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A COMPREHENSIVE REVIEW OF EARNING MANAGEMENT

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Abstract

Recently, there has been a growing emphasis on exploring real earnings management (REM) as an alternative approach to accrual-based earnings management (AEM). This article conducts a comprehensive review of recent research on REM and AEM to offer updated insights into these two forms of earnings management. The review specifically delves into various factors such as the role of the audit committee and external audits in relation to REM and AEM. Additionally, it examines REM and AEM in the context of the GCC region. Furthermore, the paper discusses the theoretical frameworks that researchers have employed as the foundational theories for understanding earnings management. The literature review reveals a notable shift in corporate practice from accruals-based earnings management to activities-based earnings management. The article also presents valuable suggestions for future research opportunities in the field of REM.

Keywords: Real Earnings Management, Accruals Earnings Management, Corporate Governance, Financial Reporting Regulations, GCC Region.

Introduction

Earnings management has become a prominent and widely discussed topic in the global business landscape. In recent years, several high-profile companies like Enron and WorldCom have faced bankruptcy due to accounting scandals, with manipulated reported earnings at the core of these scandals. These incidents have elevated the significance of earnings management as a critical concern for various stakeholders, including scholars, investors, and practitioners (Callao, Jarne, & Wroblewski, 2014). Its importance is underscored by its substantial impact on the quality of financial reporting.

Earnings management is a multifaceted issue that researchers have examined and interpreted differently in prior studies, depending on their varying perspectives (Callao et al., 2014). Some studies perceive earnings management as a problem necessitating urgent solutions, while others view it as a deliberate intervention aimed at securing personal gains (Callao et al., 2014; Dechow & Skinner, 2000; Schipper, 1989). In this context, Beneish (2001) distinguished between opportunistic earnings management (aimed at misleading investors) and informative earnings management (aimed at presenting a favorable image of a company's performance to shareholders). These distinctions highlight that earnings management is not inherently a negative behavior. For example, Siregar and Utama (2008) investigated whether Indonesian companies engaged in efficient contracting or opportunistic earnings management, finding that listed Indonesian firms primarily practiced efficient contracting.

Numerous studies have empirically documented evidence of earnings management practices (Cohen, Dey, & Lys, 2008; Enomoto, Kimura, & Yamaguchi, 2015; Ferentinou & Anagnostopoulou, 2016; Healy & Wahlen, 1999; Roychowdhury, 2006). The ongoing debates surrounding earnings management emphasize its enduring importance in the field of accounting (Callao et al., 2014).

Significantly, the issue of real earnings management (REM) has gained prominence in recent research as an alternative to traditional earnings management practices (Chi, Lisic, & Pevzner, 2011; Cohen & Zarowin, 2010; Cohen et al., 2008; Ho, Liao, & Taylor, 2015; Malik, 2015; Roychowdhury, 2006; Zang, 2012). Cohen et al. (2008) suggested that firms might have shifted their manipulation practices from accrual-based earnings management (AEM) to REM, especially following the enactment of the Sarbanes-Oxley Act in 2002. In a similar vein, Malik (2015) presented evidence that U.S. companies resorted to manipulating earnings through real business activities to avoid reporting losses or to meet analysts' predictions.

This shift in earnings management practices has created a need for increased attention to REM. To address this gap, the current paper reviews the recent literature on REM, specifically covering studies on the relationship between audit committees and AEM, audit committees and REM, external audits and AEM, external audits and REM, REM studies, AEM studies focused on the GCC region, and REM studies in the GCC region.

Studies on audit committee and REM

Davidson et al. (2005) conducted a study to evaluate how internal governance structures monitor earnings manipulation. They focused on 434 ASX-listed firms for the fiscal year ending in 2000. The study employed two earnings management models, the cross-sectional modified Jones model and small increases within earnings. The results from both models indicated that the audit committee's size had no significant association with earnings manipulation. This led the authors to suggest that the size of the audit committee might not reliably indicate its effectiveness. However, they acknowledged a limitation in their sample selection, which included firms from diverse industries like mining, oil, gas, utilities, and finance. These industries had unique operational characteristics and government influences that could impact earnings management practices not adequately captured by the Jones model.

Ormin et al. (2015) investigated the impact of audit committee characteristics on the quality of financial reporting for Nigeria's listed banks. They analyzed data from six selected banks spanning from 2003 to 2012. Their findings revealed that the independence of audit committees had a negative and significant impact on financial reporting quality, while meeting frequency and attendance had a significantly positive effect. The study recommended changes in audit committee appointments and meeting requirements by the Central Bank of Nigeria.

