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The Impact of Capital Structure on Earnings Management and the Mediating Role of Corporate Governance in Palestinian Shareholding non-financial Companies.

By

ISRA' SALAH

SUPERVISED BY: Dr. Majdi Wael Alkababji

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أثر هيكل رأس المال على إدارة الأرباح والدور الوسيط للحوكمة في الشركات غير المالية

المساهمة العامة الفلسطينية

The Impact of Capital structure on Earnings Management and the Mediating Role of Corporate Governance in Palestinian Shareholding non-financial companies.

إعداد:

إسراء صلاح

بإشراف:

د. مجدي وائل الكبيجي

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التفويض

أنا الموقع أدناه إسراء داوود عبد صلاح؛ أفوض/ جامعة القدس المفتوحة بتزويد نسخ من رسالتي للمكتبات أو المؤسسات أو الهيئات أو الأشخاص، عند طلبهم بحسب التعليمات النافذة في الجامعة.

وأقر بأنني قد التزمت بقوانين جامعة القدس المفتوحة وأنظمتها وتعليماتها وقراراتها السارية المعمول بها والمتعلقة بإعداد رسائل الماجستير عندما قمت شخصيا بإعداد رسالتي الموسومة بـ: "**أثر هيكل رأس المال على إدارة الأرباح والدور الوسيط للحوكمة في الشركات غير المالية المساهمة العامة الفلسطينية**". وذلك بما ينسجم مع الأمانة العلمية المتعارف عليها في كتابة الرسائل العلمية.

الاسم: إسراء داوود عبد صلاح

الرقم الجامعي: 0330012010147

التوقيع: إسراء داوود عبد صلاح

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Dedication

To the kindest heart of the one who supported me every moment in reaching this academic degree (my beloved father)

To the one whom the Lord - Glory be to Him - placed Paradise under her feet, and honored it in His Mighty Book...

(Dear mother).

Words of love and sincerity that I must write in letters of love, to the people dearest to my heart

(My brothers)

To my beautiful life partner, I offer you my greetings and wishes that you will remain my companion in all my joys and sorrows forever.

(my husband).

To those who were told to stand up for the teacher, and in his reverence, the teacher almost became a messenger

(My dear teachers)

To the proud lions behind bars whose homelands are proud of you, men who have made the enemy taste the cup of bitterness

(Our esteemed prisoners)

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The Researcher

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Prepared By: Isra' Salah

Supervised By: Dr. Majdi Wael AlKababji

Abstract

This study aimed mainly to determine the impact of capital structure on earnings management through the mediator corporate governance. Thus, the study followed the descriptive approach, and the quantitative method was applied to explain how the independent variables affect one another, in addition to examining the relationship among variables. This quantitative study uses primary data from companies' financial reports obtained from the Palestine Exchange Website. The researcher has extracted financial reports for 29 non-financial shareholding companies during the period (2018-2022) distributed in three sectors, 11 companies in the industrial sector, and 8 and 10 companies in service and investment respectively. Regarding data analysis, both descriptive and inferential statistical tools were used to examine the hypothesis and questions using the Stata program V. 18.

According to the study, from 2018 to 2021, the mean value of earnings management in non-financial public shareholding businesses increased steadily and gradually; however, in 2022, it decreased. Furthermore, during the study period, the firm growth indicator's mean value was larger than the means of the other capital structure indicators, such as profitability and financial leverage. Moreover, the mean value of all capital structure indicators (financial leverage, firm growth, and profitability) has the highest value in the industry sector, followed by the service and investment sectors respectively. Additionally, capital structure has a statistically significant effect on earnings management in non-financial Palestinian firms that hold shares. Ultimately, the study demonstrated that the impact of capital structure (financial leverage, firm growth, profitability) on the earnings management of the Palestinian non-financial shareholding companies is not mitigated by board size, board independence, the independence of the audit committee, or board of directors' meetings.

Based on that, the study recommends that firms should focus on maintaining the financial leverage and profitability indicators, which play a role in the firm growth. Moreover, firms

should always monitor the capital structure and earnings management indicators. In addition, firms should form their short-term and long-term goals, so they can decide effectively how to manage the earnings. Additionally, because board members own a portion of the companies in the industrial and investment sectors, these companies should permit the board of directors' responsibilities and independence to make decisions regarding capital structure and earnings management policies.

Keywords: Capital Structure, Earnings Management, Governance, Non-Financial Shareholding Companies.

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إعداد: إسراء داوود عبد صلاح

بإشراف الدكتور مجدي وائل الكبيجي

الملخص

هدفت الدراسة إلى تحديد أثر هيكل رأس المال على إدارة الأرباح من خلال الدور الوسيط لمتغير الحوكمة. وقد اتبعت الدراسة المنهج الوصفي التحليلي ضمن المنهج الكمي الذي تم تطبيقه لتوضيح كيفية تأثير المتغير المستقل (هيكل رأس المال) على المتغير التابع (إدارة الأرباح) والدور الوسيط للمتغير الوسيط (الحوكمة) في هذه العلاقة. واستخدمت الدراسة البيانات الأولية المتمثلة في التقارير المالية للشركات والتي تم الحصول عليها من موقع بورصة فلسطين. وقد تم استخراج التقارير المالية لـ 29 شركة مساهمة عامة غير مالية خلال الفترة (2018–2022) موزعة على ثلاثة قطاعات، 11 شركة في القطاع الصناعي، و8 و10 شركات في القطاع الخدمي والاستثماري على التوالي. وفيما يتعلق بتحليل البيانات، تم استخدام الأدوات الإحصائية الوصفية والاستدلالية لفحص الفرضيات والأسئلة باستخدام برنامج Stata V.18.

