals arise from timing differences between cash flows and the accounting recognition of operations (Glover et al., 2017; Thesing et al., 2021)."

Total accruals include:

"Optional accruals arise from accounting operations carried out to manage profits and for creative accounting purposes. Management selects among alternative treatments and accounting options to inflate or reduce profits unrealistically, manipulating reported financial results (Scott & Pitman, 2005; Glover et al., 2017)."

"Non-optional accruals arise from normal transactions carried out by the company, reflecting its actual performance and operational strategy (Glover et al., 2017; Thesing et al., 2021)."

$$\text{Total Accruals} = \text{Optional Accruals} + \text{Non-Optional Accruals} \dots \dots \dots (1)$$

"The absolute value of optional accruals is calculated for each company, and the average is determined across all companies. A company with optional accruals below the average is considered not to have practiced earnings management during that year (Glover et al., 2017; Thesing et al., 2021)."

3.6 Statistical Treatment of Data

The statistical treatment of data in this study involves systematic approach to analyze collected data from industrial companies listed in Palestine Exchange from 2015 to 2022, following steps outline logical statistical treatment process:

3.6.1 Data Preparation and Cleaning:

The initial step involves preparing and cleaning collected data, This includes checking for missing values, outliers, and ensuring consistency across different datasets, Missing values will be addressed using appropriate imputation methods, and outliers will be examined and handled accordingly to maintain integrity of data.

3.6.2 Descriptive Statistics:

Descriptive statistics will be computed to summarize basic features of data, This includes calculating measures such as mean, median, standard deviation, and range for both dependent and independent variables, Descriptive statistics provide general overview of data distribution and central tendencies.

3.6.3 Normality Test:

To determine appropriate statistical tests, normality of data distribution will be assessed using tests such as Shapiro-Wilk test and visual inspections through Q-Q plots and histograms, If data is not normally distributed, appropriate non-parametric tests will be considered.

3.6.4 Correlation Analysis:

Pearson or Spearman correlation coefficients will be calculated to explore relationships between independent variables (governance factors) and dependent variable (earnings management), This analysis helps in understanding strength and direction of relationships between variables.

3.6.5 Regression Analysis:

Multiple regression analysis will be conducted to test hypothesis regarding impact of governance factors in earnings management practices, dependent variable (earnings management) will be regressed in independent variables (board size, CEO duality, board independence, audit committee presence) and control variables (company size, debt ratio, sales growth, return in assets), regression model will help in quantifying effect of each independent variable in dependent variable.

The regression equation can be represented as:

$$EM = \beta_0 + \beta_1 BS + \beta_2 CEO_Duality + \beta_3 BI + \beta_4 AC + \beta_5 CS + \beta_6 DR + \beta_7 SG \dots \dots \dots (2)$$

Where:

EM: Earnings Management

BS: Board Size

CEO_Duality: CEO Duality

BI: Board Independence

AC: Audit Committee

DR: Debt Ratio

ROA: Return in Assets

ϵ : Error term

3.6.6 Hypothesis Testing:

Hypothesis testing will be performed to determine statistical significance of relationships between independent variables and dependent variable, significance level (alpha) will be set at 0.05, P-values will be computed, and variables with p-values less than 0.05 will be considered statistically significant.

3.6.7 Multicollinearity Check:

To ensure validity of regression model, multicollinearity among independent variables will be checked using Variance Inflation Factor (VIF), Variables with high VIF values (typically above 10) indicate multicollinearity issues and may need to be addressed by removing or combining variables.

3.6.8 Model Diagnostics and Validation:

Diagnostic tests will be conducted to validate regression model, This includes checking for heteroscedasticity (using Breusch-Pagan test), autocorrelation (using Durbin-Watson test), and examining residual plots, Ensuring these assumptions are met is crucial for reliability of regression results.

3.6.9 Interpretation and Reporting:

The results will be interpreted and reported comprehensively, This includes presenting regression coefficients, R-squared values, and p-values, findings will be discussed in context of existing literature, and their implications for corporate governance and earnings management practices will be highlighted.

By following this systematic approach to statistical treatment, study aims to provide robust and credible insights into extent and determinants of earnings management practices among industrial companies listed in Palestine Exchange.

Chapter Four: Results

4.1 background

Chapter Four presents findings of study in "The Impact of Adherence to Corporate Governance Standards in Earnings Management and Financial Performance in Palestinian Companies Listed in Palestine Exchange." This chapter systematically analyzes data gathered from Palestinian companies listed in exchange, focusing in extent to which adherence to corporate governance standards affects financial outcomes, particularly earnings management and financial performance, Using statistical techniques to assess relationships between corporate governance elements and financial indicators, chapter aims to reveal patterns and correlations that underscore role of governance in fostering transparency, reducing earnings manipulation, and enhancing overall financial stability, These findings contribute to understanding of how governance practices impact company performance within context of Palestinian markets, providing empirical insights into benefits of corporate governance for stakeholders and policy-makers.

4.2 Results related to study's first question:

What is level of commitment to principles of corporate governance of Palestinian companies listed in Palestine Exchange?

To address study's first question regarding level of commitment to corporate governance principles among Palestinian companies listed in Palestine Exchange, detailed analysis of key governance variables was conducted, This analysis included board size, board meetings, CEO duality, and presence of audit committees, which are foundational elements of corporate governance.