Mohamed I. Elghuweela's study (2016) focused on corporate governance and Islamic governance attributes' influence on earnings management in Oman. The study, based on a sample of 116 Omani listed firms from 2001 to 2011, found that better-governed firms were significantly less likely to engage in earnings management. Furthermore, the presence of an Islamic governance committee was associated with reduced earnings management. However, board size, audit firm size, the presence of a CG committee, and board gender diversity showed no significant relationship with earnings management.

Alwi and Melaka (2013) studied the relationship between audit committee attributes and the likelihood of fraudulent financial reporting in Malaysia. Their sample included 116 companies, both fraud and non-fraud, listed on Bursa Malaysia from 2005 to 2010. The findings indicated that audit committee independence was positively associated with fraudulent financial reporting, suggesting that a higher proportion of independent directors increased the likelihood of financial fraud occurrence.

Additionally, audit committee expertise was negatively associated with corporate fraud, indicating that a more knowledgeable committee could reduce the likelihood of fraudulent financial reporting.

Alaa Alqudah (2017) employed a mixed-methodology approach to assess the effectiveness of monitoring mechanisms in curbing earnings management techniques. The study focused on 134 non-financial firms listed on the Amman Stock Exchange in Jordan from 2009 to 2014. The results showed that independent board members played a significant role in constraining earnings management. However, an increase in the number of external directorships was associated with a higher likelihood of engaging in earnings management decisions. Active board meetings were found to deter opportunistic behaviors related to firm accruals.

Ayemere and Elijah (2015) proposed that audit committee attributes could significantly impact the reduction of accrual-based distortions in financial reporting in Nigeria. The study examined the relationship between audit committee size, financial literacy, meeting attendance, independence, and meeting frequency with financial reporting quality, measured by discretionary accruals. The findings revealed that audit committee characteristics had a constraining effect on earnings management, with financial expertise, size, independence, and diligence demonstrating an inverse and significant relationship with earnings management.

Chen and Zhang (2014) investigated the effects of audit committee characteristics on discretionary accruals in China after the activation of the Chinese Corporate Governance Code in 2006. They found a negative correlation between accruals manipulation and the presence of independent members on an audit committee.

Umar and Hassan (2017) examined the influence of audit committee characteristics and institutional shareholding on discretionary accruals in Nigerian conglomerate firms. Their findings indicated that audit committee size and financial expertise, along with institutional shareholding, were negatively related to earnings management. However, audit committee independence was positively related to earnings management, while audit committee meetings had no such impact.

Ong Fong Yew (2013) investigated the relationship between audit committee characteristics and earnings management in Malaysia. The study focused on data from 2011, involving 70 Malaysian public companies. The results revealed that audit committee size had the most significant relationship with earnings management, while other characteristics like the number of meetings, financial literacy, legal experience, tenure, and independence showed no significant relationship.

Chandrasegram et al. (2013) explored the influence of audit committee characteristics on earnings management in Malaysian publicly listed companies. They found no significant negative correlation between audit committee characteristics and the magnitude of earnings management.

Mohammad et al. (2018) examined the likelihood of financial restatements by firms in Malaysia and found that audit committee characteristics, including independence, size, expertise, and activity, significantly impacted the likelihood of financial restatements.

Sharma et al. (2013) investigated voluntary audit committee characteristics and their impact on earnings management in New Zealand. Their study found that audit committee size had a significant positive relationship with earnings management.

In a study conducted by Bala and Gugong (2015), audit committee size and financial expertise demonstrated an inverse relationship with earnings management, while committee independence and meeting frequency showed a positive and significant correlation with earnings management.

Nelwan & Tansuria (2019) revisited the effectiveness of audit committee independence and expertise in preventing earnings management practices in Indonesian listed manufacturing companies. Their study found that audit committee independence was effective in preventing earnings management, while audit committee expertise did not affect earnings management practices.

In summary, these studies collectively contribute to our understanding of how audit committee characteristics influence earnings management and financial reporting quality in various contexts and industries. The findings highlight the complex relationship between audit committee attributes and financial reporting outcomes.

Studies on audit committee and REM

The provided studies collectively investigate various aspects of the relationship between corporate governance, specifically audit committee and board characteristics, and earnings management in different contexts. Here are summaries of each study:

Ibrahim et al. (2014) this study explored the impact of governance attributes on real earnings manipulation practices in Nigerian manufacturing companies. They analyzed audit committee characteristics and board features, finding that outside directors, gray directors, and women directors were positively associated with real earnings manipulation. However, audit committee independence, financial literacy, audit committee size, and audit committee meetings were effective in curbing real earnings manipulation.

Inaam et al. (2012) investigated the influence of audit committee characteristics on Real Earnings Management (REM) in Tunisia following the enactment of a law. They found that having a majority of independent directors on the audit committee reduced REM. Audit committee expertise correlated with sales manipulation, and a larger audit committee was positively linked to REM.