وتوصلت الدراسة إلى أن متوسط قيمة إدارة الأرباح في الشركات المساهمة العامة غير المالية يتزايد بشكل تدريجي ومستمر من عام 2018 إلى عام 2021، في حين أنه آخذ في الانخفاض في عام 2022. بالإضافة إلى ذلك، يتمتع مؤشر نمو الشركة بقيمة متوسطة أعلى مقارنة بالمتوسط قيمة مؤشرات هيكل رأس المال الأخرى (الرافعة المالية والربحية) خلال فترة الدراسة. علاوة على ذلك، فإن متوسط قيمة جميع مؤشرات هيكل رأس المال (الرافعة المالية، ونمو الشركات، والربحية) يحظى بأعلى قيمة في قطاع الصناعة، يليه قطاعا الخدمات والاستثمار على التوالي. بالإضافة إلى ذلك، يوجد أثر ذو دلالة إحصائية لهيكل رأس المال على إدارة الأرباح في الشركات الفلسطينية المساهمة غير المالية في الشركات الفلسطينية المساهمة غير المالية وأخيرا، كشفت الدراسة أن عوامل الحوكمة (حجم مجلس

الإدارة، واستقلال مجلس الإدارة، واستقلال لجنة التدقيق، واجتماعات مجلس الإدارة) لا تلعب دور الوسيط في تأثير هيكل رأس المال (الرافعة المالية، نمو الشركة، الربحية) على إدارة أرباح الشركات الفلسطينية غير الفلسطينية. الشركات المساهمة المالية.

وبناء على نتائج الدراسة توصي الدراسة بضرورة تركيز الشركات على الحفاظ على الرافعة المالية ومؤشرات الربحية التي تلعب دوراً في نمو الشركة. علاوة على ذلك، أوصت الدراسة بأنه يجب على الشركات مراقبة هيكل رأس المال ومؤشرات إدارة الأرباح بشكل دوري، وأن تضع أهدافها على المدى القصير والطويل، حتى تتمكن من اتخاذ قرار فعال حول كيفية إدارة الأرباح. كما يجب على الشركات في القطاعات الصناعية والاستثمارية تمكين مجلس الإدارة من مسؤوليات واستقلالية مجلس الإدارة في اتخاذ القرارات المتعلقة بإدارة الأرباح، ونحو الإشراف على هيكل رأس المال وسياسات إدارة الأرباح، وذلك بسبب ملكية الشركات ذات الصلة. لأعضاء مجلس الإدارة.

الكلمات المفتاحية: هيكل رأس المال، إدارة الأرباح، الحوكمة، الشركات المساهمة غير المالية.

Chapter One: Introduction

1.1 Introduction

The conflicting interests of shareholders and management can result in less-than-ideal management choices in an era of incomplete knowledge and expensive supervision. Managers' actions are mostly opaque, and their goals may not always coincide with those of their shareholders, making such decisions possible. Managers are expected to manage profits consistently in order to maximize their advantage at the expense of other stakeholders.

As a result, in the current decade “Earnings Management” has become a researchable topic due to the collapse of many firms. It has been defined by many researchers in several different ways but Schipper (1989) defined it as “…a purposeful intervention in the external financial reporting process, with inventing of obtaining some private gain (as opposed to merely facilitating the natural operation of the process)”. While Healy and Whalen (1999) said “Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial 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”

In the contemporary business environment, there is a plausible consensus among researchers and practitioners about the significant role of good corporate governance (CG) policies in an organization’s success. In this context, corporate performance and survival are affected by CG practices. In particular, countries that have implemented good CG mechanisms generally experienced enormous growth in the corporate sector and therefore

attract more capital (Wang, 2012). The great breadth and depth of CG–capital structure literature is a hint of the intrinsic role that CG practices can play in constituting corporate capital structure-related decisions.

According to Aman & Nguyen (2013) and Mande et al. (2012), entities are expected to use better governance by being able to access funding "debt creation" at a lower cost and in larger amounts. In the strictest sense of the word, debt holders are more likely to feel more confident that the company won't make bad decisions that interfere with their interests if there are strong governance processes in place.

There has been a call for the Board of Directors to create impartial guidelines for managing institutions to safeguard the interests of all parties involved in doing business with the company and control the current dynamics between the senior management of the company. And its board of directors and shareholders in light of the numerous financial crises and scandals that have undermined the credibility of their compilers and auditors and the reliability of the published lists. Are additional parties involved, in line with the agency theory (Alkababji & Abu Awwad, 2014)?

Accounting scandals that have led to the bankruptcies of multinational companies worldwide have taken a huge toll on investors' fortunes. In addition, ineffective corporate governance, lack of managerial accountability, and opportunistic managerial behavior have skewed financial statements (Chang & Sun, 2010; Fan et al., 2021).

Capital structure refers to the combination of different sources of funds that a firm uses to finance its overall operations and growth. Capital structure is a financial term and a means to finance a company's overall assets by selecting the appropriate mixture of debt (long-

term) and equity (common equity, preferred equity, retained earnings, and reserves). Capital structure became a matter of great debate after the publication of a seminal paper by Miller & Modigliani, (1958) which is famous for "Theory of irrelevancy of capital structure in which he revealed that capital structure is independent of firm performance. Later on, a great debate in this area has been started and a lot of research has been conducted in this area and it is continued.

The Capital structure (CS) of a firm is influenced by several factors including corporate governance) quality (Jiraporn et al., 2012). One of the importance of capital structure is that it is tightly related to the ability of firms to fulfill the needs of various stakeholders. The Capital structure represents the major claims to a corporation's assets which includes the different types of both equities and liabilities. Also, Capital structure, as a critical area affecting the overall operating level of corporates, has been a focus in the field of corporate finance and accounting (Abor & Bikpie, 2007; Huang, 2019; Neves et al., 2020). One of the motivations of capital structure management is to reduce capital costs and maximize the shareholders' interests (Danso et al., 2019; Uwuigbe, 2014).

Corporate governance, on the other hand, is a mechanism to maximize shareholder value through organizational management, which has always been related to agency problems (Adel et al.,2019; AlHares, 2020; AlHares et al., 2020; Gerged & Elheddad, 2020; Gerged & Agwili, 2020; Gerged et al., 2018; Ullah et al., 2019; Uwuigbe, 2014).