Table (4.1) Descriptive Statistics of Corporate Governance Variables for Palestinian Companies Listed in Palestine Exchange

Variable	Range	Min	Max	Mean	Std, Deviation	Variance
Board Size	7.00	4.00	11.00	8.2455	1.90213	3.618
Board Meetings	4.00	4.00	8.00	5.9636	0.52335	0.274
CEO Duality	1.00	0.00	1.00	0.2909	0.45626	0.208
Audit Committee	1.00	0.00	1.00	0.7909	0.40852	0.167

Source: prepared by the researcher

Board Size

The Board Size for companies in this sample shows mean of 8.25, with standard deviation of 1.90, indicating that most companies maintain moderately sized board within range of 4 to 11 members, Optimal governance standards suggest board size of 7 to 11 members, balancing need for diverse expertise with efficient decision-making (Korn Ferry, 2024), With variance of 3.62, data shows some variability across companies, but majority appear to adhere to these standards, This range and mean suggest that companies in Palestine Exchange may prioritize balanced board composition, potentially aiding in comprehensive oversight and governance effectiveness.

The data shows that while there is some spread around mean, board sizes are relatively close to optimal range, enhancing potential accountability and streamlined decision-making, Prior studies affirm that moderate board size can foster improved oversight, as directors can engage more closely without logistical issues associated with very large boards (Sultana et al., 2020), Given mean and distribution, it is likely that companies within this sample benefit from board structure that aligns with best practices, promoting effective governance through manageable board sizes.

Board Meetings

The Board Meetings variable, with mean of 5.96 and standard deviation of 0.52, indicates that companies meet slightly more frequently than minimum quarterly standard, This aligns well with governance best practices, which recommend at least quarterly meetings but often advocate for more frequent meetings to support active oversight and timely decision-making (Ahmed & Hamdan, 2022), relatively low variance of 0.27 suggests that most companies are consistent in their meeting frequency, with meetings held within range of 4 to 8 times per year.

Increased meeting frequency is associated with improved accountability and responsiveness to changes in business environment, Although sample meets basic governance standards, companies may benefit from aligning closer with proactive best practices that advocate for monthly meetings in high-risk or complex industries, consistency in meeting frequency, shown by low standard deviation, suggests an

established governance rhythm that enables boards to stay engaged in strategic oversight and risk management.

CEO Duality

The CEO Duality measure, with mean of 0.29 and standard deviation of 0.46, shows that less than one-third of companies have combined CEO and board chair role, CEO duality is often discouraged in governance standards, as separating roles of CEO and board chair can enhance board independence and prevent conflicts of interest (Investopedia, 2024), With variance of 0.21, sample indicates that role separation is common among companies, likely contributing to stronger governance independence and more balanced power structure within these firms.

By maintaining separate roles, companies may promote governance structure where boards can more objectively evaluate CEO's performance and make decisions that align with shareholder interests, mean value of 0.29 aligns with governance standards that favor role separation and reflects positive trend toward enhancing board independence, Further decreasing CEO duality across sample could strengthen overall governance quality, aligning with best practices that advocate for fully independent board chair.

Audit Committee

The Audit Committee variable, with mean of 0.79 and standard deviation of 0.41, indicates that audit committees are present in nearly 80% of companies, variance of 0.17 reflects some variability, but high mean suggests that most companies comply with governance standards recommending an independent audit committee (KPMG, 2021), This compliance rate is essential for promoting transparency and robust financial oversight, which are key components of good governance.

Audit committees enhance accountability by overseeing financial reporting and ensuring accuracy of internal controls, Companies with independent audit committees are generally less prone to financial misreporting, as they provide an additional layer of oversight to protect shareholders' interests (Zhao & Zhang, 2023), Although sample shows strong compliance rate, achieving universal adherence (100%) would further

strengthen governance across board, reinforcing confidence among investors and stakeholders.

4.3 Results related to study's second question:

What is level of earnings management practice in Palestinian companies listed in Palestine Exchange?

To accurately measure earnings management in Palestinian companies, selecting an appropriate model is essential, **Modified Jones Model** is widely regarded as one of most effective and reliable methods for detecting discretionary accruals, which serve as proxy for earnings management (Dechow, Sloan, & Sweeney, 1995), This model improves upon earlier versions by adjusting for changes in revenue and receivables, which are often manipulated in earnings management practices, Specifically, Modified Jones Model isolates **Non-Discretionary Accruals (NDA)** from **Total Accruals (TA)** by factoring in economic factors that affect firm's performance independently of managerial influence (Jones, 1991; DeFond & Jiambalvo, 1994), By capturing **Discretionary Accruals (DA)** as difference between TA and NDA, model identifies portion of accruals likely subject to managerial discretion, This approach has been validated in numerous empirical studies across various markets, making it suitable for analyzing companies listed in Palestine Exchange, where regulatory oversight may differ from developed markets (Kothari, Leone, & Wasley, 2005).

Table (4.2) mean and standard deviation of total accruals (TA), non-discretionary accruals (NDA), and discretionary accruals (DA) across different years.