Kwok Yip Cheung & Chi Veng Chung (2022) examined the influence of audit committee expertise on real earnings management in Hong Kong firms. Surprisingly, strong audit committee expertise encouraged higher levels of real earnings management. However, CFO or finance director expertise constrained real earnings management.

Mohammad Helal Uddin (2022) explored the impact of board diversity, audit committee attributes, and family ownership on earnings manipulation in Bangladesh. Board size and audit committee meetings reduced accrual earnings management, while independent directors increased real earnings management. Family-owned companies showed stronger effects of board diversity and audit committee characteristics.

Abdul-Manaf et al. (2019) focused on audit committee competence, independence, meetings, and size in Malaysian public firms. They found that audit committee competence was crucial in reducing real earnings management, while audit committee meetings were positively associated with real earnings management.

Tifanny & Wijaya (2020) investigated the influence of corporate governance on earnings management in Indonesian manufacturing companies. They found that institutional ownership had a negative impact on both accrual-based and real earnings management.

Abdullah & Wan-Hussin (2015) explored related party transactions, audit committee characteristics, and real earnings management in Malaysia. Related party transactions exacerbated real earnings management, with limited evidence of audit committee financial expertise mitigating it.

Sun, Lan, and Liu (2014) examined the relationship between real earnings management and five audit committee characteristics. High additional directorships on the audit committee were less effective in constraining real earnings management.

Michelle Tevi Goeinawan et al. (2021) investigated the impact of audit committee composition, especially women directors, on real earnings management in Indonesian companies. A higher composition of women on the audit committee was associated with increased real earnings management.

Olayemi (2013) studied real earnings management in companies with strong investor protection and corporate governance measures in Malaysia. Board size and directors' expertise were effective in constraining real earnings management, but audit committee variables showed no significant relationship.

Saleem et al. (2019) explored the impact of board and audit committee characteristics on accruals and real earnings management in Pakistan. CEO duality was positively related to accruals earnings management, while board independence was negatively related.

Rahahleh et al. (2022) investigated the impact of audit committee characteristics on real earnings management in Jordanian companies. Audit committee size and gender had a negative relationship with real earnings management, while audit committee meetings had a positive relationship.

Talbi et al. (2015) explored the effectiveness of board characteristics in mitigating real earnings management in US firms. An independent board of directors reduced real earnings management, while board size had a positive relationship.

Supriyaningsih, investigated the impact of audit committee characteristics on real earnings management in Indonesian manufacturing companies. The financial and accounting expertise of audit committee members and the audit committee's size had a positive effect on real earnings management.

Carcello et al. (2008) examined the associations between audit committee financial expertise and corporate governance mechanisms and their impact on earnings management. Both accounting and certain non-accounting financial expertise reduced earnings management for firms with weaker corporate governance mechanisms.

Each study offers unique insights into the relationship between corporate governance and earnings management, shedding light on the effectiveness of different governance attributes and their implications in various geographical and industry contexts.

Studies on external audit and AEM

Almarayeha and Abdullatif (2020) investigate whether audit quality characteristics like audit fees and auditor size can mitigate accrual-based earnings management in Jordan. They use generalized least square regression and discretionary accruals as a proxy for earnings management in a sample of industrial firms listed on the Amman Stock Exchange from 2012 to 2016. The results suggest that, in Jordan's unique institutional context, audit fees and auditor size do not significantly impact earnings management.

Abdelwahed, Ghada (2018) examines the moderating role of CEO compensation on the relationship between earnings management and various corporate governance mechanisms in UK and US-listed companies from 2005 to 2016. CEO compensation is found to be effective in mitigating earnings management, especially when combined with cash holdings in the US context.

Lopes (2018) investigates the association between earnings manipulation and audit quality in non-listed companies in Portugal. They focus on discretionary accruals in a dataset covering 4,723 companies from 2013 to 2015. The findings indicate that companies audited by Big 4 firms exhibit significantly lower levels of earnings management.

Al-Qudah et al. (2017) assess the influence of external auditor size and auditor tenure on earnings management in Jordanian Industrial corporations listed on the Amman Stock Exchange from 2009 to 2015. The study reveals significant indications of earnings management practices and a negative relationship between auditor size and earnings management. However, auditor tenure doesn't show a significant relationship.

Sameh (2012) investigates the correlation between external audit quality, earnings quality, and cash dividends in Egyptian industrial corporations from 2005 to 2009. The study finds a positive impact of audit quality factors and earnings quality on cash dividends.

Hakam Atwa and Suzan Rasmi Abed (2015) explore the influence of audit quality and corporate governance on earnings management in Jordanian industrial and service companies listed on the Amman Stock Exchange from 2011 to 2014. Their findings reveal earnings management practices and a significant negative impact of Big 4 auditors on earnings management, while audit report lag and auditor changes positively affect earnings management.