The capital structure shows how the company has financed its overall operations and growth using various sources of funds. Management manipulates its capital structure in a way that leads to reducing the cost of funds and maximizing the value of the company, and

thus there is a role of governance in limiting the practices of earning management by the company in Palestinian Shareholding non-financial companies.

Therefore, this study is an attempt to find out the impact of capital structure on earning management and the mediating role of governance in Palestinian shareholding non-financial companies.

1.2 Problem statement

A good company is a company that can manage its capital structure well because a bad capital structure of a company will have a direct impact on the company's financial position which will ultimately affect the company's value. Earnings management is the discretion of management over external financial reporting by misusing some authorities related to contracts and differences in accounting treatment with other methods. The practice of earnings management has a strong negative effect on debt providers (creditors) because if a company experiences financial difficulties and the fair value of its assets is less than the total liability of its money, the company may have difficulty paying it off. Once company shareholders assign the decision-making task to managers, management has some motivations about the activities to maximize the expected interest. Even if these activities are not according to shareholders' interests, earnings management occurs when managers create changes to astray some beneficiaries about the company's performance affect the contract results dependent on reported accounting figures, or impose their judgment in financial reporting and exchange's structure.

According to this, the goal of corporate governance is to support wise, capable, and effective management that can ensure the company's long-term prosperity. Corporate

governance pertains to the actions taken by a company's board of directors and how they establish the company's ideals. It should be distinguished from the full-time executives' daily operational management of the business. Its job is to efficiently watch over a company's management to protect the business's reputation, establish more transparent and stringent policies, and guarantee legal compliance.

Therefore, there is a scarcity of studies conducted in Palestine that consider the influence of capital structure on earnings management. This means that how to manage the earnings through good governance. The problem represents investigating the ability of non-financial companies in Palestine to manage their capital structure and earnings to preserve their sustainability. The Palestine state faces unstable political and economic situations, which might affect the capital structure and earnings management of non-financial companies.

Accordingly, the problem of the study is summarized by answering the following main question: Does the capital structure impact earnings management and the mediating role of governance in Palestinian shareholding non-financial companies?

1.3 Questions of the Study

First Question: Is there an impact of the capital structure on the dimensions of governance in Palestinian Shareholding non-financial companies? This question includes the following sub-questions:

1. Is there an impact of Financial Leverage on the governance in Palestinian non-financial shareholding companies?

2. Is there an impact of Firm Growth on the governance in Palestinian non-financial shareholding companies?
3. Is there an impact of Profitability on the governance in Palestinian non-financial shareholding companies?

Second Question: Is there an impact of the dimensions of governance on the Earnings Management in Palestinian Shareholding non-financial companies? this question includes the following sub-questions:

1. Is there an impact of Board Size on the Earnings Management in Palestinian Shareholding non-financial companies?
2. Is there an impact of Board Independence on the Earnings Management in Palestinian Shareholding non-financial companies?
3. Is there an impact of CEO duality on the Earnings Management in Palestinian Shareholding non-financial companies?
4. Is there an impact of the Independence of the audit committee on the Earnings Management in Palestinian Shareholding non-financial companies?
5. Is there an impact of the Board of Directors Meeting on the Earnings Management in Palestinian Shareholding non-financial companies?

Third Question: Is there an impact of capital structure on the Earnings Management in Palestinian Shareholding non-financial companies? This question includes the following sub-questions:

1. Is there an impact of financial leverage on Earnings Management in Palestinian non-financial shareholding companies?

2. Is there an impact of firm growth on the Earnings Management in Palestinian non-financial shareholding companies?
3. Is there an impact of profitability on the Earnings Management in Palestinian non-financial shareholding companies?

Fourth question: Does the impact of corporate governance (board size, board independence, CEO duality, the independence of the audit committee) mediate the influence of capital structure (financial leverage, firm growth, profitability) on Earnings Management in Palestinian non-financial shareholding companies**?**

1.4 Hypothesis of the Study

According to the questions of the study, there are the following hypotheses:

H (1): There is a significant statistical impact at the level ($\alpha \leq 0.05$) of the capital structure on the dimensions of governance in Palestinian Shareholding non-financial companies. This hypothesis includes the following sub-hypotheses:

- H1a: There is a statistically significant impact at the level ($\alpha \leq 0.05$) of financial leverage on the governance in Palestinian non-financial shareholding companies.
- H1b: There is a statistically significant impact at the level ($\alpha \leq 0.05$) of firm growth on the governance in Palestinian non-financial shareholding companies.
- H1c: There is a statistically significant impact at the level ($\alpha \leq 0.05$) of profitability on the governance in Palestinian non-financial shareholding companies.

H (2): There is a significant statistical impact at the level ($\alpha \leq 0.05$) of the dimensions of governance on the Earnings Management in Palestinian Shareholding non-financial companies. This hypothesis includes the following sub-hypotheses:

- H2a: There is a significant statistical impact at the level ($\alpha \leq 0.05$) of board size on the Earnings Management in Palestinian Shareholding non-financial companies.
- H2b: There is a significant statistical impact at the level ($\alpha \leq 0.05$) of board independence on the Earnings Management in Palestinian Shareholding non-financial companies
- H2c: There is a significant statistical impact at the level ($\alpha \leq 0.05$) of CEO duality on the Earnings Management in Palestinian Shareholding non-financial companies.
- H2d: There is a significant statistical impact at the level ($\alpha \leq 0.05$) of the independence of the audit committee on the Earnings Management in Palestinian Shareholding non-financial companies.
- H2e: There is a significant statistical impact at the level ($\alpha \leq 0.05$) of the Board of Directors Meeting on the Earnings Management in Palestinian Shareholding non-financial companies.

H (3): There is a significant statistical impact at the level ($\alpha \leq 0.05$) of capital structure on the Earnings Management in Palestinian Shareholding non-financial companies. This hypothesis includes the following sub-hypotheses:

- H3a: There is a statistically significant impact at the level ($\alpha \leq 0.05$) of financial leverage on the Earnings Management in Palestinian non-financial shareholding companies.

