

**RELATIONSHIP AMONG CEO  
CHARACTERISTICS, CONCENTRATED  
OWNERSHIP AND EARNINGS MANAGEMENT:  
THE CASE OF JORDANIAN COMPANIES**

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THE CASE OF JORDANIAN COMPANIES**

by

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## LIST OF ABBREVIATIONS

|        |   |
|--------|---|
| GAAP   | Generally Accepted Accounting Principles              |
| IFRS   | International Financial Reporting Standards           |
| EM     | Earnings management                                   |
| AEM    | Accrual-based earnings management                     |
| REM    | Real earnings management                              |
| GDP    | Gross Domestic Product                                |
| OECD   | Organization for Economic Cooperation and Development |
| ASE    | Amman Stock Exchange                                  |
| GDP    | Gross Domestic Product                                |
| FDI    | Foreign Direct Investment                             |
| JSC    | Jordan Securities Commission                          |
| JCGC   | Jordanian Corporate Governance Code                   |
| CEO    | Chief Executive Officer                               |
| QFR    | Quality of financial reporting (QFR)                  |
| COV    | COVID-19  |
| CEOSEP | CEO non-duality                                       |
| CEOGE  | CEO gender  |
| CEOEXP | CEO experience  |
| CEOTEN | CEO's tenure  |
| CEOEDU | CEO education   |
| CEOAGE | CEO age   |
| FOMOC  | Family ownership concentration                        |
| FORC   | Foreign ownership concentration                       |
| FSIZE  | Firm size   |
| LEV    | Financial leverage                                    |
| MKTB   | Market to Book Value                                  |
| ROA    | Return on Assets                                      |
| AEM    | Abnormal discretionary accruals                       |
| ACFO   | Abnormal cash flow from operations                    |
| ADIE   | Abnormal discretionary expenses                       |
| APRC   | Abnormal production cost                              |
| SOX    | Sarbanes-Oxley Act                                    |
| R&D    | Research and Development                              |
| PPE    | Property, Plant, and Equipment                        |
| OLS    | Ordinary Least Squares                                |
| FE     | Fixed effects model                                   |
| RE     | Random effects model                                  |
| FGLS   | Feasible generalized least squares                    |
| AEM    | Abnormal discretionary accruals                       |

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# **HUBUNGAN ANTARA CIRI-CIRI CEO, PENUMPUAN PEMILIKAN DAN PENGURUSAN PEROLEHAN: KES SYARIKAT DI JORDAN**

## **ABSTRAK**

Dalam beberapa tahun kebelakangan ini, isu pengurusan pendapatan telah mendapat perhatian yang meluas di kalangan para penyelidik dan akademik kerana kesannya terhadap kualiti laporan kewangan dan impaknya terhadap pembuatan keputusan pelaburan. Kajian ini bertujuan untuk memberikan bukti mengenai pengaruh COVID-19, ciri-ciri CEO, dan penumpuan pemilikan terhadap dua bentuk pengurusan pendapatan (EM), iaitu pengurusan pendapatan berdasarkan akruan (AEM) dan pengurusan pendapatan sebenar (REM) di Jordan. Selain itu, kajian ini menerokai peranan penumpuan pemilikan (pemilikan keluarga dan pemilikan asing) sebagai pemboleh ubah penyerdehana dalam hubungan antara ciri-ciri CEO dan pengurusan pendapatan (AEM & REM). Sampel kajian ini merangkumi semua syarikat perkhidmatan dan industri yang disenaraikan di Bursa Saham Amman (ASE) dari tahun 2017 sehingga 2021 iaitu selepas pengemaskinian Kod Tadbir Urus Korporat Jordan (JCGC) pada tahun 2017. Teori agensi, kebergantungan sumber, dan teori 'upper-echelon' telah dirujuk untuk memahami hubungan-hubungan tersebut. Hipotesis diuji dengan menggunakan kaedah kuasa dua terkecil berkebolehgunaan (FGLS) untuk menangani isu heteroskedastisiti dan autokorelasi, kerana ia menyediakan pendekatan yang sesuai untuk mengawal masalah berkenaan dalam analisis. Hasil kajian menunjukkan hubungan negatif di antara COVID-19, tempoh perkhidmatan CEO, dan amalan AEM dalam syarikat-syarikat Jordan. Hubungan negatif diamati di antara ketiadaan dwifungsi CEO, usia CEO, dan amalan REM. Walau bagaimanapun, kajian ini mendedahkan hubungan positif di antara jantung



CEO, pengalaman CEO, usia CEO, dan AEM. Selain itu, hasil kajian ini menunjukkan hubungan positif di antara COVID-19, pengalaman CEO, dan REM. Penemuan empirikal menunjukkan bahawa pemilikan keluarga dan pemilikan asing mempengaruhi AEM secara positif. Walau bagaimanapun, hasil kajian mengesyorkan impak negatif dari pemilikan keluarga dan pemilikan asing terhadap REM. Ini menunjukkan bahawa walaupun pemilikan keluarga yang tinggi dan pemilikan asing menghadkan penggunaan REM di kalangan syarikat-syarikat Jordan, mereka terlibat dalam akruan secara budi bicara untuk menguruskan pendapatan, yang mempengaruhi kualiti pelaporan kewangan di pasaran Jordan. Selain itu, penemuan ini menekankan peranan penting pemilikan keluarga dan pemilikan asing dalam memoderatkan hubungan di antara ciri-ciri CEO dan amalan EM. Kajian ini mendokumentasikan bahawa pemilikan keluarga memoderatkan hubungan di antara ketiadaan dwifungsi CEO, pendidikan CEO, dan EM (AEM dan REM). Selain itu, pemilikan keluarga memoderatkan hubungan di antara jantina CEO, usia CEO, dan AEM. Kajian ini juga mendapati bahawa pemilikan asing memoderatkan hubungan di antara pendidikan CEO, usia CEO, dan EM (AEM dan REM). Begitu juga dengan pemilikan asing yang didapati memoderatkan hubungan di antara jantina CEO, pengalaman CEO dan AEM. Selain itu, pemilikan asing didapati memoderatkan hubungan di antara tempoh perkhidmatan CEO dan REM. Akhirnya, kajian ini mendapati hubungan positif di antara AEM dan REM. Kajian ini memberikan pandangan yang bermakna kepada pelbagai pihak berkepentingan, termasuk pihak pengurusan, pelabur, dan pemilik tentang kualiti pelaporan kewangan dan amalan EM di pasaran yang baru berkembang.