Geiger & Raghunandan (2022) study the connection between audit tenure and audit reporting failures by analyzing audit reports of bankrupt companies. Surprisingly, they find more audit reporting failures during the early stages of auditor-client relationships.

Ghazali & Mahidi (2019) assess the influence of external audit quality on earnings management in Algerian companies from 2012 to 2014. Higher external audit quality is associated with a reduction in earnings management practices.

Al-Hawari (2016) explores the relationship between external auditor effectiveness and their ability to limit earnings manipulation through deferred tax accounts in Egyptian companies from 2016 to 2018. The study identifies factors like changes in the effective tax rate and the presence of Big 4 auditors that influence auditor effectiveness in controlling earnings manipulation.

Alzoubi (2018) examines the interplay between audit quality, debt-based funding, and earnings manipulation in Jordanian firms from 2006 to 2012. Factors associated with audit quality reduce the likelihood of earnings manipulation, while higher debt levels are linked to an increased risk of earnings manipulation.

Studies on external audit and REM

Abu et al. (2023) conducted a study in Nigeria focusing on external auditor and board characteristics' impact on discretionary accruals and actual earnings manipulation. They found that smaller board sizes and concerted efforts by auditors reduced discretionary accruals, while large profitable firms tended to use discretionary accruals for earnings manipulation. Audit fees played a significant role in actual earnings manipulation, with auditor type and the presence of female directors on corporate boards negatively associated with it.

Idris (2012) explored ownership structure and external audit monitoring mechanisms in Jordan to mitigate both accruals and real activities earnings management. Controlling shareholders were effective in constraining manipulations related to accruals, sales, and production costs. High levels of institutional ownership deterred abnormal discretionary expenses. Non-Big 5 auditors in Jordan mitigated abnormal accruals more effectively than Big 5 auditors. The study did not find evidence of a substitutive effect, suggesting that firms prevented from managing earnings through accruals did not resort to alternative manipulations.

Rahahleh & Hamzah (2019) examined the mediating effect of audit quality on the relationship between audit committee characteristics and real earnings management. They found that the characteristics of an audit committee had varying effects on real earnings management, suggesting the need for further research.

Khanh & Khuong (2018) investigated the impact of audit quality and firm characteristics on real earnings management in Vietnam. They found that firm size negatively affected real earnings management, while profitability and firm age had positive effects. There was no significant difference between Big 4 and non-Big 4 audit firms in curbing real earnings management.

Sitanggang et al. examined the influence of audit quality on real earnings management in the UK. They found that audit fees were negatively related to abnormal operating cash flows but positively correlated with abnormal discretionary expenses. Overall, the study provided partial evidence of a significant link between audit quality and real earnings management.

Abdulkarem & Jassim (2022) studied the impact of high-quality external audits on real earnings management in Iraq. They found a negative and substantial impact of external audit quality on real earnings management, emphasizing the importance of high-quality external audits.

Rashid (2020) examined variations in earnings management based on the size of the auditor in Egypt. The study found significant differences in accounting earnings management based on auditor size but no significant variations in real earnings management. It also did not find significant differences when firms switched external auditors.

Modibbo Abubakar (2016) investigated the effectiveness of audit quality and corporate governance mechanisms in curbing real earnings management in Nigerian banks. The study found that Big 4 auditors reduced real earnings management, while joint audits increased it. Board independence and board size had a significant positive impact on cash flows manipulation, but the audit committee had a significant negative effect.

Choi et al. (2018) explored the relationship between audit quality and real earnings management across 22 countries. They found that the strength of a nation's legal system influenced real earnings management. The presence of a Big 4 auditor reduced both real and accrual-based earnings management, especially in countries with strong legal systems.

Umar, Ayu, & Indriani (2021) investigated the influence of leverage, audit quality, and voluntary disclosure on real earnings management in Indonesian companies. They found that voluntary disclosure, audit quality, and leverage collectively had a significant negative impact on real earnings management.

Nugrahanti & Puspitasari (2018) assessed the impact of audit quality, political affiliations, and institutional ownership on real earnings management in Indonesian manufacturing companies. They found that auditor size and institutional ownership positively influenced real earnings management, while auditor tenure and political connections had no significant impact. Leverage and firms' losses had negative effects, while the cash ratio had a positive effect on real earnings management.

Studies on real earnings management

The research conducted by Mahmudi & Supriyadi (2019) examined the impact of obedience pressure on real earnings management and whether religiosity moderates this relationship. The study utilized a laboratory experiment involving 89 participants. Results showed that obedience pressure led individuals to engage in more real earnings management, but religiosity did not significantly affect this relationship.