- H3b: There is a statistically significant impact at the level ($\alpha \leq 0.05$) of firm growth on the Earnings Management in Palestinian non-financial shareholding companies
- H3c: There is a statistically significant impact at the level ($\alpha \leq 0.05$) of profitability on the Earnings Management in Palestinian non-financial shareholding companies

H (4): Corporate governance (board size, board independence, CEO duality, the independence of the audit committee) mediates the influence of capital structure (financial leverage, firm growth, profitability) at the level ($\alpha \leq 0.05$) on the Earnings Management in Palestinian non-financial shareholding companies.

1.5 Importance of the Study

Theoretical Importance: The importance of this study lies in the fact that it deals with Palestinian non-financial shareholding companies. Where lays the importance of its role for stakeholders and regulators toward managing their earnings has become very important in the current situation, and that is why it is a crucial issue for the entire globe, not just for Palestine. Exposing some of the opportunity behavioral practices of the Board of Directors, where earnings are mismanaged for their gain, is not only critical but also negatively affects the accuracy of the information. In addition, the paucity of research and literature on this topic in Palestine—at least from the perspective of the researcher—makes the study important.

Applied Importance: A poor capital structure will directly affect the company's financial position, which will ultimately affect the company's value. For this reason, the study's applied significance centers on elucidating the impact of capital structure on earnings management and the mediating role of governance in the Palestinian non-financial

shareholding companies through the degree to which companies are committed to financing their entire operations and growth using various sources of funds. Consequently, governance plays a part in regulating the earning management tactics that managers use by altering the company's performance to mislead certain beneficiaries or to affect the contract's outcome based on accounting figures. This will enhance the integrity and ability of companies to manage their earnings based on capital structure; control all actions of managers, and the presence of a good capital structure in Palestinian non-financial shareholding companies.

1.6 Objectives of the Study

This study came to achieve some objectives that can be summarized in the following points:

1. Define the impact of the capital structure on governance dimensions in Palestinian Shareholding non-financial companies.
2. Define the impact of the governance dimensions on Earnings Management in Palestinian Shareholding non-financial companies.
3. Define the impact of capital structure on Earnings Management in Palestinian Shareholding non-financial companies.
4. Define the impact of mediate of corporate governance (board size, board independence, CEO duality, the independence of the audit committee) on capital structure (financial leverage, firm growth, profitability) and Earnings Management in Palestinian non-financial shareholding companies.

1.7 Limitations

This study has faced the following limitations:

1- Time constraints: represents the time spent on literature review and analyzing the data obtained from the financial reports of the companies.
2- Weakness of Statistical abilities by the researcher, who sought to help from a statistician.

1.8 Definition of Terms

Earnings management: will be measured by total accrual according to a modified Jones (1991) model (Deshaw1995-1996, et al.,), The dependent variable in this study is discretionary accruals (DAC). Accruals are defined as the difference between net income and cash flows from operations (Jones, 1991; Chen, Lin, & Zhou, 2007), (Alkababji,2019). They can be further divided into discretionary (nonobligatory expenses) and nondiscretionary accruals (obligatory expenses). Discretionary accruals represent the modifications made to the cash flow by the firm's managers; nondiscretionary accruals are accounting-based adjustments to the firm's cash flow, which are directed by bodies that set accounting standards (Rao & Dandale, 2008).

Capital Structure: To accurately measure the independent variable and achieve the purposes of the study, previous studies will be adopted in its measurement and these elements will be adopted as a proxy for the independent variable:

1. Total leverage: "total debt over total assets" (LEV) was adopted as a deputation for the independent variable (Ahmed Sheikh & Wang, 2011; Zhao et al., 2018).

2. Growth: growth prospect gained from the ratio of the market value's sum of shareholder salaries and the book value of debt to the book value of assets, and it was adopted as a deputation for the independent variable (Rajan & Zingales, 1995; Fama & French, 2002)

3. Profitability: It is measured as Earnings Before Interest, Tax, Depreciation, and Amortization (EBITDA) divided by total assets which are taken as a proxy for the independent variable (Titman & Wessels, 1988; Frank & Goyal, 2003).

Corporate Governance: which represents the following:

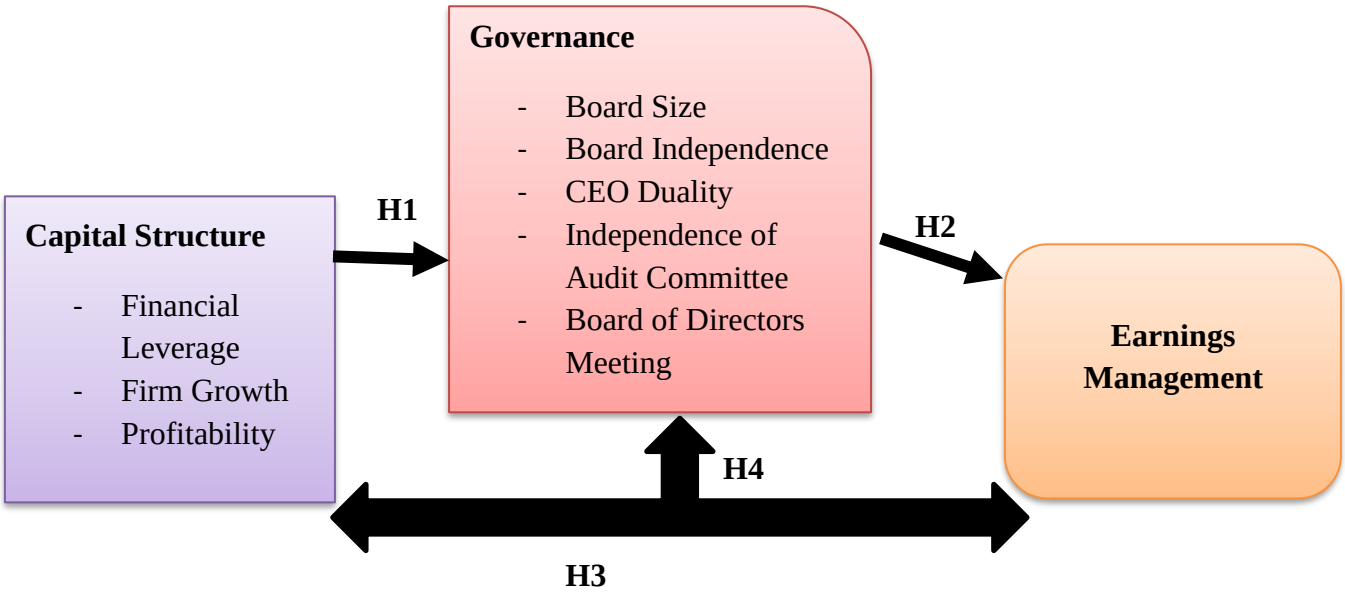
1. 1. Board size (B SIZE): The size of the board of directors has an impact on how well it executes the duties assigned to it because it can highlight limitations and practices related to earnings management, particularly through operating activities. Research has demonstrated the impact of the link The management of profits is negatively impacted by the size of the board of directors since there are more executives on the board (Abdul Rahman & Mohamed, 2006; Abed et al., 2012); behavior monitoring affects managers' efficacy (2016, Khamees & Azzoz). A few demonstrated the beneficial correlation between the management of profits and the size of the board of directors (Sani et al., 2012), since the number of board members serves as a proxy for the board size variable. (Mande et al., 2012; Zaid et al., 2020a; Saleh et al., 2020). (Alkababji,2019)
2. Board independence (BIND) was determined by dividing the total number of directors by the percentage of independent directors in the boardroom (Zaid et al., 2019; Zaid et al., 2020b).