**RELATIONSHIP AMONG CEO CHARACTERISTICS,  
CONCENTRATED OWNERSHIP AND EARNINGS MANAGEMENT: THE  
CASE OF JORDANIAN COMPANIES**

**ABSTRACT**

In recent years, the issue of earnings management has garnered significant attention from researchers and academics due to its consequences on the quality of financial reports and its impact on investors' decision-making. This study aims to provide evidence on the influence of COVID-19, CEO characteristics, and ownership concentration on two forms of earnings management (EM), namely accruals-based earnings management (AEM) and real earnings management (REM) in Jordan. Additionally, the study explores the role of ownership concentration (family and foreign ownership) as a moderating variable in the relationship between CEO characteristics and earnings management. The study sample included all service and industrial companies listed on the Amman Stock Exchange (ASE) after the update of the Jordanian Corporate Governance Code (JCGC) 2017, covering the period from 2017 to 2021. The theoretical basis for understanding this relationship draws upon the agency, upper-echelons theories and the entrenchment and alignment effects. The hypotheses were tested using the feasible generalized least squares (FGLS) method to address heteroskedasticity and autocorrelation issues, as it provides a suitable approach for controlling these problems in the analysis. The results reveal a negative relationship between COVID-19, CEO tenure, and AEM practices in Jordanian companies. A negative relationship exists between CEO non-duality, CEO age, and REM practices. However, the study uncovers a positive relationship between CEO gender, CEO experience, CEO age, and AEM. Moreover, the results demonstrate a

positive relationship between COVID-19, CEO experience and REM. The empirical findings indicate that family and foreign ownership positively influence AEM. However, the findings suggest a negative impact of family and foreign ownership on REM. This suggests that while Jordanian companies with high family ownership and foreign ownership limit the use of REM, they engage in discretionary accruals to manage earnings, which affects the quality of financial reporting in the Jordanian market. Furthermore, these findings highlight the significant role of family and foreign ownership in moderating the relationships between CEO characteristics and EM practices. This study documents that family ownership moderates the relationship between CEO non-duality, CEO education, and EM (AEM and REM). Also, family ownership moderates the relationship between CEO gender, age, and AEM. The current study also finds that foreign ownership moderates the relationship between CEO education, CEO age, and EM (AEM and REM). Similarly, foreign ownership moderates the relationship between CEO gender, CEO experience, and AEM. Also, foreign ownership moderates the relationship between CEO tenure and REM. Finally, the current study finds a significant positive relationship between AEM and REM. This study provides meaningful insights for various stakeholders, including management, investors, and owners, regarding the quality of financial reporting and EM practices in emerging markets.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background of Study**

Financial reporting typically includes the company's financial statements, which are prepared following generally accepted accounting principles (GAAP) or international financial reporting standards (IFRS). The financial statements provide information about the company's financial position, performance, and cash flows for a specific period, such as a quarter or a year. They offer information that aids diverse users in making informed economic decisions (Kalembe et al., 2023).

Financial reporting aims to present companies' actual financial position, which helps financial statement users make decisions based on the relevant information disclosed (Musa et al., 2023). Nonetheless, to ensure effective communication of firm performance, granting managers a certain level of discretion to exercise their judgment in financial reporting is crucial. This is because managers understand the company's operations more deeply and can provide valuable insights for accurate reporting (Hütten & Sessar, 2011). This freedom can lead to managers choosing reporting methods and estimates that benefit their interests rather than those of owners, potentially leading to earnings management (Healy & Wahlen, 1999).

Financial reporting is expected to reflect the true economic reality of the company, but managers may manipulate reported earnings to suit their interests. They do that for a variety of reasons, including to increase chief executive officer (CEO) stock-based remuneration, smooth out earnings, avoid violating debt covenants, and meet or surpass stock analyst expectations (Kliestik et al., 2021). Thus, this behavior may not be in the best interest of shareholders, as managers may engage in opportunistic behavior to achieve their personal objectives at the expense of other stakeholders (Healy

& Wahlen, 1999). As a result, their practice of earnings management (EM) reduces the accuracy and validity of financial reporting since the details provided in these documents might not fully reflect the enterprise's fundamental state (Healy & Wahlen, 1999). Thus, the confidence of investors in these reports is likely to diminish (Gonzalez & Garcia-Meca, 2014).

### **1.1.1 Accounting Scandals**

During the past decade, a number of notable global accounting scandals have emerged, including Enron, WorldCom, Tyco, American Insurance, Satyam, and Toshiba. These scandals were primarily rooted in the manipulation of earnings. As a result, they have generated skepticism regarding the reliability of financial reporting, eroded investors' trust in financial statements, and heightened public awareness of earnings manipulation (Ghaleb et al., 2020). Recent empirical research has further substantiated this by demonstrating that fraudulent companies have been more prone to engaging in EM practices in the preceding years (Ali & Kamardin, 2018; Nasir et al., 2018). This evidence strongly implies that EM is an aberrant activity that deceives investors and imposes subsequent costs on the company.

As a member of the international community, Jordan cannot turn a blind eye to the scandals in various developed or developing countries. Jordan has witnessed many failures and financial scandals that have afflicted some Jordanian companies. For example, in 1989, the collapse of the Petra Bank, the events of the Shamayleh Gate in 2003, and the scandals of the Almsfofah company. In addition, the collapse occurred in the Bait Al-Mal Company for Saving and Investment, the Phosphate Mines Company, and the Jordanian Company for Reconstruction Holding in 2012, 2013, and 2017 respectively. As a result, Jordanian banks incurred more than a billion US dollars due to the events of the Shamayleh Gate (Alhmood et al., 2020). Also, during the period

(2000-2011), 44 Jordanian companies went bankrupt due to their poor performance and financial fraud practices to cover up their poor performance and give investors a better picture of these companies. The number of bankrupt companies reached 26 from the industrial sector, 15 from the services sector, and three from the financial sector. Therefore, Jordan suffered from a severe financial crisis, business failure, and the Jordanian dinar exchange rate deterioration (Shbeilat, 2013), resulting in Jordanian public companies losing 40% of their capital (Ababnih, 2012). Also, due to subsequent losses and high operational costs caused by mismanagement, the parent company of the airline Royal Jordanian declared bankruptcy on November 13, 2018. These scandals serve as a significant example of earnings manipulation (Al-Haddad & Whittington, 2019; Alhmood et al., 2020; Bataineh et al., 2018; Kharashgah et al., 2019). The financial scandals within numerous companies in Jordan have resulted in a lack of trust in the reliability of financial information and exposed weaknesses in corporate governance practices in the country (Alhmood et al., 2023; Alhmood et al., 2020).

