Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

INFLUENCE OF CORPORATE GOVERNANCE MECHANISMS ON EARNINGS MANAGEMENT IN DEVELOPING COUNTRIES (COMPARATIVE STUDY BETWEEN JORDANIAN AND MALAYSIAN INDUSTRIAL SECTOR)

Anwar Said Okour[1*], Yap Voon Choong[1]

[1] Faculty of Management, Multimedia University, Cyberjaya, Malaysia
*Corresponding Author: anwarsaeed15@yahoo.com

Article history

Received date	:	13-7-2020
Revised date	:	10-8-2020
Accepted date	:	30-9-2020
Published date	:	1-12-2020

To cite this document:
Okour, A. S., & Choong, Y. V. (2020). Influence of Corporate Governance Mechanisms on Earnings Management in Developing Countries (Comparative Study Between Jordanian And Malaysian Industrial Sector). *International Journal of Accounting, Finance and Business (IJAFB)*, 5 (30), 103 - 116.

Abstract: *This study investigates the association between corporate governance mechanisms and financial performance by detect earnings management in the Jordanian and Malaysian industrial sectors. We identify the most important corporate governance mechanisms that have an effect on accounting choices and operating decisions, and finally, determine which accruals model is more powerful to estimate the values of earnings management of Jordanian and Malaysian industrial companies. Historically, corporate governance mechanisms are considered to be the most important factors in assessing and monitoring the effectiveness of financial reporting, and may be considered to be a cornerstone of control in general. Internal and external corporate governance is established by senior managers to improve the efficiency and effectiveness of operations and reduce the incidence of error or manipulation in accounting systems. Earnings management is considered one of the most important issues related to financial reporting, particularly after the Enron and WorldCom scandals. Earnings management behaviours are also related to low levels of corporate social responsibility and improvements in both areas would be expected to lead to improvements in the quality of corporate governance. We selected four of internal corporate governance mechanisms (Board of directors' characteristics, Audit committee characteristics, External audit factors, Ownership structure) which have the most effects on earnings management practises, and it is considered as independent variables of this research. This research used Quantitative method. The quantitative analysis used accruals models the Standard Jones model (Jones 1991), modified Jones model (Dechow, Sloan and Sweeney, 1995), and the Peasnell, Pope and Young (2005) as measures of earnings management and used these variables in conjunction with corporate governance factors. Annual financial reports that were published by the Amman stock market over the period 2013 to 2019 were used to extract the data for corporate governance characteristics of the firms.*

Keywords: *Earnings Management, Corporate Governance, Internal Control Mechanisms, Accruals Based Models*

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

Introduction

Various researches have been conducted on earnings management and corporate governance. Yang, Jiao and Buckland, 2017; Shrives and Brennan, 2017; Patel, et al., 2018) mentioned that such a move is performed through the examination of the financial statements once the earnings management has been conducted. However, the consequences of corporate governance mechanisms (internal control) on earnings management practices in Jordanian and Malaysian industrial companies have not been examined by the earlier researches (Almasarwah, 2015).

A limited number of publications have indicated the reasons for the prevalent occurrence of earnings management despite the enhanced measures in corporate governance. Besides that, some conflicts have existed between the results in studies on corporate governance and earnings management and scholars who have failed to decipher the true connection between corporate governance and earnings management (Liu, et al, 2017; Lazzem & Jilani, 2018; Gao, et al, 2017; Kim, et al, 2017). Hence, this study will examine the influence of corporate governance mechanisms on industrial companies' financial performance in Jordan and Malaysia.

Literature Review

Corporate Governance Definition

The inability of numerous scholars in this field to agree on a specific meaning of corporate governance has caused for Donaldson (1990) to define it as a "structure whereby managers at the organization apex are controlled through the board of directors, its associated structures, executive initiative, and other schemes of monitoring and bonding". On the other hand, the definition by the Cadbury Report (1992) emphasizes on the functions of the key players of an establishment which comprises of the auditor, the board of directors and the shareholders. The definition of corporate governance as stated by the Cadbury Report is "a system by which companies are directed controlled".

It is however mentioned by the Organization of Economic Cooperation and Development (OECD, 2004) that in improving both the economic competence and progress, and in heightening the belief of the investors, corporate governance is thus a vital aspect in achieving those aims. On the other hand, after the year 2000, all meanings of corporate governance including by OECD (2004) have placed greater interest on the organisation of the relationship that the top management has with the shareholders.

It can thus be classified that the numerous descriptions of corporate governance found in the literature mentioned earlier have been derived from two separate viewpoints:

- The aim in increasing the shareholders' wealth involves corporate governance that relates to the shareholders and control (Shleifer et al, 1997).
- The involvement of corporate governance with a broader picture of responsibility, as well as the performance of the corporation, which also includes environmental and social issues (OECD, 2004).