Year	TA_Mean	TA_StdDev	NDA_Mean	NDA_StdDev	DA_Mean	DA_StdDev
2015	-434288	1333904	75000.01	150000	-777144	1235323
2016	-124455	410910.4	-50531.5	290072.5	-81316.9	298841.8
2017	128928.8	490708.3	-37803.1	246417.5	183405.1	349022.4
2018	-274410	1022522	31566.83	78121.28	-333791	1063592
2019	-815188	1631804	22222.37	102270.4	-913537	1673986
2020	-10236.5	1226299	-50948.2	296025.9	44419.99	1239069
2021	1370372	3051186	14665.92	116852	1478970	3175434
2022	118392.1	2186666	-22097.6	203489.7	154558.6	2296164

Source: prepared by the researcher

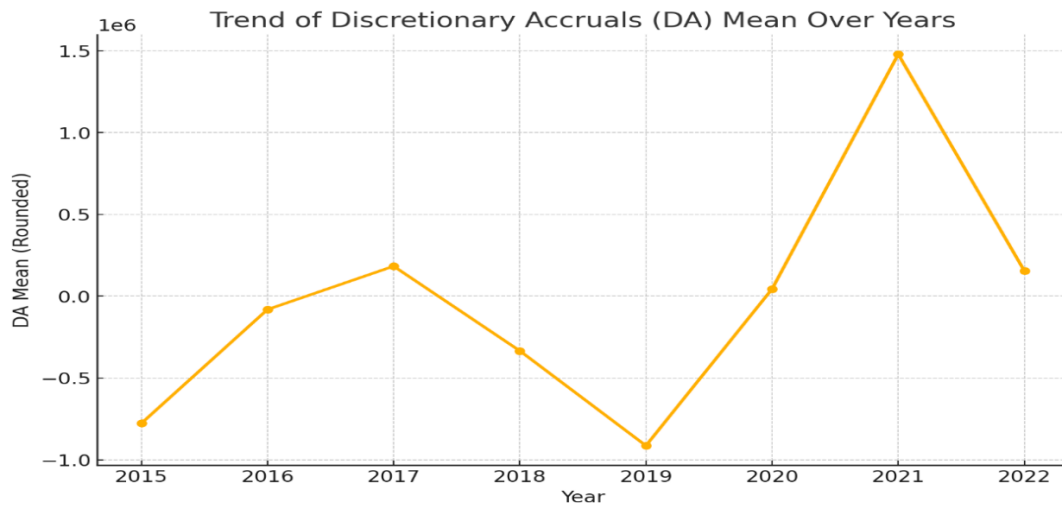


Figure (4.1): trend analysis of discretionary accruals (DA)

The analysis of discretionary accruals (DA) over years reveals distinct earnings management practices among Palestinian companies, with periods of income-decreasing and income-increasing adjustments that suggest an adaptive strategy in response to varying external pressures, in years like 2015, 2018, and 2019, companies exhibit strong negative DA values, indicating income-decreasing adjustments potentially motivated by tax management or economic uncertainties, For instance, significant negative DA mean of $-777,143.69$ in 2015, followed by another downturn in 2018 ($-333,791.45$) and an intensified negative DA in 2019 ($-913,536.59$), points to possible "big bath" accounting, in such cases, firms consolidate losses in challenging years, aiming to clear slate for more favorable comparisons in future periods.

On other hand, certain years show shift toward income-increasing adjustments, such as in 2017, with positive DA mean of $183,405.11$, These positive DA values suggest efforts by companies to signal growth or stability to stakeholders, aligning with improved conditions or investor expectations, cyclical pattern of income-decreasing and income-increasing adjustments highlights responsive earnings management approach among Palestinian firms, where financial reporting appears to align with fluctuating economic, political, and regulatory landscapes.

The COVID-19 pandemic significantly influenced earnings management practices in 2020 and 2021, adding another layer of complexity to this trend, in 2020, companies may have strategically reported lower earnings (negative DA) as response to downturn, leveraging challenging economic context to reset financial expectations, This behavior

aligns with "big bath" accounting, where firms record losses attributable to external crises, positioning themselves for recovery in subsequent periods, in 2021, as restrictions eased and recovery efforts commenced, there is notable positive DA spike, suggesting income-increasing adjustments, This adjustment likely reflects efforts to regain investor confidence, attract new investment, or meet regulatory standards after disruptions of previous year.

The high variability in DA across these years also suggests that companies adapted their earnings management practices in response to pandemic's unpredictable economic impact, This adaptable approach to earnings management reflects how Palestinian companies navigate short-term pressures, projecting resilience and stability in response to both crisis and recovery phases.

4.4 Results related to study's third question:

What is effect of (board size, independence of board of directors, CEO Duality, and Audit Committee) in earnings management in companies listed in Palestine Exchange?

In order to answer study question regarding effect of board size, board independence, CEO duality, and presence of an audit committee in earnings management among Palestinian companies, multiple analyses were conducted, results show distinct relationships between specific governance variables and earnings management practices, For instance, correlation analysis reveals positive, significant association between board meeting frequency and earnings management, suggesting that an increase in meetings could facilitate or reflect more active engagement in discretionary financial adjustments, Additionally, CEO duality, where CEO and board chair roles are combined, has negative and significant correlation with earnings management, indicating that companies with separated roles tend to exhibit lower levels of earnings management, likely due to improved oversight.

Table (4.3) Correlation Between Governance Variables and Earnings Management

Variable	Earning management	
	Pearson Correlation	Significance (2-tailed)
Board Size (BDS)	-0.013	0.819
Board Meetings (BDM)	0.185**	0.001
CEO Duality (DUAL)	-0.170**	0.003
Audit Committee (ADCOM)	-0.140*	0.014

Source: prepared by the researcher

The analysis of relationship between governance variables and earnings management reveals several significant associations, Board meetings (BDM) show positive and statistically significant correlation with earnings management ($r = 0.185$, $p < 0.01$), indicating that an increase in board meeting frequency may be linked to higher likelihood of earnings management practices, This finding suggests that more frequent meetings could be associated with more active approach to financial oversight, yet may also inadvertently allow for discretionary decisions that align with earnings management behaviors.