### **1.1.2 Earnings Management**

Earnings management (EM) is a strategy employed by the management of a firm to alter financial reports and mislead the organization's implicit performance by aligning the figures with a previously established target. This practice is used for income-smoothing to obtain private gain or "influence contractual outcomes that depend on reported accounting numbers" (Healy & Wahlen, 1999). EM is categorized into two forms. The first form is accruals-based earnings management (AEM), which involves adjusting the accruals to achieve the desired level of earnings by exploiting the advantage of the flexibility offered by accounting principles that do not impact actual cash flows (Healy & Wahlen, 1999). The second form is real earnings management (REM). According to Roychowdhury (2006), REM is a deviation from ordinary

business operations that affect real cash flows, such as manipulating sales discounts, over- production, and a reduction of discretionary expense. Therefore, REM may damage the company's value because it negatively affects future cash flows. The occurrence of EM is often attributed to conflicts of objectives between owners and agents, as well as information asymmetry (Ghaleb et al., 2020; Ghaleb et al., 2021). Insiders, such as managers and controlling owners, exploit this information asymmetry to conceal the actual performance of companies, resulting in the presentation of low-quality and ambiguous information (Zhang & Zhangs, 2018).

According to the complement hypothesis, companies employ both REM and AEM techniques simultaneously and in a coordinated manner to maximize their desired earnings reporting (Al-Begali & Phua, 2023; Alghemary et al., 2023; Li, 2019; MNIF & Tahri, 2023). This coordinated use of techniques allows companies to strategically choose different methods at various times throughout the financial reporting year, reducing regulatory scrutiny compared to using a single technique at a specific point in time, such as accruals earnings management (Chen et al., 2012; Roychowdhury, 2006). The benefits of employing both techniques are particularly significant in countries with weak supervisory and reporting standards, leading to lower litigation costs if detected (Chen et al., 2012).

Previous empirical studies have revealed that developing countries employ REM and AEM techniques, while developed markets predominantly utilize REM (Al-Haddad & Whittington, 2019; Chen et al., 2012; Kuo et al., 2014; Zang, 2012). Several empirical studies have observed the complement hypothesis. For example, research by Alghemary et al.(2023) reveals that GCC firms engage more in REM when the firms engage in AEM, suggesting a complementary relation between these two earnings management techniques. Similarly, Al-Haddad & Whittington (2019) found that

Jordanian companies utilize AEM and REM as complements, benefiting from the limited regulatory scrutiny in Jordan. Li (2019) argued that businesses could combine both EM types to achieve their goals. Also, Chen et al.(2012) reported that Taiwanese companies employ AEM and REM as complements, attributing this to the relaxed reporting requirements in Taiwan.

However, previous research has not explored whether observed REM in the Jordanian market depends on AEM following the update of the Jordanian Corporate Governance Code 2017. Given the limited supervisory and regulatory oversight in the Jordanian market as an emerging market (Al-Haddad & Whittington, 2019; Alhadab et al., 2020), this study expects that the observed REM in this context is contingent upon the utilization of accruals earnings management. This is primarily due to the lower cost and reduced likelihood of detection associated with AEM in countries with limited supervisory and regulatory scrutiny (Piosik & Genge, 2019; Zaher, 2019).

Furthermore, previous research highlights the importance of examining both AEM and REM to obtain a comprehensive understanding of earnings management practices in corporations (Fields et al., 2001; Healy & Wahlen, 1999; Lisboa, 2017; Swai & Mbogela, 2016; Zang, 2012). Thus, this study considers both AEM and REM to provide a complete perspective on earnings management.

The existence of a separation between ownership and control in large corporations frequently gives rise to conflicts of interest between management and shareholders (Fama & Jensen, 1983). This conflict forms the core concept of agency theory, which elucidates the opportunistic conduct of management, including earnings management. The agency conflict arises between managers and owners with dispersed ownership or between majority and minority shareholders in companies with concentrated ownership (Fama & Jensen, 1983). An agency relationship involves a



contractual arrangement where a principal engages an agent to carry out specific services on their behalf, entrusting decision-making authority to the agent. In situations where both parties act rationally, it is inherent for the agent to prioritize their own interests over those of the principal (Jensen & Meckling, 1976).

Conflicts arise between the preferences of the principal and the agent, making it challenging or expensive for the principal to monitor the agent's actions. Consequently, managers take advantage of the informational advantage and utilize their discretion in financial reporting to manipulate profits for their personal benefit (Healy & Wahlen, 1999). This happens because earnings are considered the most important indices in financial statements and are the focus of all users. Although agency theory has been extensively applied in research on earnings manipulation (EM), this study takes a broader perspective by incorporating additional theories such as the upper echelons theory, entrenchment and alignment effects, and agency theory. By adopting a multi-theoretical approach, this study acknowledges the importance of exploring multiple perspectives to understand the concept comprehensively.

### **1.1.3 Corporate Governance**

Following global financial crises and a surge in fraudulent activities in companies' financial reporting in both developed and developing countries, corporate governance rules have gained significant importance on a global scale (OECD, 2019). A set of global governance codes, including Jordan, was created. In September 2009, the Jordan Corporate Governance Code (JCGC) was developed by various regulatory bodies (the Amman Stock Exchange, the Central Bank of Jordan, the Jordan Securities Commission, and the Insurance Commission) under OECD sponsorship as its recommendations were primarily informed by principles of the OECD (Al-akra et al., 2010). The main objective of these codes is to establish a clear framework that controls

relationships and management of shareholding companies listed on the ASE to determine the committees' responsibilities and authorities and preserve the rights of all stakeholders (JSC, 2017).