Overview of Internal Control

As pointed out by Liu, Lin and Shu (2017), strong internal control procedures are created by the corporation's leading management. The internal control systems may include the compliance with international accounting standards, internal auditing standards and the

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

Sarbanes-Oxley Act of 2002. Several definitions are therefore presented in this research in comprehending the internal control systems. The definition of internal control as made by Rahim, Ahmed and Faeeq (2018) is a "process" which is established, operated, and monitored by people who are in charge of the management and governance of a company, in offering reasonable assurance in terms of accomplishing the goals of the organisation.

It has been documented by the Public Oversight Board and the Board of Directors of the AICPA and the Committee of Sponsoring Organizations of the Tredway Commission (COSO, 2013) that there are two reasons how the improvement of the internal control systems is caused by the internal control reports:

1. A corporation's compliance with the monetary and operating objectives issued by the accounting institution is influenced by good internal control.
2. The provision of suitable information to either the internal or external users of monetary reporting is how improvements are made on the quality of a corporation's disclosure which is led by the written account on the value of internal control in monetary reporting (COSO, 2013).

Definition of Earnings Management

No specific definition of earnings management could be agreed upon. Based on some of the definitions from the prior literature, Schipper (1989), had therefore defined earnings management as "an intervention to prepare and control the external monetary reporting process and obtain some special benefit (facilitating the operation process)". On the contrary, Healy and Wahlen (1999) argued that earnings management "occurs when managers use judgment in monetary reporting and in structuring transactions to alter monetary reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers".

According to Li and Zaiats (2017); Lo, Wu and Kweh (2017); Sundvik (2017), the description of earnings management as classified by some literature is grouped into three clusters as follows:

- The flexibility in choosing the accounting treatment is taken advantage of in signalling the manager's personal knowledge on the upcoming cash flow (Dubbed beneficial and white earnings administration).
- Dubbed as a neutral and grey earnings administration, the selection is made for the accounting treatment that capitalizes on the use of administration only which makes it to be neither economically efficient nor opportunistic.
- Tricks are commonly used to reduce or misrepresent the transparency of monetary reports (Dubbed pernicious and black earnings administration).

There are two types of accounting approach which could be utilised by the managers in manipulating their earnings, which are:

1. Accounting choices approach.
2. Operations decisions (Halaoua et al, 2017; Gao et al, 2017).

Motivations of Earnings Management

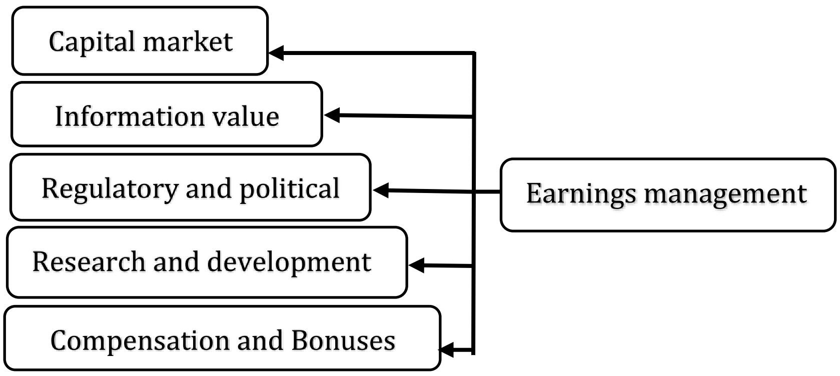
Earnings management occurs when discretion in monetary reporting is used by the managers to delude the stakeholders regarding the underlying accomplishment, or to make an impact on

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

the contractual outcomes which are subjected to accounting performance. Contracts written in terms of accounting performance and the expectations of the capital market may give rise to the drive for the participation of managers in earnings management (Ding et al 2018; Lacina et al 2018).

Alhadab and Clacher (2017) mentioned that the objective of accrual-based earnings management, however, is to mask economic performance through the changes in accounting methods. Managers partake in earnings management due to numerous incentive motivations. These incentives are dealt with by the existing literature on earnings management under two titles: beneficial earnings management and opportunistic earnings management. Brown et al (2017); Lo et al (2017) mentioned that opportunistic earnings management takes place when earnings are managed in attaining personal incentives (managers' desirable goals). Beneficial earnings management, however, happens when earnings are managed in attaining the stockholders' incentives.

Figure1 Motivations of Earnings Management



The Development of Accrual-Based Earnings Management Models

An outline of the advancement of Earnings Management models in the previous literature is made in this section by deliberating and evaluating the ones utilised in this study: The Jones model (1991); The Modified Jones model (1995); The Margin model (2000); and The discretionary revenue model (2010), Apart from that, the discussion is also made on the Healy (1985)models since the models have great historical significance. A detailed appraisal and examination of the seminal models of this type are provided in this section since they form the basis of this empirical investigation. These accrual-based models have been chosen since they provide more consistent results apart from being widely employed and comprehended.