Lemma et al. (2013) argued that increased pressure to meet benchmarks and auditor bargaining power contribute to earnings management. They found that larger firms tend to use real earnings management more than accruals-based methods. Market pressures, regulatory factors, and accounting choices also play roles.

Razzaque et al. (2017) investigated financial statement fraud firms in Malaysia, finding that they engaged in real earnings management and accrual earnings management leading up to fraud events. Real earnings management was more aggressively pursued before the fraud event.

The role of corporate governance in financial reporting was examined, with a focus on real earnings management. Board characteristics, particularly a higher proportion of independent directors, were found to limit real earnings management, providing valuable insights for investors and regulators.

Tabassum et al. (2014) explored the impact of real earnings management on future financial performance. Firms engaged in real earnings management, particularly through sales manipulation, experienced deteriorated financial performance in the future.

Liu and Ching (2015) studied the influence of board member characteristics and ownership structure on real earnings management in Taiwanese firms. A higher board member quality index and institutional investor ownership were associated with reduced real earnings management.

Alhmood et al. (2022) investigated audit partner attributes and their impact on real earnings management in Jordan. Audit partner tenure positively correlated with real earnings management, while affiliation had a negative correlation.

Francis et al. (2014) assessed the link between abnormal business operations and future stock price crashes. Abnormal business operations were positively associated with crash risk, especially after the Sarbanes-Oxley Act. The study introduced the "suspect-firm approach" to capture this relationship.

Kuo et al. (2021) explored the relationship between Enterprise Risk Management (ERM) and Corporate Social Responsibility (CSR), taking into account managerial confidence and Real Activities Earnings Management (REM). Effective ERM practices were associated with greater CSR activities.

Chouaibi et al. (2016) examined how board characteristics influence sales manipulation proxies in Tunisian-listed companies. Board size, independence, and board meeting frequency were negatively related to sales manipulation.

Zang (2011) investigated managers' use of real activities manipulation and accrual-based earnings management, finding that managers treat these methods as substitutes based on the relative costs and benefits.

Zgarni et al. (2022) explored the influence of board characteristics on real earnings management in Tunisian commercial banks. Gender diversity reduced real earnings management, while board independence had the opposite effect.

Alharbi (2021) found a positive correlation between corporate risk-taking and real earnings management in firms. The relationship was stronger among firms with losses and risk-loving executives, but external monitoring mechanisms mitigated the connection.

Chang et al. (2017) studied the impact of female directors on earnings management in Taiwanese firms, finding that companies with female directors exhibited lower levels of real earnings management, particularly through reduced discretionary expenditure. There was also a modest mitigating effect on accrual-based earnings management with more female directors.

Studies on AEM based on GCC region

Alsmady's (2023) study investigates the relationship between earnings management and audit quality in Gulf Cooperation Council (GCC) countries. It finds that earnings management is negatively related to sustainable investment opportunities, while audit quality is positively related. Audit quality plays a crucial role in reducing agency theory issues and information asymmetry.

Habbash & Haddad (2019) examined the association between accrual-based earnings management and corporate social responsibility (CSR) in Saudi Arabia. They found a positive relationship between CSR and accrual-based earnings management, suggesting that firms undertaking CSR actions are more likely to manipulate their earnings.

Gerged's (2019) study in Kuwait revealed a negative correlation between Corporate Environmental Disclosure (CED) and earnings management. Managers committed to environmental responsibility were less likely to engage in earnings management practices.

Yousuf Khan's (2019) research in the UAE explored the relationship between Corporate Governance Quality (CGQ) and earnings management. It found that firm characteristics, including size, audit quality, and ownership concentration, partially explained earnings management behavior.

Ahmad Alqatan's (2019) study in Kuwait examined the impact of board diversity on earnings management. It found no relationship between gender diversity and earnings management but identified a positive association between age diversity and earnings management.

Alaa A. Al Saedi (2018) investigated earning management practices and their association with share returns in Qatari industrial listed firms. The study found no general earnings management practices and no association between earnings management and share returns.

A. & Najar's (2017) study focused on earnings quality in banks across the MENA region. It found that publicly listed and widely held banks exhibited higher earnings quality. Islamic banks displayed superior earnings quality compared to conventional banks, particularly in terms of cash-flow predictability and earnings persistence. Tighter supervision also improved earnings quality.

Habbash & Alghamdi's (2016) study in Saudi Arabia examined the relationship between audit quality attributes and earnings management. It found that auditor opinion was the only attribute associated with earnings management, suggesting auditors' limitations in curbing managerial opportunistic activities.

These studies provide insights into the complex relationships between various factors, including earnings management, CSR, board diversity, audit quality, and more, in different countries within the GCC and MENA regions.