The Corporate Governance Code (CGC) suggests that applying these rules can achieve many benefits, such as improving the national economy's performance and enhancing practices in business communities (OECD, 2019). Therefore, a distinction is made between Jordanian companies that apply the corporate governance rules and those that do not. Thus, the companies that do not apply these rules are subject to penalties such as moving from the first to the second market, and the result may be a decrease in the company's share price (JSC, 2017). The JCGC focuses specifically on the role of boards of directors and audit committees as important mechanisms for monitoring companies and ensuring high-quality reporting (Alhadab et al., 2020). The Jordan Securities Commission (JSC) revised a corporate governance code by issuing new directives in 2012 and 2017. The 2008 code applied a "comply or explain" approach, requiring companies not abiding by the code to explain why they did not do so.

However, the 2017 directives took a more restricted approach to the need to abide by the requirements and gave the companies time to adapt to the new corporate governance requirements. The JCGC requires that the chairman and chief executive officer (CEO) positions cannot be combined, and the executive management must have the administrative, technical, and experience qualifications appropriate for their positions (JSC, 2017). Also, the general Jordanian public-listed companies are to list in the annual report the names of members of the board of directors and the names of members occupying senior executive positions. Additionally, the number of shares in the company owned by individuals or their close relatives should be mentioned in the annual report, and the names and percentages of individual and institutional

shareholders owning 5% or over of the company's shares (Alhadab et al., 2020). Therefore, it is essential to reassess the required regulations and determine their effectiveness and impact in bolstering, overseeing, and mitigating the extent of earnings manipulation (AEM and REM).

Jordanian corporate governance system grants high powers to the board of directors and senior executives (Alhadab et al., 2020). The chief executive officer (CEO) is the company's most influential person who controls the company's decision-making process (Chou & Chan, 2018; Qawasmeh & Azzam, 2020). They can obtain all relevant information about the company's activities and operations (Alhmood et al., 2020; Qawasmeh & Azzam, 2020). Furthermore, the CEO is responsible for ensuring the company's smooth day-to-day operations while demonstrating a reasonable level of credibility and integrity (Chou & Chan, 2018; Liu et al., 2018; Musa et al., 2023). CEOs play a crucial role in overseeing the company's financial reporting process (Rashid et al., 2018), thereby contributing to the overall performance of the company and the quality of financial reporting.

Many companies have succeeded in their business endeavors owing to the specific characteristics exhibited by their CEOs (Altarawneh et al., 2020). Consequently, the effectiveness of CEOs relies on their characteristic, as the company's survival and prosperity are contingent upon the high-quality performance of its senior managers (Altarawneh et al., 2020). Furthermore, the CEO's characteristics directly impact the quality of accounting information (Belot & Serve, 2018). Existing studies offer evidence regarding the impact of CEO characteristics on the quality of financial reporting (Alhmood et al., 2020; Gounopoulos & Pham, 2018; Jiang et al., 2013; Matsunaga & Yeung, 2008; Oussii & Klibi, 2023; Uddin, 2023). Also, the upper echelons theory argues that CEO characteristics can shape their values, attitudes, and

experiences, influencing their strategic decisions and behaviors (Hambrick & Mason, 1984). Consequently, those characteristics ultimately affect their behavior and propensity for EM. Therefore, more investigation into the relationship between CEO characteristics and earnings management is still required, particularly following the update of JCGC.

Although corporate governance rules have progressed in many countries, there are notable differences in the effectiveness of corporate governance between developing and developed countries (Bao & Lewellyn, 2017; Berkowitz et al., 2003; Iatridis, 2012). Consequently, the effectiveness of corporate governance as a supervisory approach is still a subject of debate, especially in developing countries, and in particular, the Asian countries that have weak investment protection or a weak legal system and concentration of ownership or the firms fact that are predominantly family-controlled (Chen & Huang, 2014; Chen et al., 2011; Fan & Wong, 2005; Leuz et al., 2003).

A highly concentrated ownership structure creates a challenging environment for implementing effective corporate governance practices (Young et al., 2008). In companies with high ownership concentration, the prevalence of the agency problem (type I), characterized by conflicts of interest between managers and shareholders, may be reduced. However, it may also increase the agency problem (type II), resulting in conflicts between controlling and minority shareholders. In the present situation of ownership concentration in Jordan, similar to other emerging economies, there is substantial empirical evidence from numerous studies indicating a high degree of ownership concentration. This makes Jordanian companies different from those in developed countries where the ownership structure is diffused. For example, Alhmood et al. (2023) found that the ownership concentration in Jordanian companies is 63.5%.

Also, Abu-Serdaneh et al.(2010) indicated that the ownership concentration is higher among Jordanian-listed companies than in Western economies.

The corporate ownership structure in Jordan is characterized by a high concentration of ownership in family hands. Family businesses play a significant role in the country's economic activity, as several companies have grown under the ownership of specific families (Saidat et al., 2019). Family control over public shareholding companies comes through the ownership of one family with a high percentage of the company's shares. Furthermore, family members participate in the company's management by holding the chairman of directors or senior executives (Al-msiedeen & AL Sawalqa, 2021; Saidat et al., 2019). Also, Bataineh (2016) found that the family companies represented more than (40%) of the overall companies listed on the Amman Stock Exchange. Makhoul et al. (2017) also found that family members controlled 23% of board seats in Jordanian companies and held 25% of companies' shares. This high percentage of family ownership may negatively impact the effectiveness of corporate governance mechanisms in mitigating earnings management.

Moreover, Jordan is renowned for providing a favorable investment environment characterized by security and equal advantages granted to both foreign and Jordanian investors. These advantages include tax exemptions and customs duty benefits (Al-Haddad & Whittington, 2019). Unlike many other affluent nations, Jordan relies heavily on foreign finance due to limitations in its domestic financial market (Aburishah et al., 2022). Consequently, it occupies third rank in the Middle East and North Africa region in terms of attracting foreign investment (Al-Haddad & Whittington, 2019). According to the ASE Annual Report of 2020, net non-Jordanian investment accounted for 51.1% of the total investment in the ASE, with Arabs and non-Arabs representing 32.5% and 18.6% respectively (ASE Annual Report, 2020). As a result, a lack of trust

in the financial statements of listed companies also leads to the withdrawal of foreign investment from the stock market (Uddin, 2023). Therefore, it is crucial to investigate the factors contributing to earnings manipulation in the Jordanian market and prioritize the maintenance of high-quality financial reporting. This is essential for maintaining the confidence of foreign investors, who constitute approximately 50% of the total investment in the Jordanian market.