CEO duality (DUAL), in other hand, has negative and statistically significant correlation with earnings management ($r = -0.170$, $p < 0.01$), This result implies that companies where CEO and board chair roles are separated tend to exhibit lower levels of earnings management, supporting notion that role separation may enhance board independence and reduce potential conflicts of interest, thus curbing earnings manipulation.

Similarly, presence of an audit committee (ADCOM) is negatively correlated with earnings management ($r = -0.140$, $p < 0.05$), This finding aligns with governance best practices, as presence of an audit committee provides an additional layer of oversight, which can help mitigate earnings management by promoting transparency and financial integrity, Interestingly, board size (BDS) does not show significant correlation with earnings management ($r = -0.013$, $p = 0.819$), suggesting that number of board members alone may not directly influence likelihood of earnings manipulation, These findings underscore importance of specific governance practices—such as meeting frequency, role separation, and audit committee presence—in shaping earnings management behaviors among companies.

Table (4.4) assessing multicollinearity through tolerance and VIF values.

Variable	Tolerance	VIF
Board Size (BDS)	0.896	1.117
Board Meetings (BDM)	0.920	1.087
CEO Duality (DUAL)	0.885	1.130
Audit Committee (ADCOM)	0.945	1.059

Source: prepared by the researcher

Table (4) presents an assessment of multicollinearity among independent variables using tolerance and Variance Inflation Factor (VIF) values, tolerance values for Board Size (BDS), Board Meetings (BDM), CEO Duality (DUAL), and Audit Committee (ADCOM) are all close to 1, with values of 0.896, 0.920, 0.885, and 0.945, respectively, These tolerance values indicate low level of multicollinearity, as they are well above commonly cited threshold of 0.1, VIF values for each variable, which range from 1.059 to 1.130, further support this finding, as all values are below threshold of 10, typically used to identify concerning multicollinearity, These results suggest that multicollinearity is not an issue in this model, meaning that each independent variable contributes distinct information to analysis.

Table (4.5) regression analysis for Effect of Governance Variables in Earnings Management

Path	Coefficient (B)	T-Value	p-Value	Significance
Audit Committee → Earnings Management	0.093	1.973	0.024	Significant
Board Independence → Earnings Management	-0.052	2.653	0.004	Significant
Board Size → Earnings Management	-0.025	0.612	0.270	Not Significant
CEO Duality → Earnings Management	0.328	2.801	0.003	Significant
Model summary:				
R ²	0.023			
R ² adjusted	0.017			

Source: prepared by the researcher

regression analysis shows effect of governance variables in earnings management, **Audit Committee** has positive and statistically significant relationship with earnings management (B = 0.093, T = 1.973, p = 0.024), indicating that its presence influences extent of earnings management.

Board Independence demonstrates significant negative relationship with earnings management (B = -0.052, T = 2.653, p = 0.004), suggesting that independent boards are effective in reducing managerial discretion.

Board Size does not have statistically significant effect in earnings management ($B = -0.025$, $T = 0.612$, $p = 0.270$), indicating that number of board members alone does not significantly impact earnings management.

CEO Duality exhibits strong positive and significant effect in earnings management ($B = 0.328$, $T = 2.801$, $p = 0.003$), highlighting that combining roles of CEO and chairperson increases likelihood of earnings manipulation.

The overall model explains small proportion of variance in earnings management, with $R^2 = 0.023$ and R^2 adjusted = 0.017 , This indicates that while governance variables have some impact, additional factors are needed to better explain variations in earnings management.

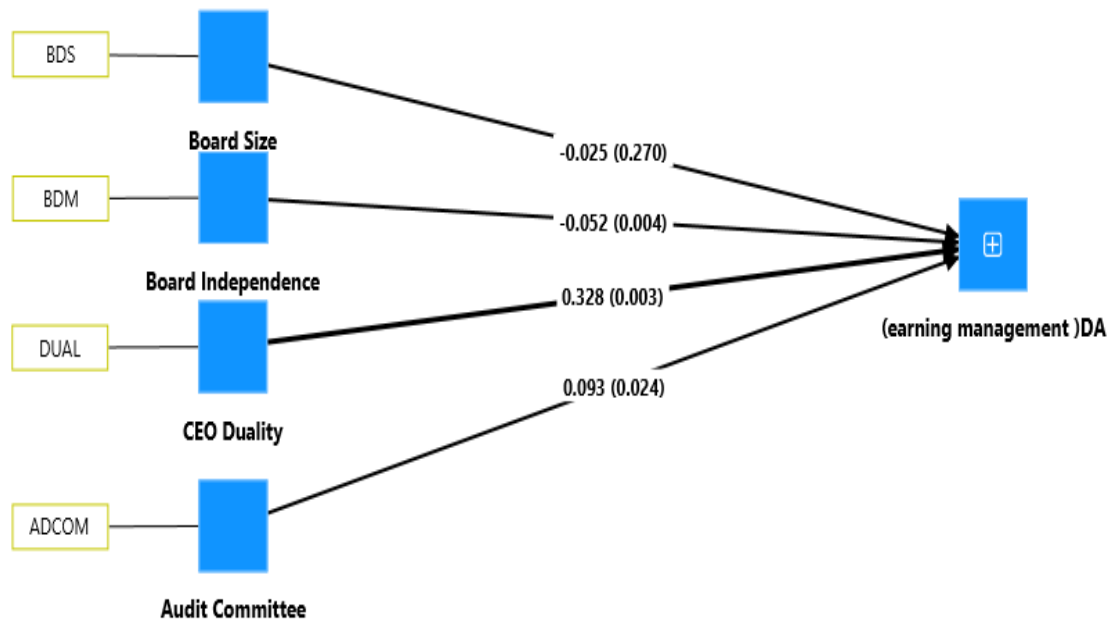


Figure (4.2): regression analysis for Effect of Governance Variables in Earnings Management

4.4 Results related to study fourth question:

What is effect of financial performance (return in equity, return in assets) in relationship between application of corporate governance principles and earnings management in companies listed in Palestine Exchange?