3. 3. The CEO duality (DUAL) variable (Chow et al., 2018; Mandel et al., 2012) was measured as a dummy variable coded 1 if the board chairman also serves as CEO and 0 otherwise.
4. 4. The audit committee's independence: this is a dummy variable that takes the value "zero" otherwise. If all or most of the audit committee's members are foreign-born and independent (i.e., the percentage is higher than normal), then the variable takes the value "one".
5. Board of Directors Meeting: The variable of board meetings is measured by the number of meetings and dividing the number of board members (Habash 2012), (Sani., et al,2012)

1.9 Study Model

The framework of this research represents as follows:

Figure 1.1: Research Framework, Prepared by the researcher



Chapter Two: Theoretical Framework & Previous Studies

2.1 Introduction

This chapter delves into the critical aspects of capital structure, earnings management, and corporate governance, setting the stage for understanding their intricate relationships. In a financial landscape where decisions regarding funding, financial reporting, and governance are paramount, a firm grasp of these concepts is vital.

First, we embark on a journey to conceptualize capital structure, defining its key components and exploring the determinants that influence a company's financing choices. From there, we venture into the realm of earnings management, unpacking its meanings, motivations, and various techniques employed by businesses to manipulate their financial performance. We also discuss the pressure emanating from capital markets and the contractual incentives behind earnings management practices.

Corporate governance comes under our lens next, recognizing its pivotal role in modern business. We explore the significance of good corporate governance and delve into its mechanisms and attributes that foster accountability and transparency within organizations.

As we proceed, we explore the complex relationship that exists between capital structure and corporate governance. This study clarifies the relationship between debt financing, cost of capital, and governance quality. Additionally, we demonstrate how corporate governance practices can be assessed using the OECD Principles of Corporate Governance.

Considering the Palestinian context, particular attention is paid to the role of corporate governance in Palestinian markets, emphasizing its unique challenges. We delve into the

regulatory framework provided by the Palestinian Capital Market Authority (PCMA) and its implications on governance practices.

Lastly, we draw upon previous studies to enrich our understanding of these concepts, bridging the gap between theory and real-world application. This chapter serves as a foundational steppingstone for the subsequent exploration of how these elements converge in Palestinian shareholding non-financial companies.

2.2 Theoretical Framework

2.2.1 Conceptualizing Capital Structure

2.2.1.1 Capital Structure Definition

Capital structure is a fundamental financial concept that pertains to the mix of different sources of funds a company utilizes to finance its operations, investments, and growth. This composition typically encompasses various forms of financing, primarily debt and equity. Decisions on a company's capital structure are crucial because they have a direct impact on its overall financial performance, risk profile, and financial stability (Taufik, 2022).

At its core, capital structure represents how a company allocates financial resources to meet its operational and investment needs. The primary components of capital structure include (Bui et al., 2023):

Capital structure refers to the composition of funding sources that support a company's operational and investment activities. These sources typically include equity, representing

shareholders' ownership claims on assets, and debt, representing obligations to creditors encompassing both short-term and long-term debts (Nguyen et al., 2023).

From the researcher's perspective, capital structure can be defined as the strategic allocation of financial resources that a company employs to meet its day-to-day operational requirements and to fund long-term investments and expansion initiatives. This allocation encompasses a combination of financial sources, predominantly debt and equity, and holds substantial significance for firms, as it significantly impacts their financial stability, risk profile, and overall financial performance.

2.2.1.2 Capital Structure Determining Factors

In this talk, we explore the major factors that influence a company's capital structure choices, such as revenue fluctuation, company size, asset composition, taxation, profitability, prospects for expansion, ownership by the government and management, the distinctiveness of the company's offering, dividend policy, age of the firm, and liquidity. These determinants reflect the complex interplay of financial theories, market conditions, and firm-specific attributes that guide capital structure choices, making this an essential area of study in corporate finance. Many researchers have explored some of these determinants in their studies as the following (Danso, 2014; Anarfo, 2015, Khémiri & Noubbigh, 2018):

- **Earning Volatility:** Earning volatility, as one determinant of capital structure, reflects the fluctuations in a company's earnings over time. According to the trade-off hypothesis, firms with high earning volatility are at greater risk of being unable to meet their debt obligations. In such situations, the likelihood of default and

associated bankruptcy costs rise. Consequently, companies with highly variable earnings are often cautious about using a substantial amount of debt for financing, as investors find it challenging to predict their future earnings accurately based on publicly available information. This uncertainty makes debt more expensive for such firms. Nevertheless, some studies suggest that firms with earning volatility may still opt for more debt to invest in business operations, aiming to stabilize their earnings. The relationship between earning volatility and leverage is thus mixed (Abed et al., 2012).