The high concentration of ownership in Jordanian companies potentially grants significant power to large investors, which can negatively influence CEO behavior. Consequently, the management of Jordanian firms may be motivated to manipulate earnings to satisfy the objectives of these influential investors. Thus, further investigation into the effect of the ownership concentration on EM is required. It also investigates whether concentrated ownership moderates the relationship between CEO characteristics and EM.

In summary, while other countries in the region may have higher incidences of aggressive earnings management (AEM) and real earnings management (REM) compared to Jordan (Enomoto et al., 2015), there are several reasons why focusing on Jordan is relevant and valuable for this study. Firstly, Jordan has attracted significant foreign investment, making it an important market to examine in terms of corporate governance practices and earnings management. Secondly, the revised Code of Corporate Governance implemented in 2017 indicates a commitment to enhancing corporate governance standards in Jordan, warranting an investigation into its impact on earnings management practices. Furthermore, studying the Jordanian market allows the researchers to examine a unique context and contribute to the existing literature by exploring factors specific to the Jordanian market, such as ownership concentration, that influence earnings management. By focusing on Jordan, this study can provide

insights into the effectiveness of corporate governance mechanisms and the impact of regulatory changes on earnings management practices in this particular setting.

Consequently, this study is unique because it targets two important events: COVID-19 and updating the company's governance law. Moreover, it explores the impact of family and foreign ownership as a moderating variable on the relationship between CEO characteristics and earnings management in the context of emerging markets such as Jordan. Moreover, it reflects the full picture of the practice of earnings management in Jordan using both accruals and real earnings management strategies. Furthermore, in the context of Jordan, studies on EM and CEO characteristics mostly concentrate on AEM (Alqatamin et al., 2017; Qawasmeh & Azzam, 2020). Compared to accruals earnings management, existing research on real earnings management is scarce, as noted by Graham et al.(2005) . In Jordan, there are limited studies that have investigated CEO characteristics and REM (Alhmood et al., 2023; Alhmood et al., 2020), as they measured REM only by abnormal production costs and abnormal discretionary expenses and used a small sample equal to 58 companies listed on the Amman Stock Exchange before update JCGC.

## **1.2 Problem Statement**

The issue of earnings management (EM) has become attractive to scholars, particularly after the collapse of numerous international companies with clout on global markets, due to its effect on the quality and integrity of financial reports (Alhebri & Al-duais, 2020; Altarawneh et al., 2022; Bataineh et al., 2018; Belot & Serve, 2019; Bouaziz et al., 2020; Cherif et al., 2020; Chi et al., 2015; Davidson et al., 2007; Eng et al., 2019; Le et al., 2020; Qi et al., 2018; Razzaque et al., 2016).

Over the past two decades, the Jordanian economy has experienced a significant downturn due to various factors, with one of the primary causes being financial fraud committed by certain companies. This fraudulent behavior has had a destabilizing effect on the economic stability of Jordan (Alhadab et al., 2020). Previous studies have provided evidence of earnings manipulation (EM) practices among companies in Jordan. For instance, Enomoto et al. (2015) examined companies from 38 countries and found that Jordan ranked seventeenth in abnormal EM practices, trailing behind countries such as Malaysia, India, and Taiwan. Additionally, regarding regular EM practices, Jordan ranked eighth, following Malaysia and Pakistan, as depicted in Figures 1 and 2. Al-ghazzawi & Alsoboa (2016) discovered that 50% of Jordanian corporations in the industrial sector engaged in EM. In addition, Alhadab (2018) presented evidence that Jordanian public offering companies manipulated their income through real activities or by managing accruals during the initial offering, thereby inflating net income at the time of share subscription. These findings suggest that Jordanian companies resort to abnormal and regular EM due to the characteristics of the Jordanian corporate governance system, which grants significant powers to the board of directors and senior executives (Alhadab et al., 2020). Consequently, EM poses a serious problem in the Jordanian market and warrants further investigation.



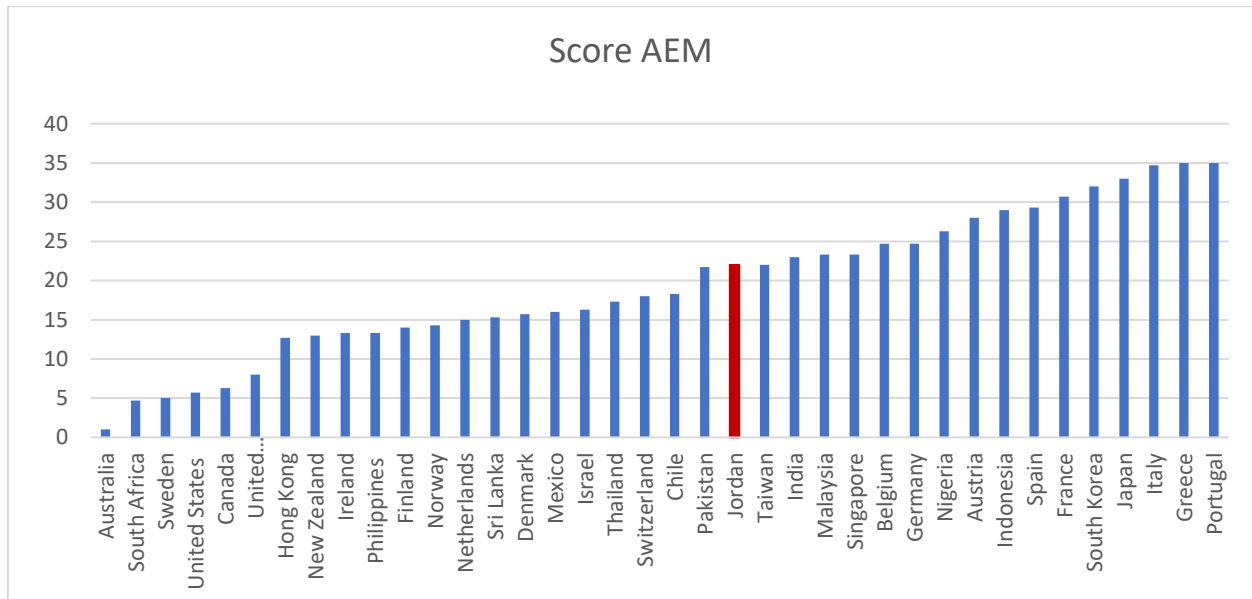


Figure 1.1 AEM Scores for 38 Counties.