Table: Model Summary of Governance and Financial Variables Predicting Earnings Management

Table (4.6): Path Coefficients and Statistical Results for Earning Management

Path	Coefficient (B)	T-Value	p-Value	Significance
Audit Committee → Earning Management	0.057	0.863	0.194	Not Significant
Board Independence → Earning Management	-0.081	2.680	0.004	Significant
Board Size → Earning Management	0.142	3.761	0.000	Significant
CEO Duality → Earning Management	0.192	1.901	0.029	Significant
Moderating variables:				
ROA → Earning Management	0.075	0.242	0.404	Not Significant
ROE → Earning Management	-0.072	0.209	0.417	Not Significant
ROE × Board Independence → Earning Management	0.731	3.609	0.000	Significant
ROA × CEO Duality → Earning Management	4.788	4.375	0.000	Significant
ROE × CEO Duality → Earning Management	-4.404	3.826	0.000	Significant
ROE × Board Size → Earning Management	0.299	1.163	0.122	Not Significant
ROA × Board Independence → Earning Management	-0.793	3.793	0.000	Significant
ROA × Audit Committee → Earning Management	-1.060	2.379	0.009	Significant
ROA × Board Size → Earning Management	-0.412	1.709	0.044	Significant
ROE × Audit Committee → Earning Management	0.880	1.885	0.030	Significant
Model summary:				
R-Square	0.134			
R-Square Adjusted	0.116			

Source: prepared by the researcher

The Moderating Role of ROA and ROE

To address research question — *What is effect of financial performance (ROE, ROA) in relationship between application of corporate governance principles and earnings management in companies listed in Palestine Exchange?* — study examined both direct and moderating effects of financial performance in earnings management.

The analysis revealed mixed results for direct effects of corporate governance variables in earnings management, audit committee showed no significant relationship with earnings management, as indicated by coefficient of $B = 0.057$, $T = 0.863$, $p = 0.194$, Board independence exhibited significant negative relationship with earnings management ($B = -0.081$, $T = 2.680$, $p = 0.004$), suggesting that greater board independence reduces earnings management practices, in contrast, board size had

significant positive relationship with earnings management ($B = 0.142$, $T = 3.761$, $p < 0.001$), implying that larger boards may be associated with increased opportunities for earnings manipulation. Similarly, CEO duality showed significant positive effect ($B = 0.192$, $T = 1.901$, $p = 0.029$), indicating that combining roles of CEO and chairperson contributes to increased earnings management. Financial performance metrics, ROA and ROE, did not show significant direct effects in earnings management, ROA had coefficient of $B = 0.075$, $T = 0.242$, $p = 0.404$, while ROE had coefficient of $B = -0.072$, $T = 0.209$, $p = 0.417$, suggesting no direct influence.

The interaction effects revealed significant moderating roles of financial performance (ROA and ROE) in relationship between corporate governance principles and earnings management, interaction between ROE and board independence was significant and positive ($B = 0.731$, $T = 3.609$, $p < 0.001$), indicating that higher ROE strengthens negative relationship between board independence and earnings management. This suggests that firms with stronger financial performance benefit more from independent boards in reducing earnings manipulation. Similarly, interaction between ROA and CEO duality was highly significant ($B = 4.788$, $T = 4.375$, $p < 0.001$), showing that CEO duality amplifies impact of ROA in earnings management. This highlights that firms with high profitability under CEO duality are more prone to earnings manipulation.

Interestingly, interaction between ROE and CEO duality was significant and negative ($B = -4.404$, $T = 3.826$, $p < 0.001$), suggesting that CEO duality weakens positive relationship between ROE and earnings management. Furthermore, interaction between ROA and board independence was significant and negative ($B = -0.793$, $T = 3.793$, $p < 0.001$), indicating that board independence mitigates effect of ROA in earnings management, similar pattern was observed for interaction between ROA and audit committee ($B = -1.060$, $T = 2.379$, $p = 0.009$), where strong audit committee reduced influence of ROA in earnings management. Additionally, interaction between ROA and board size was significant and negative ($B = -0.412$, $T = 1.709$, $p = 0.044$), demonstrating that larger boards moderate relationship between ROA and earnings management by reducing its impact.

These findings demonstrate that financial performance metrics, particularly ROA and ROE, play critical roles in moderating effects of corporate governance variables in earnings management. By including these interaction terms, study highlights importance

of considering financial performance when evaluating effectiveness of governance structures in curbing earnings manipulation.