Earnings Management Theories

The key theories applied in the literature on earnings management and major theories that have had the biggest influence on the employment of earnings management are the asymmetry theory, agency theory, transaction cost theory and shareholder theory.

Information Asymmetry Theory

As highlighted by Al-shattarat (2017), in devising the fundamental situation for the existence of earnings management, several earlier studies have interpreted two types of market imperfections – agency costs and information asymmetry. Asymmetric information, as defined by Spence (1973), is a situation in which some agents in a trade own information that is not

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

held by other agents involved in the same trade. Al-shattarat (2017); Chowdhury, Mollah and Al Farooque (2018) suggested that the managers hold the corporations' private information as well as their current and prospective earnings streams which are not in the possession of the existing and prospective shareholders, which may therefore permit for earnings management to be undertaken by the managers.

Frequently, the cause for information asymmetry is due to the superior knowledge held by the managers with reference to the corporations' prospects. According to Ametu (2017); Amiram, Owens and Rozenbaum (2016), the corporations' investors are likely to form the uninformed group. The power imbalance created may thus influence the transactions concerned, leading to, at worst, and market failure.

Agency Theory

As discovered by Lo et al (2017), reference has been made in the previous studies regarding the agency theory as an approach which explains the connection that owners of the companies (principals) have with the managements of the companies (agents). This is further supported by Ametu (2017), who stated that the detachment between the ownership and control in corporations, specifically if an individual has to be hired by the board of directors or the owners in managing and assessing their work, has given rise to the agency theory. According to Jensen and Meckling (1976); Bao and Lewellyn (2017), the agency problem is brought about by two significant problems which are: (1) How to bring into line the conflicting goals between the agents and the principals. (2) How to guarantee that the agents will fulfil the expectations of the principals in the way that they perform? The agency theory suggests that the contrasting interests of the manager and the owner would give rise to new setbacks in management for example, managerial mischief (Giese, 2017).

Transaction Cost Theory

A negative signal may thus be sent to the outsiders due to a loss or decrease in earnings, especially for credit ratters and stock analysts who evaluate the corporation. As highlighted by Dechow et al. (2000), a corporation's credit ratings and the costs of debts would in turn be negatively affected by the sent signal. However, different weights might be attached by outsiders to such signals, depending on the previous signals sent by the corporation. It is suggested by Burgstahler and Dichev (1997), that profit reports are made by companies to avoid reductions in earnings, which could be generated the transaction cost theory. Two assumptions underpin this theory:

1. The conditions of transactions that the corporations have with its stakeholders are affected by the information about earnings, and more specifically, corporations with greater rather than lesser earnings would generally have more favourable terms of transactions.
2. Information storage, retrieval, and processing costs are adequately high, where the conditions of transactions with the corporations would be controlled by at least some of the stakeholders based on heuristic cut-offs at zero levels or zero changes in earnings.

Stakeholder Theory

The stakeholder theory by Edward Freeman (1984) claims that a corporation's stakeholders is made up of basically anyone affected by the corporation and its workings. A corporation's stakeholders, as suggested by Freeman, Harrison and Zyglidopoulos (2018) are "those groups without whose support, the organization would cease to exist". These groups would include the employees, suppliers, customers, local communities, political action groups, monetary institutions, the media, governmental groups, environmental groups and others. Freeman et al (2018) elaborated that this perception portrays the corporate environment as an ecosystem with groups that are related to each other, all of whom need to be taken into account and fulfilled in maintaining the c corporation's long-term strength and success.

The Characteristics of the Board of Directors and Earnings Management

As pointed out by Torchia and Calabro (2016), several studies have discussed the negative relationship that the board of directors (board independence and the number of outside directors) and audit committee characteristics (size and meeting) have with earnings management, especially in the utilization of abnormal accruals in earnings management.

Board Outsiders and Earnings Management

According to Cha & Abebe (2016), it is proposed by the agency theory that a greater proportion of the outside directors' existence on the board would increase board independence. This is further supported by Ahmad, Bin Mohammad (2017), who mentioned that studies have argued that corporations with outsiders controlling the boards have a higher chance of being in a better position to control and check the corporations' transactions and, therefore restrain the use of earnings management.
Abbadi, Hijazi and Al-Rahahleh (2016) argued that more monetary reporting credibility in corporations would be created as a result of a minimal degree of earnings management due to a greater percentage of board outside members. Other studies however, argued that outside members' existence on the board of directors would ensue in a neutral control mechanism over the board process, which in turn would alleviate earnings management practices (Badru, Ahmad-Zaluki & Wan-Hussin, 2017).