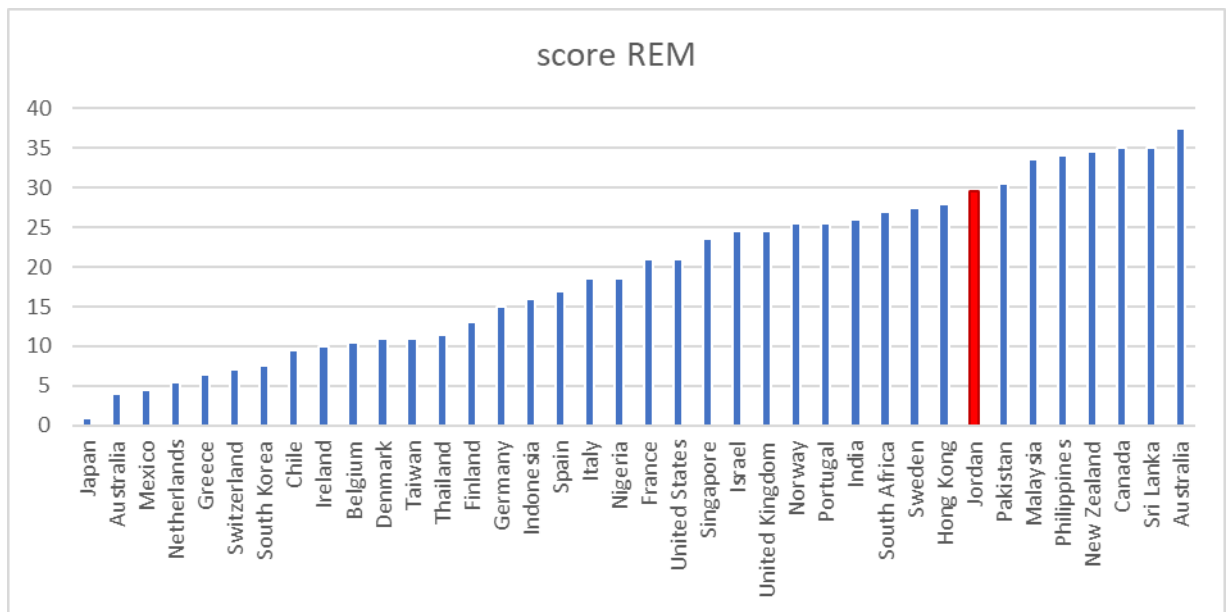


Figure 1.2 REM Scores for 38 Counties

Source: approved by the results of the study of Enomoto et al. (2015)

Managers may take advantage of the flexibility built into accounting principles and standards, allowing them to manipulate profits using accounting estimates (Healy & Wahlen, 1999). During economic downturns, companies may use more EM techniques to mitigate the unfavorable influence of crises on their performance, boost

performance, and present a positive impression of the company (Filip & Raffournier, 2014; Ozili & Arun, 2020). As the COVID-19 disease outbreak is a global crisis that has affected the entire planet, it may have been one of the opportunities managers utilized to manage earnings and increase corporate profitability during the COVID-19 virus (Albitar et al., 2021; Ozili, 2021). Accordingly, it is expected that managers' judgment may influence the assessment of the expected effects of COVID-19 to achieve certain objectives (Albitar et al., 2021). Due to the scarcity of research on this pandemic, the behavior of managers in manipulating earnings throughout the COVID-19 pandemic period remains ambiguous.

The CEO is responsible for ensuring the company's smooth day-to-day operations while demonstrating a reasonable level of credibility and integrity, and the CEO plays a crucial role in overseeing the company's financial reporting process (Rashid et al., 2018), thereby contributing to the overall performance of the company and the quality of financial reporting. Many companies have succeeded in their business endeavors owing to the specific characteristics exhibited by their CEOs (Altarawneh et al., 2020). Consequently, the effectiveness of CEOs relies on their characteristics, as the company's survival and prosperity are contingent upon the high-quality performance of its senior managers (Altarawneh et al., 2020). Furthermore, the CEO's characteristics directly impact the quality of accounting information (Belot & Serve, 2018). However, managers may manipulate earnings to maximize their income or increase profits, rewards, and personal interests (Ali & Zhang, 2015). One of those managers is the CEO, the most influential person in the company, who exercises control in the company's decision-making process (Chou & Chan, 2018; Qawasmeh & Azzam, 2020).

Earnings management arises as a result of the misalignment between the interests of managers and owners, combined with the presence of asymmetric

information ( Jensen & Meckling, 1976). In this regard, a company's CEO can obtain all relevant information about the company's activities and operations (Alhmood et al., 2020; Qawasmeh & Azzam, 2020). Thus, the CEO's responsibility for corporate decisions on releasing financial information and influencing corporate performance may raise the possibility of EM practices (Chou & Chan, 2018; Liu et al., 2018; Musa et al., 2023). They do that for various reasons, including increasing CEO stock-based remuneration, smoothing earnings, avoiding violating debt covenants, and meeting or surpassing stock analyst expectations (Kliestik et al., 2021). As a result, their practice of EM reduces the accuracy and validity of financial reporting since the details provided in these documents might not fully reflect the enterprise's fundamental state (Healy & Wahlen, 1999).

The ownership structure is considered one of the most important mechanisms of corporate governance, especially in the context of Jordan, where corporate governance can be described as an "ownership-based model" (Al-msiedeen & AL Sawalqa, 2021). The ownership structure in Jordan is unique, as the Jordanian capital market is characterized by high-concentration ownership (Saidat et al., 2019). The most important aspect of ownership in Jordan is the concentration of ownership in the hands of families (family ownership), as the family controls most companies (Alqatamin et al., 2017; Alzoubi, 2016; Bataineh et al., 2018; Idris et al., 2018). Also, family members participate in the company's management by holding the chairman of directors or senior executives (Al-msiedeen & AL Sawalqa, 2021; Saidat et al., 2019). Zureigat (2011) found a high ownership concentration in Jordanian companies, where family-owned shareholdings are the higher proportion and represented 51% of total shareholdings. In addition, Bataineh (2016) found that the family companies represented more than 40% of the overall companies listed on the ASE. Also, Makhoul et al. (2017) found that

family members controlled 23% of board seats in Jordanian companies and held 25% of the company's shares. It distinguishes Jordanian companies listed on the ASE from developed countries ( Saidat et al., 2019).