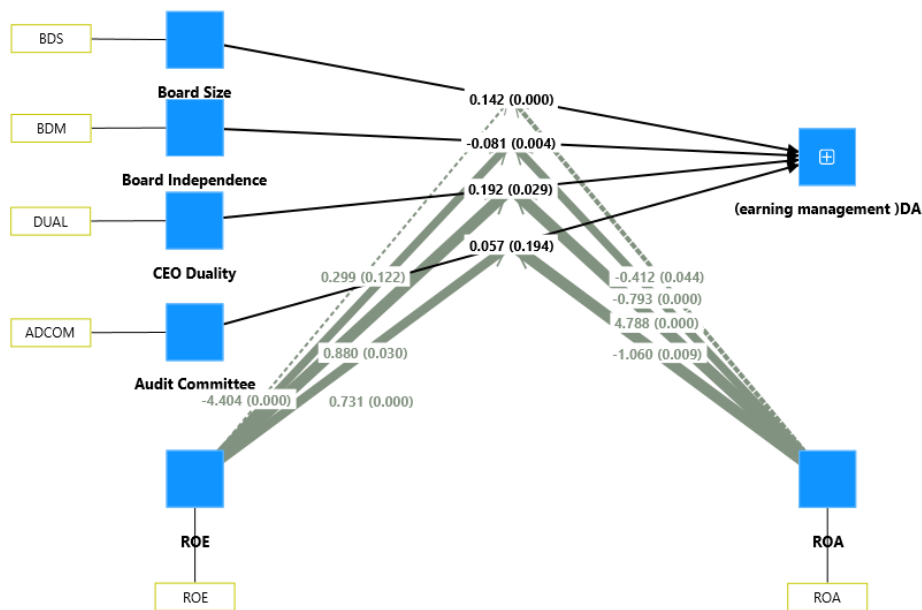


Figure (4.3): Structural Model of Corporate Governance Variables, Financial Performance, and Earnings Management

The results of research questions three and four provide complementary insights into relationship between corporate governance and earnings management, with question three focusing in direct effects and question four addressing moderating role of financial performance metrics.

For question three, regression analysis shows that corporate governance variables have varying levels of influence in earnings management, Audit Committee has positive and statistically significant effect in earnings management ($B = 0.093$, $T = 1.973$, $p = 0.024$), suggesting its presence impacts level of earnings manipulation but may not always effectively limit it, Board Independence has significant negative effect ($B = -0.052$, $T = 2.653$, $p = 0.004$), indicating that independent boards play an essential role in reducing managerial discretion, Board Size does not significantly affect earnings management ($B = -0.025$, $T = 0.612$, $p = 0.270$), suggesting that number of board members alone does not drive changes in earnings manipulation, CEO Duality shows strong positive and significant effect ($B = 0.328$, $T = 2.801$, $p = 0.003$), highlighting that combining CEO and chairperson roles increases likelihood of earnings management.

Question four expands in these findings by examining moderating role of financial performance metrics, specifically ROA and ROE, in relationship between governance and earnings management, ROA interacts significantly with governance variables, such as amplifying effect of CEO Duality in earnings management ($B = 4.788$, $p < 0.001$), indicating that higher profitability exacerbates risks of concentrated decision-making power, Conversely, ROA mitigates effect of Board Independence in earnings management ($B = -0.793$, $p < 0.001$), suggesting that independent boards are less effective in highly profitable firms, ROE also demonstrates moderating role, strengthening negative relationship between Board Independence and earnings management ($B = 0.731$, $p < 0.001$), while reducing adverse impact of CEO Duality ($B = -4.404$, $p < 0.001$), These results highlight that financial performance influences how governance mechanisms function in mitigating earnings manipulation.

In summary, question three demonstrates direct effects of governance variables, with Board Independence being most effective in curbing earnings management, Question four adds depth by showing how financial performance metrics like ROA and ROE interact with governance, sometimes amplifying or mitigating their effects, Together, findings emphasize importance of both governance structures and financial performance in understanding and managing earnings management.

Chapter Five: Discussion

This chapter provides detailed discussion of study's findings, focusing in corporate governance practices of Palestinian companies listed in Palestine Exchange, their impact in earnings management, and role of financial performance in moderating these effects, discussion is organized around study's research questions, offering an interpretive analysis of results in light of previous studies to contextualize governance and financial reporting behaviors observed in Palestinian firms, By examining implications of board characteristics, CEO duality, audit committee presence, and financial performance indicators, this chapter reveals strategic ways in which Palestinian companies navigate governance structures to influence earnings management.

The findings align with prior research in corporate governance practices in emerging markets, showing that governance mechanisms such as board size, meeting frequency, and audit committee presence play significant roles in financial discretion, Studies by Bui & Krajcsák (2023), Al-Juhani & Turki (2022), and Khashabeh et al, (2022) provide comparative insights into effectiveness of governance structures across different markets, highlighting both similarities and unique factors influencing earnings management in Palestine, This chapter also explores implications of discretionary accruals over time, linking observed income-decreasing and income-increasing patterns to contextual economic pressures, regulatory environments, and corporate goals, Finally, based in analysis, chapter concludes with recommendations for enhancing governance practices to improve transparency, strengthen investor confidence, and foster sustainable financial reporting standards in Palestine.

5.1 Discussion of Study Questions

5.1.1 Discussion of study first question:

The results indicate that Palestinian companies exhibit moderate level of adherence to corporate governance principles, For instance, mean board size is 8.25 members, aligning with optimal governance standards that recommend between 7 to 11 members to ensure balance of expertise without compromising decision-making (Korn Ferry, 2024), This finding aligns with Bui & Krajcsák (2023), who found that sound governance practices positively impact financial performance, encouraging investor confidence in corporate

governance quality, in this study, mean frequency of board meetings (5.96 annually) exceeds minimum quarterly standard, highlighting proactive oversight aligned with best practices for corporate accountability (Ahmed & Hamdan, 2022).

Additionally, CEO duality in this sample is present in only 29% of companies, promoting board independence and reducing conflicts of interest, governance principle strongly supported in studies like Al-Juhani & Turki (2022), who noted importance of transparency and independence in board roles, high presence of audit committees (79%) suggests compliance with transparency and oversight principles essential for investor protection, as shown in Khashabeh et al, (2022), This level of adherence to governance structures, especially in areas of board independence and audit committee presence, aligns with findings by Shah (2009), who emphasized positive role of governance mechanisms in enhancing disclosure and minimizing profit manipulation.