In a 2019 study conducted by M. Habbash, the research explored the relationship between corporate governance and its impact on aligning the interests of shareholders and managers, focusing on improving financial reporting quality. The study included a literature review on corporate governance in the context of Saudi Arabia, discussing the regulations set by the Capital Market Authority. The research encompassed various topics related to corporate governance, including earnings management, corporate social responsibility disclosure, ownership structure, and more. The study found that well-implemented corporate governance practices can enhance financial reporting quality, although occasional contradictions were observed and thoroughly examined.

Omar Juhmani (2017) investigated the effectiveness of certain audit committee attributes in monitoring earnings management in Bahrain. The study analyzed firms listed on the Bahrain Bursa between 2012 and 2014, examining attributes like independence, meetings, size, and financial expertise. The results indicated a negative relationship between earnings management and audit committee size and financial expertise, but a positive relationship with audit firm size. No significant association was found between earnings management and audit committee independence, meetings, firm size, or leverage.

Abdulaziz Alsultan (2017) researched earnings management in Saudi Arabia, particularly in response to the ban imposed on Deloitte by the Capital Market Authority. The study examined 85 non-financial firms from 2004 to 2014. It found that the Big 4 audit firms had a role in curbing earnings management only in income-decreasing activities. Firms audited by Deloitte did not significantly differ from those audited by other Big 4 firms. The study also explored earnings management engagement before going public and audit quality in pre-IPO years, concluding that Saudi IPO firms did not engage in earnings management before going public.

Ahmad Abu Alrub (2017) focused on the influence of corporate governance and external audit on earnings management in the UAE. Using a generalized linear model, the research assessed the impact of corporate governance and external auditor variables on earnings management. The study revealed the influence of CEO duality and board activity on earning management in the UAE's financial sector and highlighted the positive impact of ownership structure and board size on discretionary accruals.

Obeidat, Mohammed (2016) examined whether firms listed in the Abu Dhabi Securities Exchange practiced earnings management and whether it was influenced by the firms' capital structure. The study used a sample of 29 listed firms from 2012 to 2015. The results showed that firms practiced earnings management, and there was a significant positive impact of financial leverage on earnings management practices.

Elghuweel, Ntim, Opong, & Avison (2017) explored the impact of corporate governance and Islamic governance attributes on corporate earnings management in Oman. The study analyzed 116 publicly listed Omani companies from 2001 to 2011. It found a significant association between the quality of corporate governance and reduced corporate earnings management. Companies with strong Islamic governance principles also engaged less in earnings management.

Salim Ali Alghamdi (2012) investigated the incentives and methods of earnings management in Saudi Arabia and the extent to which corporate governance and external audit impacted earnings management practices. The study used a questionnaire survey and constructed models based on logistic regression. It found that the main incentives for Saudi managers to manage earnings were related to remuneration, reporting profits, obtaining loans, and increasing share prices. The study highlighted that corporate governance mechanisms did not consistently constrain earnings management, and the findings aligned more with institutional theory than agency theory.

Ali's study in 2022 focused on the relationship between audit committee characteristics and earnings management in GCC countries. Using data from 532 firm-year observations from 2017 to 2020, the study found that, on average, earnings management increased by 14.3%. The results indicated a negative association between earnings management and audit committee independence, financial expertise, and meeting frequency, while there was no significant association with audit committee size.

Omar Issa Juhmani's (2017) study evaluated the impact of the Bahraini corporate governance code (BCGC) of 2011 on earnings management practices before and after its implementation. The research found no significant association between earnings management and audit committee characteristics, both before and after the BCGC's implementation.

Kolsi, M. C., & Grassa, R. (2017) conducted a study on earnings management in Islamic banks in the GCC region. The research utilized the DLLP approach to measure earnings management and examined the impact of corporate governance characteristics. The study found that larger Shariaa Boards and membership in the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) positively influenced earnings management through discretionary loan loss provisions (DLLP). It also found a negative relationship between the independence of boards of directors and DLLP management.

Shubita, M. (2015) investigated income smoothing practices in GCC countries and their impact on earnings quality. The research used the coefficient of variation method to measure income smoothing and explored the relationship between audit quality, corporate governance, and earnings quality. The study revealed that income smoothing practices varied across GCC countries and generally enhanced earnings quality, with some unique patterns in certain countries. Audit quality was positively associated with earnings quality in the GCC region.

Bahaaeddin Alareeni (2018) examined earnings management practices in GCC countries and the influence of firm-specific characteristics. The study used discretionary accruals as a proxy for earnings management and found that companies in GCC countries engaged in earnings management, particularly downward earnings management. Company size, leverage, and losses impacted earnings management practices differently across GCC countries, highlighting the importance of context-specific analyses.