No substantial connection between board outsiders and earnings management practices has been discovered in other studies. Two issues have thus been raised in relation to this finding. Firstly, if corporations have a greater number of institutional shareholders. Secondly, the possibility of the Corporate Governance Code lacking in clear guidance about the appointment of outside directors may cause for the election of directors who are not highly successful in their duties (Almasarwah, 2015).

Board Independence and Earnings Management

As explained in some studies, the separation of the board from the management forms the basis for the capability of the board of directors to dynamically fulfil and manage their obligations in the corporations. However, Tulung and Ramdani (2018) described that focus has been made in earlier studies on the influence of the board independence on earnings management level, and this normally involves the definition with regard to the disconnection of the functions of the CFOs and CEOs.

Several researches have explored on the impact towards earnings management due to the operation of the board of directors. Rashid (2018) stated that it has been discovered that independent board members would lessen earnings management. It is mentioned by Alzoubi (2018) that some researches have indicated that the relation between the auditor industry-specialist and board independence is substantially negative with earnings management.

Besides that, a negative effect of high level of board of directors' independence on the monetary accomplishment of the corporations has been found by Qadorah and Fadzil (2018). However,

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

there is no substantial relation between earnings management and board independence since it has been observed in several studies that no correlation that is statistically important exists between earnings management and board independence (Siam, Laili & Khairi, 2014). Chee et al (2016) pointed out that the evidence from studies in Malaysia has suggested that a greater degree of board independence is linked to a reduced practice of earnings management.

This is further supported by Ibrahim, Che-Ahmad, Johl and Rahman (2016) that it is suggested by the agency theory that board independence strengthens its monitoring role, thus enhancing the superiority of information reporting by guaranteeing transparency. It has been discovered by Wang and Campbell (2012), that board independence has an undesirable impact on earnings management level as soon as China implemented the IFRS.

Audit Committee Size and Earnings Management

The revised MCCG 2007 stated that an audit committee that is made up of a minimum of three members should be established by the board, and a bulk of them are neutral. Apart from that, all audit committee members should be directors who are non-executives. It is hoped that through greater resources and talents of independent members, due to the inclusion of the above criteria in the audit committee, the execution of the task in monitoring the monetary reporting procedure could thus be undertaken by the audit committee.

However, mixed findings have been discovered in certain research on the impact of the size of audit committee on earnings management. It is found in some studies that the greater size of the audit committee can successfully lessen irregular information during the seasoned equity offerings. As managers provide fabricated information about the true monetary situation and operating accomplishment of a company through earnings management with the aim of misleading the users of monetary statements, Chandrasegaram, et al, (2013) pointed out that a crucial role might be played by the bigger audit committee in inhibiting the existence of earnings management. Besides that, as found in other studies, it is argued that audit committee size has a significant relationship with the practice of earnings management Al-Mamun, et al, (2014). As such, large audit committees should have a positive impact on the superiority of monetary reporting. Salleh and Haat (2014), on the other hand, discovered that the size of the audit committee has no substantial connection with the discretionary current accruals as a proxy for earnings management.

As for Jordan, the Corporate Governance Code (2012) stipulates that the committee should be made up of a minimum of three directors who are non-executives. In relation to this, several researches have categorized the size of the audit committee into small, medium, and large according to the number of the audit committee members (Hamdan et al, 2013).

Mixed results have been discovered in the literature on the examination of the connection that earnings management has with the size of the audit committee. With reference to this, the discovery is linked to the variations in the corporate governance mechanisms of each country since the corporate governance structure in each country is different based on its culture, legal system, and political issues. In the context of Jordan, Hamdan, Sarea and Reyad (2013) discovered that earnings management is favourably impacted by the size of the audit committee. It is noted that the nature of the connection that the size of the audit committee has with earnings management level might be influenced by the economic classification of a country (developed and developing countries).

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

Audit Committee Meetings and Earnings Management

In making assistance available to the management in resolving any conflicting issues, audit committee meeting frequency is significant to the audit committee. This is because it could help to enhance the corporations' internal control mechanism, as pointed out by Abernathy, et al, (2015) based on the link that audit committee meeting frequency has with earnings management as explored in the studies, However, similar to audit committee size, the results are mixed and would differ across geographical areas, based on the place where the study was conducted.

In the context of Malaysia, it has been argued that more success would be achieved by an audit committee that has more frequent meetings in supervising and checking the monetary activities, such as in preparing and reporting the corporation's monetary information. This line of reasoning is coherent with the statement published by the MCCG 2017, which states that the meetings should be attended by the head of internal audit the finance director, and a member of the outside auditors. The attendance of other board members to the meet ups may be made based on the invitation of the audit committee. However, a meeting by the committee with the external auditors with the absence of the executive board members should be performed for a minimum of two times a year." (MCCG, 2017).