- **Size of the Firm:** The firm's size is another important factor. This component is associated with the notion that larger, more diverse companies generally have lower earnings volatility. Larger enterprises are assumed to have a positive connection with leverage under the trade-off concept. They can often manage higher debt ratios more comfortably due to their diversified income sources. Their vast asset base can serve as collateral in case of default, making them less prone to failure (Adeneye & Kammoun, 2022). However, Abdullah & Tursoy (2021) study has observed a different trend where larger firms hold less debt than expected, suggesting that the ability to generate sufficient internal funds and access to equity financing could lead to an inverse correlation between firm size and debt.
- **Tangibility (Asset Structure):** The relationship between asset tangibility and leverage has been extensively studied. Firms with a higher degree of tangible assets tend to exhibit higher financial leverage. This relationship is rooted in the idea that firms with tangible assets can secure debt at lower interest rates by using these assets as collateral. This approach aligns with the trade-off theory, which suggests

that firms with tangible assets often pledge them as collateral to provide lenders with security in case of financial distress. Tangible assets reduce lenders' risk by protecting them from moral hazards associated with defaults. Additionally, tangible assets are easier to value than intangible assets, potentially reducing expected distress costs. However, research in some developing economies has produced mixed findings on the relationship between tangibility and leverage (Affes & Jarboui, 2023).

- **Tax Rate:** The capital structure of a company is significantly shaped by its tax rate. The Modigliani-Miller (M&M) theorem states that businesses are more likely to employ debt to take advantage of the interest payments' deductibility if they have significant tax liabilities. There is a positive correlation between tax rates and debt as a result of this tax advantage, which lowers the company's tax obligations and raises earnings accessible to shareholders. Numerous research has produced comparable findings (Ahmad & Yousaf, 2018). The impact of taxation on a firm's capital structure decision may vary from one country to another due to differences in tax systems. Some countries provide tax incentives to listed companies, which can influence firms to go public and increase equity capital. Therefore, the relationship between tax rates and debt-equity choice may be influenced by local tax regulations and incentives, and a thorough understanding of the tax system in the context in which firms operate is essential in assessing its impact on capital structure decisions (Ahyar et al., 2016).
- **Firm's Profitability:** Regarding the relationship between a company's profitability and capital structure, different viewpoints diverge. The pecking order theory states

that because highly profitable companies can create internal revenue to fund their operations, they typically maintain low debt ratios. Thus, it is anticipated that leverage and company profitability will have a negative connection (Al Saedi, 2018). Conversely, the trade-off theory proposes that leverage and profitability are positively correlated because of the tax benefit associated with using debt to defer interest payments. Profitable firms may be more attractive to financial lenders due to their lower risk of financial distress, making them more likely to take on more debt than less profitable firms. The relationship between profitability and leverage remains unclear despite several theoretical and empirical research since tax-based theories suggest a positive association while the pecking order theory suggests the opposite (Aldamen & Duncan, 2016).

- **Opportunities Toward Growth:** Growth prospects and leverage are expected to positively correlate, according to the Pecking Order Model. Firms with higher growth potential but insufficient internal cash flow require more funds to finance their growth opportunities. According to the pecking order model, firms use more debt to fund growth opportunities, as managers often avoid issuing new shares due to information asymmetry (Ali, 2018). However, in some cases, the agency theory predicts an inverse relationship between growth opportunities and leverage. Empirical findings on the relationship between leverage and growth are mixed, with some studies showing positive relationships and others showing negative relationships. The consensus is that firms with high profits and large growth opportunities often finance growth with internally generated funds, as it is usually more cost-effective. In contrast, firms with growth opportunities but fewer retained

earnings may need to rely on externally generated funds to finance their growth prospects (Abdullah & Tursoy, 2021).

- **Government Ownership:** Empirical evidence suggests a positive correlation between government ownership and a firm's use of debt. When a government holds a large percentage of equity shares in a firm, it signals to financial lenders that the company is more likely to remain solvent, thus encouraging them to lend more to the firm. This positive relationship between government control and debt is evident in the case of China, where the government is the largest controlling shareholder in many listed firms. Lenders are more willing to provide loans to government-owned firms due to the perceived security of such loans, as governments can readily raise funds to repay debts, even in times of economic difficulty. However, some studies have found a negative relationship between government control and debt, particularly in the absence of a well-developed financial market and robust regulations for protecting bondholders (Affes & Jarboui, 2023).
- **Managerial Ownership:** The role of managerial ownership in debt-equity choice is a well-documented aspect in the literature. Different management teams may have varying attitudes toward risk. Risk-averse managers may prefer financing strategies that reduce overall financial risk, leading to the use of less debt. Additionally, firms with concentrated ownership may be hesitant to share control rights with external stakeholders and may favor debt over equity to avoid dilution of control. Owner-managers of family businesses, for example, tend to rely on debt for all business operations to prevent the dilution of their controlling power. In international joint ventures, management's desire to maintain control may lead to a

preference for debt over equity in capital structure decisions, even if the cost does not favor debt issuance (Adeneye & Kammoun, 2022).

- **Uniqueness of a Firm's Product:** The relationship between the uniqueness of a firm's product and its debt-equity choice has been the subject of various studies. Firms offering unique products or services may face higher bankruptcy costs in case of liquidation, as their customers and related stakeholders may experience substantial losses. Consequently, these firms are inclined to use less debt to avoid financial distress that could severely impact their future operations. Theoretically, a negative relationship is expected between leverage and the uniqueness of a firm's product. However, it can be argued that firms providing unique products or services may experience high demand, requiring additional funds for expansion to meet this demand. In such a situation, a positive relationship is expected between product uniqueness and the level of leverage (Abed et al., 2012).
- **Dividend Policy of Firm:** The debt-equity choice of a firm can also be influenced by its dividend policy. A positive relationship between dividend payout and debt has been argued by researchers such as Adedeji (1998) and Baskin (1989). When a firm pays out generous dividends, there are fewer retained earnings available for investment. If investment opportunities arise that require resources beyond the retained earnings, the firm may turn to debt to fund these investments. This aligns with the predictions of the pecking order hypothesis, suggesting that firms may choose debt financing when internal funds are insufficient for investment opportunities.