Bahaaeddin Alareeni (2018) also conducted a study in Bahrain to investigate the impact of corporate governance characteristics on earnings management. The research revealed a negative relationship between board size and earnings management, suggesting that larger boards mitigated earnings management practices. However, there was a positive correlation between board independence and earnings management, indicating that higher independence might lead to more earnings management. The study found that internal ownership and CEO duality positively influenced earnings management, while CEO duality had no significant impact. It also identified a negative relationship between earnings per share (EPS) and earnings management.

Each of these studies contributes to our understanding of corporate governance, earnings management, and related practices within the context of various GCC countries, shedding light on both common trends and unique regional factors.

Studies on REM based on GCC region

Bugshan et al. (2020) conducted a study examining the impact of the oil price crisis, which began in mid-2014, on earnings management behavior in the Gulf Cooperation Council (GCC) region. They measured earnings management using accrual-based earnings management (AEM) and real activity-based earnings management (REM). AEM was estimated using the modified Jones model, and REM was estimated using models proposed by Roychowdhury (2006). The findings revealed that during the oil price crisis, firms in the GCC tended to engage more in downward REM and less in AEM. Control variables like ROA, leverage, growth, and OCF showed significant associations with earnings management.

Alhebri & Al-Duais (2020) investigated both AEM and REM in family businesses in Saudi Arabia from 2014 to 2018. Their findings indicated that both types of earnings management were practiced by family businesses, with a positive and significant impact on both AEM and REM. This supported the entrenchment hypothesis, suggesting that family-controlled firms in Saudi Arabia had lower earnings quality due to manipulation, making their financial statements less reliable.

Al-Amri (2017) examined the use of real earnings management in private and public firms in the GCC region. Different models were used to measure real earnings management, including production cost management, cash flow management, and discretionary expenses. The study found evidence that both private and public firms used real earnings management to influence their earnings figures. Notably, private firms engaged in higher levels of real earnings management compared to public firms when using cash flow and discretionary expenses models.

Alghemary (2021) investigated factors influencing accruals and real earnings management in GCC listed companies. This study explored acquisition, external audit quality, institutional ownership, state ownership, and foreign ownership as governance mechanisms, as well as the impact of acquisition deal characteristics. The findings revealed that GCC listed companies engaged in both accruals and real earnings management. Institutional and state ownership effectively restrained earnings management, while foreign ownership did not. National governance quality had mixed effects. The study also provided insights into how acquisition characteristics influenced earnings management.

Abdelmageed conducted a study analyzing the trade-off between real activities manipulation and accrual-based earnings management in Saudi companies. The study considered factors like market share, financial health, external audit quality, and financial leverage. The findings revealed that Saudi companies employed both manipulation strategies, with certain factors increasing reliance on these methods. Financial leverage played a significant role, increasing reliance on accrual-based earnings management and reducing dependence on real activities manipulation.

Elkalla (2017) investigated determinants of accruals-based and real activities-based earnings management in MENA region firms. The study found various firm-specific and country-level factors that influenced earnings management. Factors like GDP growth, profitability, and earnings management flexibility were positively related to discretionary accruals, while firm size and dividend payout ratio were negatively related. For real earnings management, financial development was related to lower levels, while GDP growth, firm size, and earnings management flexibility were positively related. Institutional and state ownership structures were effective in reducing both accruals and real earnings management, indicating that these methods complemented each other.

Alghemary et al. (2023) conducted research in the GCC region on the relationships between acquisition, ownership structure, and earnings management. Their findings showed that acquiring companies engaged in more in accrual earnings management than real earnings management. Institutional and state ownership structures were effective in reducing both types of earnings management, while foreign ownership had minimal impact. The study highlighted the complementary nature of accruals and real earnings management and emphasized the role of institutional and state investors in curbing earnings management practices. However, the study had limitations related to data and econometric methods.

Conclusion

Studies on audit committee and accrual earnings management

The studies collectively contribute significant insights into the intricate relationship between audit committee characteristics and their influence on earnings management and financial reporting quality. These studies encompass diverse geographical locations and industries, shedding light on the complex dynamics within corporate governance structures.

In conclusion, these studies collectively underscore the multifaceted nature of audit committee characteristics and their impact on earnings management and financial reporting quality. The findings emphasize that the effectiveness of audit committees can vary significantly by country, industry, and specific attributes. This highlights the importance of tailoring corporate governance practices to specific contexts to enhance financial reporting quality and mitigate earnings management practices effectively.

Studies on audit committee and real earnings management

The collection of studies presented here provides a comprehensive exploration of the relationship between corporate governance attributes, particularly audit committee and board characteristics, and earnings management in diverse settings. While the findings vary across different contexts, these studies collectively contribute to our understanding of how governance mechanisms can influence earnings management practices. In summary, these studies demonstrate the nuanced relationship between corporate governance attributes, audit committee and board characteristics, and earnings management. The findings underscore the importance of considering the specific context in which these governance mechanisms operate and highlight the need for ongoing research to further enhance our understanding of this complex relationship.