There have been varied findings on the connection between earnings management and the regularity of the meet ups that the management committee has with the audit committee, as provided in the research conducted in Malaysia. Chandrasegaram et al (2013) stated that no connection between earnings management and the regularity of the meet ups has been discovered in some studies. However, Puat and Dedvi (2013) pointed out that there is an undesirable connection that earnings management has with audit committee meetings as reported in other studies. On the contrary, it has been discovered that the regularity of meetings has a substantial desirable link with the efficiency of the audit committee, as stated in other researches (Hamdan et al, 2013).

As for the Jordanian context, there have been mixed findings on the link that the regularity of the audit committee meeting has with earnings management, as mentioned in the prior literature. Abbadi et al (2016) for example, talked about the negative connection that the regularity of audit committee meetings has with earnings management.

Earnings Management and Covid-19 Pandemic

Of late, the GLOBAL financial markets have been experiencing significant pressure and uncertainty. Investors are finding it hard to look for a bright spot due to the widespread social and economic disruptions caused by the Covid-19 pandemic. However, in the present difficult environment, asset reallocation enables investors to pay attention to the protection of their portfolios. For example, although a lot of individual shares are currently trading at attractive valuations, however with the belief that most equity markets have yet to hit bottom has made the CIMB Investment Bank to advocate a greater allowance in fixed-income assets such as bonds for the preservation of wealth and safety.

With reference to that matter, in terms of percentage, an allocation of approximately 45% of a person's portfolio in bonds, 30% in equities, 20% in gold and 5% in cash has therefore been recommended by the bank. As economies contract to control the Covid-19 pandemic, it is suggested by the regional banking group for investors to look beyond the current and future period of weak fundamentals, and engage in a longer horizon of investment time of a minimum

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

of one to two years to see returns, for both bonds and equities. A contraction of 2.7% of this year's gross domestic product (GDP) of Malaysia has been projected by CGS-CIMB, the group's research arm, before an economic rebound could be seen by the country with an increase of 6.1% in the subsequent year and 4% in 2022.

According to CSG-CIMB, it is expected that Singapore, among the five major economies in Asian, is to exhibit the sharpest slump with a GDP contraction of 5.1% this year. CSG-CIMB further added that it is expected for the growth of the island city-state's GDP to recommence at 6.8% in the subsequent year and 2% in 2022. Similarly, as noted by the group, there is also a weak outlook for this year's major economies with a lead in the contraction made by the 19-member Eurozone with an estimated rate of 7.5% in 2020.

Recovery in fund flows

It is without doubt that a significant outflow of foreign funds from emerging markets has been experienced, including by Malaysia, due to the Covid-19 shock in the past few months. Nonetheless, as mentioned by the Institute of International Finance (IIF), it is expected for the capital flows to emerging markets to have a modest recovery in the second half of the present year. The global association of financial institutions stated that the lead in the recovery will be made by Emerging Asia. "Our base scenario assumes that non-resident portfolio flows will begin to recover in the second half of 2020, as countries emerge from Covid-19-related shutdowns and benefit from accommodative monetary policy globally," IIF says.

"(However) we do not believe that the pickup will be strong enough to bring about a return to 2019 levels. The recovery in flows will most likely follow that of economic activity, with Emerging Asia leading the way," it adds. The organization has categorized Malaysia as one of the seven countries under its definition of Emerging Asia, while India, the Philippines, China, Indonesia, Thailand, and South Korea make up the other six countries. It is noted by the IIF that record outflows of foreign funds have been experienced by emerging markets which include Malaysia since the start of 2020 at a magnitude which exceeded the worst points of the 2008/09 Global Financial Crisis.

As a result of a combination of a significant drop in the prices of oil following negotiation failures and the shock of the Covid-19 globally, the total outflows from emerging markets in March alone stood at approximately US$83bil. As demonstrated by the high-frequency daily tracker of the IIF, a portfolio equity outflow of US$72bil and debt outflow of US$25bil have been seen by the emerging markets since January 21st. Although other emerging markets have also started to experience significant outflows as the pandemic began to spread, yet during this period the effect was specifically felt by Emerging Asia. Year-to-date for Malaysia, it is estimated that the total outflows from the equity market are RM9.1bil, while it is estimated that the total outflows from the bond market are RM17bil.