5.1.2 Discussion of study second question:

The analysis of discretionary accruals (DA) reveals distinct income-decreasing and income-increasing adjustments, suggesting an adaptive approach to earnings management, Negative DA values in 2015, 2018, and 2019 indicate income-decreasing adjustments, possibly for tax purposes or strategic "big bath" accounting, where companies consolidate losses to enhance future performance perceptions, This finding aligns with Nour (2012), who found similar income-smoothing practices in Jordanian firms, showing that earnings management often aims to influence perceptions during financially challenging periods, in contrast, positive DA values in years like 2017 suggest income-increasing adjustments, aligning with research by Osma (2005), who found that firms use earnings management to signal stability and growth.

The high variability in DA reflects flexible earnings management approach, as companies adjust financial reporting based in economic and regulatory pressures, This pattern aligns with Al-Qathami (2010), who noted that firms with consistent earnings management practices respond to internal and external pressures, using these practices to stabilize financial performance in unpredictable environments, This adaptive strategy in Palestinian firms mirrors findings by Youssef (2014), who observed that income-increasing practices are often used to align with shareholder expectations during favorable economic conditions.

5.1.3 Discussion of study third question:

The regression analysis provides insights into influence of governance variables in earnings management, results show that audit committee has positive and statistically significant relationship with earnings management ($B = 0.093$, $T = 1.973$, $p = 0.024$), This finding suggests that while audit committees are designed to enhance transparency and reduce manipulation, their presence alone may sometimes fail to fully mitigate earnings management, This aligns with Shah (2009), who found that governance mechanisms, while critical, often face practical limitations in completely curbing earnings discretion.

Board independence demonstrates significant negative relationship with earnings management ($B = -0.052$, $T = 2.653$, $p = 0.004$), supporting prior findings by Khashabeh et al, (2022), who emphasized that independent board members play crucial role in reducing managerial opportunism, Independent boards are less likely to collude with management, offering better oversight and limiting discretionary accounting practices.

Board size, however, does not have statistically significant effect in earnings management ($B = -0.025$, $T = 0.612$, $p = 0.270$), This is consistent with Agarwal (2008), who suggested that composition, expertise, and effectiveness of board matter more than its size in influencing governance outcomes, This result highlights that merely increasing number of board members does not necessarily lead to better governance or reduced earnings manipulation.

CEO duality shows strong positive and significant relationship with earnings management ($B = 0.328$, $T = 2.801$, $p = 0.003$), This finding contrasts with Khashabeh et al, (2022), who argued that centralized roles could simplify governance and reduce manipulation risks by aligning executive and board priorities, in this study, however, CEO duality appears to increase earnings manipulation, likely because it consolidates decision-making power, weakening checks and balances necessary for effective oversight.

These findings contribute to broader literature in governance and earnings management, For example, Sultana et al, (2020) observed that governance practices such as frequent board meetings could sometimes increase earnings manipulation, as they may pressure management to meet short-term financial targets, Similarly, Shah (2009) emphasized that

governance mechanisms are essential but may have limited effects depending in organizational context, mixed results from this study align with these perspectives, demonstrating that governance practices can deter earnings management while also adapting to specific financial conditions.

In conclusion, results suggest that board independence plays critical role in reducing earnings manipulation, while CEO duality poses significant risks, audit committee's influence is evident but may be constrained by practical limitations, and board size alone does not have meaningful impact, These findings emphasize need for tailored governance structures that balance independence, expertise, and oversight to effectively mitigate earnings management.

5.1.4 Discussion of study fourth question:

Adding financial performance metrics (ROE, ROA) alongside governance variables slightly improves model's explanatory power, suggesting that financial metrics provide additional insight into earnings management, These results are consistent with Bui and Krajcsák (2023), who observed that governance practices, coupled with financial health indicators, enhance transparency and limit risky financial practices, thereby supporting investor confidence, in this study, financial performance contributes marginally to earnings management, with slight increase in R^2 indicating that while financial indicators influence discretion, governance remains central.

This effect aligns with findings from Al-Juhani and Turki (2022), who noted that financial performance transparency supports governance efforts to limit discretionary adjustments, Additionally, modest impact of financial performance variables reinforces Nour's (2012) conclusion that governance, rather than financial metrics alone, is essential in curbing earnings management, Thus, while financial performance factors provide supportive context, they do not overshadow governance structures, highlighting primary role of corporate governance in moderating earnings practices in Palestinian companies.

The primary difference between results of questions 3 and 4 lies in focus and nature of relationships analyzed, Question 3 examines **direct effects of corporate governance variables** (e.g., audit committee, board independence, board size, and CEO duality) in earnings management, showing that governance mechanisms can influence level of

discretionary practices, For instance, board independence is effective in reducing earnings manipulation, while CEO duality significantly increases it, in contrast, question 4 introduces **financial performance metrics (ROA and ROE)** as moderating variables, revealing how these metrics shape effectiveness of governance practices, results demonstrate that financial performance can either amplify or mitigate impact of governance structures in earnings management, For example, ROA strengthens adverse effect of CEO duality while weakening protective role of board independence, suggesting that profitability affects how governance mechanisms function.