- **Age of the Firm:** The age of a firm plays a role in determining its debt-equity choice. Established firms with a longer history of operation are often viewed as more reliable and creditworthy by lenders. Responsible lenders are typically more inclined to provide financial assistance to firms with a well-established track record. Therefore, there is a generally positive relationship between a firm's age and its use of debt. According to Cole & Sokolyk (2018), older companies with a lengthy credit history are less likely to default and experience lower agency costs associated with debt financing compared to newly established companies. However, some argue for an inverse relationship between age and debt. They suggest that newly established firms may not have accumulated sufficient capital for investment opportunities and may need to borrow more to finance such opportunities.
- **Liquidity:** The choice of debt or equity by a firm is also influenced by its liquidity. According to the pecking-order theory, there is a negative correlation between leverage and liquidity because companies with high levels of liquidity would rather shield their shareholders from the interests of debt holders with internal profitability rather than outside funding. On the other hand, the trade-off theory predicts a positive relationship between liquidity and leverage since highly liquid businesses can repay their loan payments on time. The empirical evidence regarding the relationship between leverage and liquidity is not uniform; some studies provide support for the trade-off theory, while others provide evidence in favor of the pecking-order approach (Abeywardhana, 2017).

It can be concluded, that the determination of a firm's capital structure is an intricate process that entails a delicate interplay of numerous interconnected factors. These factors are shaped by a variety of financial theories that provide diverse perspectives on how each determinant influences a firm's choices regarding leverage.

Earnings volatility, for instance, can either encourage or discourage the use of debt, depending on the risk tolerance and strategic objectives of the firm. Firm size is not a one-size-fits-all determinant, and its impact on capital structure may vary widely, influenced by the firm's unique circumstances and geographical location.

Asset tangibility is a critical determinant that can affect the firm's ability to secure debt at favorable terms. Tax rates play a pivotal role in shaping a firm's capital structure, with the impact varying from one jurisdiction to another due to differences in tax systems and regulations.

Profitability, often seen as a fundamental factor, might encourage or discourage leveraging based on the specific financial theories applied. Growth opportunities can significantly affect the capital structure, but their relationship with leverage can be context-specific and multifaceted.

Government and managerial ownership present contrasting influences, highlighting the importance of understanding the unique governance dynamics within a given firm and its operating environment. The uniqueness of a firm's product and its impact on capital structure can be mixed, depending on whether the firm needs additional funds to meet the demand generated by its unique product or if it seeks to minimize bankruptcy risk.

Dividend policy, an essential aspect of corporate finance, can influence leverage choices, particularly when a firm aims to balance dividend distributions with the need for financing investment opportunities. The age of the firm plays a role in determining its perceived creditworthiness, but the relationship between age and debt can be nuanced.

Liquidity is another vital determinant, and the relationship between liquidity and leverage depends on the prevailing financial theory and the firm's specific financial health.

Moreover, the interplay between these determinants is further complicated by the local regulatory environment in which a firm operates. Each jurisdiction may have its set of rules, incentives, and restrictions that influence capital structure decisions. As such, the impact of these determinants is not uniform across different regions, and researchers and practitioners must consider these variations when developing capital structure strategies.

This complexity underscores the importance of conducting thorough and context-specific analyses when determining a firm's optimal capital structure. Researchers should consider the nuanced relationships between these determinants, and practitioners should be mindful of the unique factors at play in their particular business environment. By recognizing and adapting to these complexities, firms can develop capital structure strategies aligning with their specific objectives and the contextual factors influencing their financial decisions.

2.2.2 Earnings Management: Definitions and Motivations

2.2.2.1 Understanding Earnings Management

In order to achieve particular financial results or to present the company's financial performance in a way that might not accurately reflect its underlying economic reality, the

management of a company may purposefully interfere in the external financial reporting process. This practice is known as earnings management, sometimes as income smoothing or manipulation. In order to manipulate the reported profit figures, this approach entails selectively changing accounting transactions and estimates. Usually, the goal is to achieve certain goals or outcomes. A complex problem, earnings management has a variety of reasons, approaches, and outcomes (Strakova, 2021).

Alkababji's (2019) study revealed the prevalence of earnings management practices within Palestinian industrial companies, shedding light on the complex relationships between corporate governance components and earnings management. The study emphasized the significance of maintaining board independence and ensuring audit committee independence, and one of the main recommendations to lessen these organizations' earnings management strategies is to eliminate CEO duality. The results of Alkababji's (2021) study identified a correlation between audit quality components and earnings management practices within Palestinian public shareholding banks. The study emphasized the importance of enhancing audit quality, adhering to performance quality standards, and ensuring reasonable auditor fees commensurate with effort and audit risk. These findings are crucial for fostering financial transparency and integrity within the Palestinian banking sector. Earnings management involves the selection of accounting policies that impact both revenue recognition and a company's overall performance (Khanh & Thu, 2019).

Earnings Management is a multifaceted phenomenon within the realm of corporate finance. It constitutes an integral and fundamental aspect of a company's financial operations. This practice unfolds when managerial discretion is employed in financial reporting and the structuring of financial transactions, aimed at manipulating financial statements. This

manipulation is typically orchestrated to present a deceptive image of the company's economic performance to specific stakeholders. Earnings management encompasses a range of accounting policy choices made by managers that have the potential to influence both revenue figures and the overall performance of a company. It is a global phenomenon, prevalent across numerous organizations motivated to enhance the perception of financial prosperity within the business world, particularly to external parties (Jiang, 2020).