How Covid-19 Pandemic Impacts Income and Businesses

As shown by a survey, no income was made by approximately two-thirds of Malaysian businesses throughout the movement control order (MCO) period. An online survey performed by the Department of Statistics Malaysia (DOSM) shows that based on the feedback given by 67.8% of the businesses which participated in the survey, no income was made during the MCO "Some 12.3% of companies still earn some income through online sales and services, while another 9.8% were earning income from sales in physical premises and stores," It was also

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

reported by two-thirds of the respondents (68.9%) that to cover for the operational costs during the MCO, personal savings had to be used instead. Another 19.8% had to rely on loans, while the remaining 11.3% had to use capital injection. It is also shown by the survey that 52.1% of the companies found the package Prihatin Rakyat, which is an economic stimulus offered by the government to be helpful. On the other hand, subsidies and financial aid from the government are still needed by 83.1% of the respondents. The greatest challenge experienced by the businesses is in the payment of wages (76.6%), followed by the decline in business from the clients (65.5%). Meanwhile, it was stated by more than half of the respondents (53.4%) that if paid leave facility were to be offered to the employees during the MCO, their business would only be able to survive for one or two months.

It was estimated by 42.5% of the respondents that more than six months would be required for the business to recover, while the remaining 28.7% estimated for a period of between four to six months. As stated by DOSM, "In contrast, 1.9% of businesses said they will not recover and expect that they will have to shut down". 4,094 business owners participated in the online survey conducted by DOSM from April 10 to May 1, which is made up of micro-enterprises (43.4%), small companies (40.4%), medium companies (9.1%) and large companies (7.2%). However, as highlighted by DOSM, careful interpretation must be performed on the findings since they were not considered official statistics although they were useful in indicating the present climate of the economy. It was also mentioned by DOSM that a drastic increase in unemployment has been experienced by Malaysia since a decade ago.

An increase of 3.9% has been experienced in March 2020 for Malaysia's monthly unemployment rate, which is the highest since June 2010 at 3.6%. According to DOSM, the greatest rate of unemployment ever recorded in Malaysia was in 1986 at 7.4%. As mentioned by Datuk Seri Dr Mohd Uzir Mahidin, the chief statistician, "The high unemployment rate in March 2020 reflects the negative impact of the movement control order on the labour market". An increment of approximately 610,000 for the number of unemployed individuals for the month of March 2020 was reported, in comparison to 521,000 recorded in the same month in 2019. The working population was made up of 15.23 million individuals in March 2020, out of which 2.81 million people including freelancers and traders in markets, were self-employed workers. Mohd Uzir further pointed out that, "This group of workers was exposed to the risk of unemployment and work losses that affect their income during the MCO because a portion of them was unable to work". At 3.5%, the overall higher rate of unemployment recorded for the first quarter of 2020 was contributed by the high rate of unemployment in March.

Methodology

This research has adopted a quantitative approach in examining the relationship that earnings management level has with internal corporate governance mechanisms in the Jordanian and Malaysian industrial sectors. This quantitative method includes the following in investigating the relationship that earnings management has with corporate governance variables:

1. Estimating Earnings Management Values Through the Use of the Accruals Models.
2. Descriptive statistics measures, including mean, standard deviation, maximum and minimum values.
3. Multicolinearity tests, including correlation coefficient values and variance inflation factor (VIF).
4. Serial autocorrelation tests, including durbin-watson test and correlogram (Q-stat).

5. Pooled regression, fixed effect test, random effect test, including Lagrange Multiplier and Hausman test.

This research can therefore be classified as an empirical study.

References

Abbadi, S. S., Hijazi, Q. F., & Al-Rahahleh, A. S. (2016). Corporate governance quality and earnings management: Evidence from Jordan. *Australasian Accounting, Business and Finance Journal*, *10*(2), 54-75.

Abernathy, J. L., Beyer, B., Masli, A., & Stefaniak, C. M. (2015). How the source of audit committee accounting expertise influences financial reporting timeliness. *Current Issues in Auditing*, *9*(1), P1-P9.

Ahmad, R., & Bin Mohammad, H. (2019). Exploring the Relationship of Intellectual Capital, Board Characteristics and Business Performance: A Literature Review. *Pakistan Journal of Humanities and Social Sciences*, *7*(2), 185-202.

Alhadab, M., & Clacher, I. (2017). The impact of audit quality on real and accrual earnings management around IPOs. *The British Accounting Review*.

Al-Mamun, A., Yasser, Q. R., Rahman, M. A., Wickramasinghe, A., & Nathan, T. M. (2014). Relationship between audit committee characteristics, external auditors and economic value added (EVA) of public listed firms in Malaysia. *Corporate Ownership & Control*, *12*(1), 899-910.

Almasarwah, A. K. (2015). *Earnings management and its relationship with corporate governance mechanisms in Jordania*

Al-Shattarat, B. (2017). *Real earnings management activities, meeting earnings benchmarks and future performance: UK evidence* (Doctoral dissertation, University of Plymouth).

Alzoubi, E. S. S. (2016). Audit quality and earnings management: evidence from Jordan. *Journal of Applied Accounting Research*, *17*(2), 170-189.