Studies on external audit and accrual earnings management

The studies conducted by Abu et al. (2023), Idris (2012), Rahahleh & Hamzah (2019), Khanh & Khuong (2018), Sitanggang et al., Abdulkarem & Jassim (2022), Rashid (2020), Modibbo Abubakar (2016), Choi et al. (2018), Umar, Ayu, & Indriani (2021), and Nugrahanti & Puspitasari (2018) provide valuable insights into the complex dynamics of earnings management, the role of external audits, and the impact of various firm and audit-related factors across different countries.

These studies collectively contribute to our understanding of the multifaceted relationship between audit quality, corporate governance mechanisms, and earnings management in different countries and industries. They highlight the importance of context-specific analyses and the need for ongoing research to further explore the nuances of this relationship.

Studies on external audit and real earnings management

The studies conducted by Abu et al. (2023), Idris (2012), Rahahleh & Hamzah (2019), Khanh & Khuong (2018), Sitanggang et al., Abdulkarem & Jassim (2022), Rashid (2020), Modibbo Abubakar (2016), Choi et al. (2018), Umar, Ayu, & Indriani (2021), and Nugrahanti & Puspitasari (2018) provide valuable insights into the complex dynamics of earnings management, the role of external audits, and the impact of various firm and audit-related factors across different countries.

These studies collectively contribute to our understanding of earnings management practices, the role of external audits, and the influence of various firm-specific and governance-related factors. They underscore the importance of considering the specific context of each country or region when analyzing and regulating earnings management behaviors.

Studies on real earnings management

In summary, the various studies conducted by Mahmudi & Supriyadi (2019), Lemma et al. (2013), Razzaque et al. (2017), Tabassum et al. (2014), Liu and Ching (2015), Alhmood et al. (2022), Francis et al. (2014), Kuo et al. (2021), Chouaibi et al. (2016), Zang (2011), Zgarni et al. (2022), Alharbi (2021), and Chang et al. (2017) have collectively contributed to our understanding of earnings management practices, their determinants, and their implications across various contexts and industries. These studies collectively contribute to our understanding of earnings management practices, their determinants, and their implications for financial reporting and corporate governance. They highlight the multifaceted nature of earnings management decisions and the need to consider various contextual factors in assessing and regulating these practices.

Studies on accrual earnings management based on GCC region

In conclusion, the multitude of studies conducted by Alsmady (2023), Habbash & Haddad (2019), Gerged (2019), Yousuf Khan (2019), Ahmad Alqatan (2019), Alaa A. Al Saedi (2018), A. & Najar (2017), Habbash & Alghamdi (2016), M. Habbash (2019), Omar Juhmani (2017), Abdulaziz Alsultan (2017), Ahmad Abu Alrub (2017), Obeidat, Mohammed (2016), Elghuweel, Ntim, Opong, & Avison (2017), Salim Ali Alghamdi (2012), Ali (2022), Omar Issa Juhmani (2017), Kolsi, M. C., & Grassa, R. (2017), Shubita, M. (2015), and Bahaaeddin Alareeni (2018) provides comprehensive insights into the intricate relationships between earnings management, corporate governance, and various contextual factors within the Gulf Cooperation Council (GCC) countries and the broader Middle East and North Africa (MENA) region.

These studies collectively enhance our understanding of how corporate practices and regulatory frameworks influence earnings management behavior. They offer valuable implications for policymakers, regulators, investors, and corporate leaders in these regions.

Overall, these studies collectively contribute to our knowledge of earnings management practices, their determinants, and their implications within the GCC and MENA regions. They underline the importance of considering regional nuances, regulatory frameworks, and governance mechanisms when assessing corporate financial reporting and transparency, ultimately benefiting the stakeholders and economic stability of these regions.

Real earnings management based on GCC region

In conclusion, the series of studies conducted by Bugshan et al. (2020), Alhebri & Al-Duais (2020), Al-Amri (2017), Alghemary (2021), Abdelmageed, and Elkalla (2017) provide valuable insights into the intricate dynamics of earnings management behavior in the Gulf Cooperation Council (GCC) region, particularly during periods of economic turmoil and in different types of firms. Also these studies collectively enhance our understanding of earnings management behavior in the GCC region, offering valuable implications for policymakers, regulators, investors, and corporate practitioners. They highlight the importance of context-specific factors, governance mechanisms, and economic conditions in shaping firms' decisions regarding earnings management practices, ultimately contributing to the ongoing discourse on corporate financial transparency and governance in the region.

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