According to agency theory, the ownership structure of a firm can aid in mitigating conflicts that may arise between managers and shareholders (Jensen & Meckling, 1976). Specifically, families with significant equity stakes in a company can act as monitoring mechanisms to prevent opportunistic behavior by management (Achleitner et al., 2014; Al-Duis et al., 2021; Alzoubi, 2016; Chi et al., 2015; Ghaleb et al., 2020; Tian et al., 2018; Tsao et al., 2019). However, high levels of family ownership can also lead to information asymmetry between majority and minority shareholders, potentially resulting in EM practices that favor the interests of the majority shareholders (Alhebri & Al-duais, 2020; Bataineh et al., 2018; Cherif et al., 2020; Chi et al., 2015; Eng et al., 2019; Razzaque et al., 2016). In the context of Jordan, there is a dearth of research examining the relationship between family ownership and REM or both (AEM and REM) after updating the Jordanian Corporate Governance Code in 2017, according to the researcher's knowledge.

Foreign ownership refers to the proportion of shares held by foreign investors in domestic companies, and it is widely recognized as a significant monitoring mechanism (Al-duais et al., 2021; Guo et al., 2015; Yasser et al., 2016). Foreign investment has advantages represented in the foreign investors transferring knowledge and administrative experience from their developed countries to the countries in which they invest (developing countries), which leads to enhancing the quality of accounting control over local companies (Guo et al., 2015). Additionally, previous studies have suggested that foreign investors can reduce EM (Ajay & Madhumathi, 2015; Ben-Nasr

et al., 2015; Du et al., 2017). Although foreign investment constitutes half of the Jordanian market's capital, a dearth of studies examines the relationship between foreign ownership and EM in the context of Jordan. Therefore, this study fills this gap by examining foreign ownership's effect on earnings management in the Jordanian market.

It isn't easy to separate ownership from management in the light of Jordanian companies whose families dominate them because the CEOs are the owners themselves in most cases, or the family members are the ones who appointed the CEO and thus may influence the decisions of the CEO ( Alhadab et al., 2020). Appointing a CEO among family members is common in Jordanian companies, as 90% of Jordanian companies have their executive managers from family members, and the founders' sons occupy most of the CEO positions in Jordanian family companies (Saidat et al., 2019). Furthermore, family companies may tend to appoint family members to senior positions regardless of their qualifications (Alhadab et al., 2020). Family members' holding of the CEO position can be interpreted as excessive family control over their companies. Thus, it is expected to increase the power of the CEO, which he derives from the power of the dominant family, where ownership is one of the power sources (Wu et al., 2011). Thus, CEOs may seek to expropriate minority interests in favor of the royal family because of their sense of loyalty to their families. Hence, family ownership is expected to moderate the relationship between CEO characteristics and EM in Jordanian companies.

The privatization process that Jordanian companies have undergone has transformed the economy from a controlled economy to a market-based economy and abolished state monopolies. It resulted in an amendment in the ownership structure of companies listed on the ASE due to increased foreign ownership in the Jordanian market

(Alhababsah, 2019). It is argued that foreign investors play a major role in improving corporate governance in developing markets by strengthening the supervisory role of managers (Young et al., 2008). Also, foreign investors are assumed to monitor companies more efficiently than local investors because they are not located within local social networks (Khanna & Palepu, 2000; Young et al., 2008).

Foreign investors usually worry about their investments in the host companies. They aspire to achieve a return on their investments, so they insist on appointing qualified and experienced CEOs to ensure that these companies are managed better and obtain more transparent and reliable information (Al-msiedeen & AL Sawalqa, 2021). In addition, foreign investors prefer to invest in companies with more efficient CEOs and may seek to remove poorly performing CEOs from their positions (Aggarwal et al., 2011; Hanousek et al., 2004). The monitoring role of foreign shareholders is expected to decrease CEOs' opportunistic conduct and safeguard their interests against expropriation by insiders. Hence, foreign ownership is expected to moderate the relationship between CEO characteristics and EM in Jordanian companies. However, the direction of that moderating effect remains unforeseen.

In sum, whether the characteristics of CEOs in the Jordanian market act as a constraint or catalyst for EM in situations involving concentrated ownership, particularly with regard to family and foreign ownership, remains unanswered during the period 2017-2021, which included two significant events: an update of the Jordanian Corporate Governance Code and the COVID-19 pandemic, which affected the global economy.

### **1.3 Research Question**

Drawing from the preceding discussion, the primary aim of this study is to address the following research questions:

1. Do CEO characteristics affect EM (AEM &REM)?
2. Does ownership concentration affect EM (AEM &REM)?
3. Does family ownership concentration moderate the relationship between the CEO's characteristics and EM (AEM &REM)?
4. Does foreign ownership concentration moderate the relationship between the CEO's characteristics and EM (AEM &REM)?

### **1.4 Objective of Study**

This research aims to study the effect of COVID-19, CEO characteristics, and ownership concentration in Jordanian firms on EM and the moderating effect of ownership concentration (family and foreign) on the association between CEO characteristics and EM. Thus, this study set out seven objectives as follows:

1. To investigate the effect of CEO characteristics on EM (AEM &REM).
2. To investigate the effect of ownership concentration on EM (AEM &REM).
3. To investigate the moderating effect of family ownership concentration on the association between CEO characteristics and EM (AEM &REM).
4. To investigate the moderating effect of foreign ownership concentration on the association between CEO's characteristics and EM (AEM &REM).

### **1.5 Significant of Study**

Despite the extensive research conducted on corporate governance mechanisms and EM, there is a significant gap in understanding the impact of COVID-19 on EM.