The differences in these results arise from roles financial performance metrics play in governance-earnings management relationship, Governance variables alone provide structural framework for oversight, but their effectiveness depends in financial context of firm, Higher profitability (as indicated by ROA and ROE) may give managers more discretion over earnings manipulation, diluting protective effects of governance structures like board independence, Conversely, financial pressures in less profitable firms might exacerbate risks of concentrated power in CEO duality, further highlighting its adverse effects, These findings suggest that while governance mechanisms are central to controlling earnings management, their impact is not static but rather contingent in firm's financial performance, underscoring need to integrate governance and financial strategies for effective oversight.

5.2 Recommendations:

Based in study findings, researcher recommends following :

1. Encourage firms to maintain an optimal board size, ideally between 7 and 11 members, to balance diverse expertise with efficient decision-making, and promote inclusion of independent members to strengthen oversight and reduce potential conflicts of interest.
2. Advocate for more frequent and strategic board meetings, particularly in complex or high-risk sectors, to enable proactive governance and timely responses to economic or regulatory changes, ensuring that meetings focus in strategic and financial oversight.

3. Encourage separation of CEO and board chair roles to enhance board independence, reduce conflicts of interest, and strengthen board's capacity for objective oversight, implementing policies to further minimize CEO duality for higher governance standards.
4. Recommend that all companies establish independent audit committees to enhance transparency and ensure robust financial oversight, empowering audit committees with clear roles focused in financial reporting, internal controls, and compliance.
5. Encourage companies to use financial performance indicators (such as ROE and ROA) in governance assessments, incorporating debt ratios to guide earnings management practices with sustainable financial performance.
6. Foster culture of transparency by encouraging companies to disclose discretionary accruals and earnings management practices, discouraging "big bath" accounting and excessive income-increasing adjustments to ensure reported earnings reflect actual financial performance.
7. Encourage regulatory bodies to develop policies reinforcing corporate governance practices, such as mandatory disclosures of governance structures and regular audits, and provide training in governance best practices to improve compliance and understanding of governance's impact in financial reporting.
8. Promote educational initiatives in corporate governance, emphasizing findings from Palestinian companies to enhance understanding, and encourage universities to include governance concepts in accounting and business programs to prepare future leaders for transparent financial practices.

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أثر الالتزام بمعايير حوكمة الشركات على إدارة الأرباح والأداء المالي في الشركات الفلسطينية المدرجة في بورصة فلسطين.

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ملخص

تتناول هذه الدراسة أثر الالتزام بمعايير حوكمة الشركات في إدارة الأرباح والأداء المالي لدى الشركات الفلسطينية المدرجة في بورصة فلسطين، حيث شملت مجتمع الدراسة جميع الشركات المدرجة في البورصة، مع التركيز على عينة من الشركات التي استوفت معايير محددة خلال الفترة من 2015 إلى 2022، وقد ضمت العينة مجموعة متنوعة من الشركات الصناعية التي تمثل قطاعات مختلفة تشمل الصناعات الدوائية، وصناعة المواد الغذائية، وصناعة الألمنيوم، والدهانات، والكرتون، والصناعات البلاستيكية، وتم استخدام نموذج جونز المعدل لقياس ممارسات إدارة الأرباح، حيث تم التمييز بين الاستحقاقات الاختيارية (التقديرية) وغير الاختيارية لقياس مدى انخراط الشركات في ممارسات إدارة الأرباح، بالإضافة إلى ذلك، تم تحليل عوامل حوكمة الشركات مثل حجم مجلس الإدارة، وازدواجية منصب المدير التنفيذي، واستقلالية مجلس الإدارة، ووجود لجنة تدقيق، لفهم تأثيرها في ممارسات إدارة الأرباح.

اعتمدت عملية جمع البيانات على التقارير المالية التفصيلية والوثائق المتاحة للعامة، حيث غطت المتغيرات التابعة (إدارة الأرباح) والمتغيرات المستقلة (عوامل الحوكمة)، وقد استخدمت الدراسة منهجية إحصائية صارمة شملت الإحصاءات الوصفية، وتحليل الارتباط، وتحليل الانحدار المتعدد، وكشفت النتائج أن استقلالية مجلس الإدارة يقلل بشكل كبير من إدارة الأرباح، في حين أن ازدواجية منصب المدير التنفيذي تزيد منها، مما يبرز الدور الحاسم لهيكل الحوكمة في الحد من حرية تصرف الإدارة، ومع ذلك، أظهرت مؤشرات الأداء المالي تأثيراً تعديلياً، حيث عزز العائد على الأصول (ROA) التأثير السلبي لازدواجية المنصب وأضعف التأثير الوقائي لاستقلالية المجلس، بينما عزز العائد على حقوق الملكية (ROE) من فعالية استقلالية المجلس وحدّ من مخاطر ازدواجية المنصب، وتؤكد هذه النتائج أهمية موازنة آليات الحوكمة مع السياق المالي للشركات، مما يشير إلى أن الحوكمة والأداء المالي يؤثران معاً في ممارسات إدارة الأرباح، وبناءً على هذه النتائج، قدمت الدراسة عدة توصيات لتعزيز حوكمة الشركات الفلسطينية، من بينها تحسين هيكل المجلس واستقلاليته،

وزيادة وتيرة الاجتماعات، والفصل بين منصبي المدير التنفيذي ورئيس المجلس، وتعزيز دور لجنة التدقيق، وتقدم هذه الدراسة رؤى حول كيفية تقليل ممارسات إدارة الأرباح عبر الالتزام بمعايير الحوكمة، بما يعزز الشفافية ويدعم الأداء المالي للشركات في الأسواق الناشئة.

الكلمات المفتاحية: حوكمة الشركات، إدارة الأرباح، الأداء المالي، بورصة فلسطين، القطاع الصناعي.