Ametu, K. P. (2017). *An Empirical Examination of the Relationship Between Managerial Ability and Earnings Management* (Doctoral dissertation, Capella University).

Amiram, D., Owens, E., & Rozenbaum, O. (2016). Do information releases increase or decrease information asymmetry? New evidence from analyst forecast announcements. *Journal of Accounting and Economics*, *62*(1), 121-138.

Badru, B. O., Ahmad-Zaluki, N. A., & Wan-Hussin, W. N. (2017). Board characteristics and the amount of capital raised in the Malaysian IPO market. *Journal of Multinational Financial Management*, *42*, 37-55.

Bao, S. R., & Lewellyn, K. B. (2017). Ownership structure and earnings management in emerging markets—An institutionalized agency perspective. *International Business Review*, *26*(5), 828-838.

Brown, K., Chen, C., & Kennedy, D. (2017). Target ownership plans and earnings management. *Advances in accounting*, *36*, 87-101.

Burgstahler, D., & Dichev, I. (1997). Earnings management to avoid earnings decreases and losses. *Journal of accounting and economics*, *24*(1), 99-126.

Cadbury, A. (1992). Cadbury report: The financial aspects of corporate governance. *Tech reprt, HMG, London*.

Cha, W., & Abebe, M. A. (2016). Board of directors and industry determinants of corporate philanthropy. *Leadership & Organization Development Journal*, *37*(5), 672-688.

Chandrasegaram, R., Rahimansa, M. R., Rahman, S. K., Abdullah, S., & Mat, N. N. (2013). Impact of audit committee characteristics on earnings management in Malaysian public listed companies. *International Journal of Finance and Accounting*, *2*(2), 114-119.

Chowdhury, A., Mollah, S., & Al Farooque, O. (2018). Insider-trading, discretionary accruals and information asymmetry. *The British Accounting Review*, *50*(4), 341-363.

Dechow, P. M., & Skinner, D. J. (2000). Earnings management: Reconciling the views of accounting academics, practitioners, and regulators. *Accounting horizons*, *14*(2), 235-250.

Dechow, P.M., R.G. Sloan & A.P. Sweeney. (1995). Detecting Earnings Management, The Accounting Review, 70, 193-225.

Ding, R., Li, J., & Wu, Z. (2018). Government affiliation, real earnings management, and firm performance: The case of privately held firms. *Journal of Business Research*, *83*, 138-150.

Donaldson, T., & Preston, L. E. (1995). The stakeholder theory of the corporation: Concepts, evidence, and implications. *Academy of management Review*, *20*(1), 65-91.

Freeman, R. E., Harrison, J. S., & Zyglidopoulos, S. (2018). *Stakeholder theory: Concepts and strategies*. Cambridge University Press.

Gao, G. P., Moulton, P. C., & Ng, D. T. (2017). Institutional ownership and return predictability across economically unrelated stocks. *Journal of Financial Intermediation*, *31*, 45-63.

Gao, S., Meng, Q., Chan, K. C., & Wu, W. (2017). Earnings management before IPOs: Are institutional investors misled?. *Journal of Empirical Finance*, *42*, 90-108.

Giese, J. (2017). *The Effect of Managements' Financial Statement Manipulations on Unsophisticated Investors' Corporate Securities Valuation Judgments* (Doctoral dissertation, Northcentral University).

Guidry, F., Leone, A. J., & Rock, S. (1999). Earnings-based bonus plans and earnings management by business-unit managers. *Journal of accounting and economics*, *26*(1-3), 113-142.

Halaoua, S., Hamdi, B., & Mejri, T. (2017). Earnings management to exceed thresholds in continental and Anglo-Saxon accounting models: The British and French cases. *Research in International Business and Finance*, *39*, 513-529.

Hamdan, A. M., Mushtaha, S., & Musleh Al-Sartawi, A. (2013). The audit committee characteristics and earnings quality: Evidence from Jordan.

Hamdan, A. M., Sarea, A. M., & Reyad, S. M. R. (2013). The impact of audit committee characteristics on the performance: Evidence from Jordan. *International Management Review*, *9*(1), 32-42.

Healy, P. M., & Wahlen, J. M. (1999). A review of the earnings management literature and its implications for standard setting. *Accounting horizons*, *13*(4), 365-383.

Ibrahim, M. Y., Che-Ahmad, A., Johl, S. K., & Rahman, H. U. (2016). The impact of corporate governance regulations on board independence and quality of financial information reporting: A proposed study. *The European Proceedings of Social and Behavioral Sciences EpSBS*, 761-768.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of financial economics*, *3*(4), 305-360.