Furthermore, the association between CEO characteristics and EM within the context of concentrated ownership has not been thoroughly investigated. As a result, this study offers valuable insights that contribute to both theoretical comprehension and practical implications in these areas.

### **1.5.1 Theoretical Significance**

The current study is significant because it contributes to the theoretical understanding by integrating various perspectives such as agency theory, upper echelon theory, entrenchment theory, and alignment effects. Additionally, it provides empirical evidence on the relationship between COVID-19, CEO characteristics, ownership concentration, and earnings management (EM).

Most earlier studies have focused on how managers managed earnings during the financial crisis (Filip & Raffournier, 2012; Kumar & Vij, 2017; Lisboa & Kacharava, 2018). There is consensus regarding using upward or downward earnings management during difficult times. However, due to the paucity of research on this pandemic, managers' behavior in manipulating earnings throughout the COVID-19 pandemic period remains ambiguous, with mixed results (Ali et al., 2022; ALjawaheri et al., 2021; Azizah, 2021; Lassoued & Khanchel, 2021; Liang, 2022; Liu & Sun, 2022; Rahman et al., 2022; Xiao & Xi, 2021). However, these studies were conducted in a non-Jordanian context. Additionally, it is proposed that because of the differences in the institutional environment and degree of ownership concentration, the outcomes of developed countries aren't always easily transferred to underdeveloped countries (Chi et al., 2015; Githaiga et al., 2022). Furthermore, the findings of earlier research on EM who have used Jordanian-listed companies might not be beneficial in light of the current COVID-19 pandemic. Thus, the present study is one of the first empirical attempts to expand the literature by investigating the accounting implications of the pandemic on



the quality of financial reporting using both EM (AEM and REM) in the context of the Jordanian market.

Previous studies confirmed that most Jordanian companies have complied with the CEO non-duality requirement, as only a minority of Jordanian companies have one person serving in both the CEO and chairman roles (Al-Haddad & Whittington, 2019; Alhmood et al., 2020; Bataineh et al., 2018; Kharashgah et al., 2019). As a result, this may be a sufficient reason to study the CEO's characteristics separately from those of the board of directors, including the chairman, who has been discussed in many previous studies. In the context of Jordan, studies on EM and CEO characteristics mostly concentrate on AEM (Alqatamin et al., 2017; Qawasmeh & Azzam, 2020). Compared to accruals earnings management, existing research on real earnings management is scarce, as noted by Graham et al. (2005). In Jordan, there are limited studies that have investigated CEO characteristics and REM (Alhmood et al., 2023; Alhmood et al., 2020), as they measured REM only by abnormal production costs and abnormal discretionary expenses and used a small sample equal to 58 companies listed on the Amman Stock Exchange before update JCGC.

Consequently, there is a shortage of research examining the earnings management of AEM and REM together, particularly in the context of Jordan, as previous studies documented that AEM and REM are common in the Jordanian market. As a result, the current study provides evidence about the comprehensive picture of the practice of both EM, AEM, and REM strategies in emerging markets such as Jordan, using a large sample, such as 137 companies, unlike most previous studies that focus on a particular type of EM and ignore the other.

Most previous studies investigated the extent of the CEO's duplicity's impact on managing profits in Jordanian companies (Al-Haddad & Whittington, 2019; Alhmood

et al., 2020; Bataineh et al., 2018; Kharashgah et al., 2019). However, it did not examine the extent of the impact of the CEO's non-duality on the quality of financial reports, especially since previous studies indicated that a small percentage of Jordanian companies still maintain the positions of the CEO and chairman in one person. Thus, this study contributes to the literature by investigating CEO non-duality's effectiveness in restricting EM and the consequent impact on the quality of financial reports after updating the Jordanian Corporate Governance Code.

Although previous studies examined CEO characteristics and EM, either AEM or REM in the Jordanian market has a mixed result (Alhmood et al., 2023; Alhmood et al., 2020; Alqatamin et al., 2017; Qawasmeh & Azzam, 2020). However, the relationship between CEO education and EM in Jordanian has not been explored. To the best of the researcher's knowledge, this study is the first to examine CEO education's influence on EM (AEM and REM) in the Jordanian market.

This study contributes to the comprehension of agency theory in Jordan, a developing nation characterized by high familial or individual company ownership. Consequently, the potential for agency conflicts arises primarily between majority and minority shareholders (agency type II) rather than between principals and agents (agency type I). Where the controlling shareholders expropriate the rights of the minority shareholders by exercising the EM, in this situation, the quality of financial information, especially earnings, is likely to be damaged, which leads to low-quality financial reporting. The researchers propose that findings from developed countries may not directly apply to developing countries due to disparities in ownership concentration levels and institutional environments (Chi et al., 2015; Fan & Wong, 2002). Chi et al.(2015) indicate that in Asia, where ownership concentration, transparency, corporate governance effectiveness, and legal system strength are

relatively weaker, controlling shareholders have stronger incentives to manipulate earnings.

Despite family firms' dominance in the Jordanian market, there is a dearth of research examining the quality of financial reporting in the context of Jordanian family corporations. They have used AEM only as a proxy of EM and have mixed results (Alqatamin et al., 2017; Alzoubi, 2016; Bataineh et al., 2018). Furthermore, these previous studies were conducted before updating JCGC and the COVID-19 epidemic. Thus, the effects of family ownership on EM (accruals and real) after updating JCGC remain an open question in the Jordanian market.

Also, despite the importance of foreign investment in the Jordanian market, it is equivalent to half of its capital. However, studies on the relationship between foreign ownership and EM are scarce. Moreover, whether foreign ownership restricts or encourages managers to practice EM is unclear. Therefore, this study expands the existing literature on emerging markets by investigating the impact of ownership concentration (specifically family and foreign ownership) on both types of earnings management (AEM & REM) in the context of Jordan.

Previous research asserts that the inefficiency of corporate governance in Asian countries can be attributed to the concentration of ownership and weak legal systems (Chen et al., 2011; Fan & Wong, 2005). As a result, this study contributes to the existing literature by investigating the moderating impact of ownership concentration, particularly family and foreign ownership, on the association between CEO characteristics and two types of EM, namely AEM and REM. The ownership concentration is attributed to the effect on EM and earnings quality. As a result, the ownership concentration may influence the CEO's role in ensuring the proper and credible financial report. To the researcher's current understanding, the moderating