Jones, J. (1991). Earnings Management during Import Relief Investigations, Journal of Accounting Research, 29, 193-228. doi:10.2307/2491047, http://www.jstor.org/pss/2491047

Kim, H., Kwak, B., Lim, Y., & Yu, J. (2017). Audit committee accounting expertise, CEO power, and audit pricing. *Asia-Pacific Journal of Accounting & Economics*, *24*(3-4), 421-439.

Lacina, M., Lee, B. B., & Kim, D. W. (2018). Benford's Law and the effects of the Korean financial reforms on cosmetic earnings management. *Journal of International Accounting, Auditing and Taxation*, *30*, 2-17.

Lazzem, S., & Jilani, F. (2018). The impact of leverage on accrual-based earnings management: The case of listed French firms. *Research in International Business and Finance*, *44*, 350-358.

Li, T., & Zaiats, N. (2017). Information environment and earnings management of dual class firms around the world. *Journal of Banking & Finance*, *74*, 1-23.

Liu, B., McConnell, J. J., & Xu, W. (2017). The power of the pen reconsidered: The media, CEO human capital, and corporate governance. *Journal of Banking & Finance*, *76*, 175-188.

Liu, C., Lin, B., & Shu, W. (2017). Employee quality, monitoring environment and internal control. *China Journal of Accounting Research*, *10*(1), 51-70.

Lo, H. C., Wu, R. S., & Kweh, Q. L. (2017). Do institutional investors reinforce or reduce agency problems? Earnings management and the post-IPO performance. *International Review of Financial Analysis*, *52*, 62-76.

Nelson, S. P., & Devi, S. (2013). Audit committee experts and earnings quality. *Corporate Governance: The international journal of business in society*.

Patel, P. C., Guedes, M. J., Soares, N., & da Conceição Gonçalves, V. (2018). Strength of the association between R&D volatility and firm growth: The roles of corporate governance and tangible asset volatility. *Journal of Business Research*, *88*, 282-288.

Peasnell, K. V., Pope, P. F., & Young, S. (2005). Board monitoring and earnings management: do outside directors influence abnormal accruals?. *Journal of Business Finance & Accounting*, *32*(7-8), 1311-1346.

Qadorah, A. A. M., & Fadzil, F. H. B. (2018). The relationship between board size and CEO duality and firm performance: Evidence from Jordan. *International Journal of Accounting, Finance and Risk Management*, *3*(3), 16-20.

Rahim, N. F. A., Ahmed, E. R., & Faeeq, M. K. (2018). Internal control system and perceived operational risk management in Malaysian conventional banking industry. *Global Business and Management Research*, *10*(1), 135-149.

Rashid, A. (2018). Board independence and firm performance: Evidence from Bangladesh. *Future Business Journal*, *4*(1), 34-49.

Salleh, N. M. Z. N., & Haat, M. (2014). Audit committee and earnings management: pre and post MCCG. *International review of management and business research*, *3*(1), 307-318.

Schipper, K. (1989). Earnings management. *Accounting horizons*, *3*(4), 91.

Shleifer, A., & Vishny, R. W. (1997). A survey of corporate governance. *The journal of finance*, *52*(2), 737-783.

Shrives, P. J., & Brennan, N. M. (2017). Explanations for corporate governance non-compliance: A rhetorical analysis. *Critical Perspectives on Accounting*, *49*, 31-56.

Volume:5 Issues: 30 [December, 2020] pp. 103 - 116]
International Journal of Accounting, Finance and Business (IJAFB)
eISSN: 0128-1844
Journal website: www.ijafb.com

Siam, Y. I. S. A., Laili, N. H. B., & Khairi, K. F. B. (2014). Board of directors and earnings management among Jordanian listed companies: Proposing conceptual framework. *International Journal of Technical Research and Applications*, *2*(3), 01-07.

Spence, M. (1973). "Job Market Signaling". Quarterly Journal of Economics (The MIT Press) 87 (3): 355–374.

Sundvik, D. (2017). Book-tax conformity and earnings management in response to tax rate cuts. *Journal of International Accounting, Auditing and Taxation*, *28*, 31-42.

Torchia, M., & Calabrò, A. (2016). Board of directors and financial transparency and disclosure. Evidence from Italy. *Corporate Governance*, *16*(3), 593-608.

Tulung, J. E., & Ramdani, D. (2018). Independence, Size and Performance of the Board: An Emerging Market Research.

Wang, Y., & Campbell, M. (2012). Corporate governance, earnings management, and IFRS: Empirical evidence from Chinese domestically listed companies. *Advances in Accounting*, *28*(1), 189-192.

Yang, D., Jiao, H., & Buckland, R. (2017). The determinants of financial fraud in Chinese firms: Does corporate governance as an institutional innovation matter?. *Technological Forecasting and Social Change*, *125*, 309-320.