Bhundia (2012) defines it as "taking deliberate steps within generally accepted accounting principles to align them with desired results." Pitman & Scott (2005) describe it as "the use of various deceptive or fraudulent methods to distort the true image of financial performance to achieve desired outcomes." Cornetta et al. (2008) state that profit management means "the deliberate execution by executive managers of presenting accounting data and information that lacks transparency or complete disclosure at the appropriate time, leading to conflicts between the organization and related parties lacking sufficient expertise, resulting in deception and deceit of these parties."

From the researcher's perspective, earnings management can be defined as a multifaceted financial practice that involves the deliberate intervention of a company's management in the external financial reporting process. The primary objective is to achieve specific financial outcomes or to present the company's financial performance in a manner that may not accurately reflect its underlying economic reality. This practice entails selectively altering accounting transactions and estimates to manipulate the reported earnings figures, often with distinct objectives.

2.2.2.2 Objectives of Earnings Management:

The primary objectives that drive companies to engage in earnings management (Needles et al., 2018; Hoglund, 2012):

- Meet Analysts' Expectations: One of the primary motivations for earnings management is to meet or exceed the earnings forecasts and expectations of financial analysts and investors. This is particularly relevant for publicly traded companies, as missing these expectations can lead to negative market reactions and a decline in stock prices.

- Influence Stock Prices: Earnings management can be used to influence a company's stock price by creating the perception of improved financial performance. Higher stock prices can lead to various benefits, including increased market capitalization and access to capital markets.

- Tax Management: Earnings management may also have tax-related objectives, such as minimizing tax liabilities or taking advantage of tax incentives and credits.

- Bonus and Compensation: In some cases, executive compensation and bonuses may be tied to financial performance metrics, including earnings. Managers may manipulate earnings to enhance their compensation packages.

The researcher acknowledges that these objectives highlight the multifaceted nature of earnings management, illustrating its impact on financial markets, taxation, and corporate governance. Understanding these objectives is pivotal for comprehending the motivations behind this complex financial practice.

2.2.2.3 Methods of Earnings Management

Earnings management involves various methods and techniques employed by management to manipulate financial statements and achieve specific financial reporting outcomes. These methods can be categorized into two primary approaches (Jiang, 2020; Valaskova et al., 2019):

☒ Income-Increasing Earnings Management:

- Revenue Recognition Timing: Accelerating the recognition of revenue, such as recording sales prematurely, to boost current period earnings.
- Expense Deferral: Delaying the recognition of expenses to future periods, which inflates current earnings.
- Income Smoothing: Spreading income fluctuations over multiple reporting periods to present a stable earnings trend.

☒ Income-Reducing Earnings Management:

- Cookie Jar Reserves: Building up reserves or provisions in good years and releasing them in bad years to artificially inflate earnings when needed.
- Big Bath Accounting: Recognizing all expected future losses and write-offs in a single period, creating a lower baseline for future earnings.
- Discretionary Accruals: Adjusting discretionary accounting items, such as allowances for bad debts or inventory write-downs, to impact earnings.

These methods may involve the use of accounting estimates, judgment, and discretion, making them subject to regulatory scrutiny and ethical considerations. Effective governance and oversight mechanisms are essential in detecting and preventing abusive

earnings management practices, ensuring that financial reporting remains transparent and trustworthy for all stakeholders.

2.2.2.4 Real Earnings Management Techniques

Earnings management involves various methods and techniques employed by management to manipulate financial statements and achieve specific financial reporting outcomes. These methods can be categorized into these approaches:

- Strategic Acquisition for Future Growth

With this tactic, a corporation buys out another, so placing a calculated wager on the future. Increasing the acquired company's reported income is one of the main goals of this strategy, particularly when the acquisition is properly organized and documented using the right accounting techniques, such as the purchase method. The "Strategic Acquisition for Future Growth" approach consists of two sub-techniques: the process of integrating the acquired company's earnings into consolidated earnings and the depreciation of the acquiring company's research and development costs. The first sub-technique lessens the impact on current income while protecting future revenue from rising costs by amortizing a portion of the purchase price over the year of purchase. The integration process is the subject of the second sub-technique (Strakova, 2021).

- Proficient Portfolio Administration

Companies frequently look for ways to spend extra money or form strategic partnerships by purchasing shares in other businesses in the global business landscape. Companies can manage earnings by investing in securities that are marketable and readily available for

purchase through effective portfolio management. Operating income includes any gains or losses from the sale of marketable securities as well as any changes in their market value. Any profits or losses resulting from changes in the market value of securities that are available for purchase are reported in other comprehensive income. Any profits or losses from the sale of marketable securities are included in the operating income of the business. If the real sale of securities does not occur, any unrealized gains or losses are still reported but are categorized as profit rather than operating profit (Ayu et al., 2020).

- Disposal of Underperforming Segments

This technique involves eliminating underperforming business segments that may impede profit growth in subsequent periods. Disposal can be executed in three ways: selling a segment, creating a special purpose entity, or spinning off the segment. In the case of selling a segment, any gain from the sale is recognized in the current accounting year when the sale occurs. Special purpose entities are subsidiaries established by larger corporations to acquire and finance specific assets while mitigating risks associated with the parent company's creditors. In the global context, it can also entail spinning off a subsidiary from the parent company, resulting in a division of shares among current shareholders, who then become owners of the spun-off company (Fogel-Yaari, 2020).

- Share Repurchases

This practice involves a company repurchasing its shares from equity security owners, with no immediate profit recognition in the financial statements. The primary objective is to increase earnings per share, which signifies the company's profitability (Ozili, 2017).

From the researcher's perspective, earnings management encompasses a range of techniques used by management to manipulate financial results and present the company's performance in a specific way. These techniques serve various objectives, such as enhancing reported income, managing investments effectively, divesting underperforming segments, and improving earnings per share. Understanding these techniques is crucial in unraveling the complexities of earnings management in the corporate world.

2.2.2.5 Capital Market Weight and Earnings Management

The pressure from the capital markets is one significant factor affecting the practice of earnings management in enterprises. "Earnings management" in this context refers to the deliberate manipulation of financial statements to either meet or exceed market expectations, hence affecting the value of the company's shares to its shareholders (Habib et al., 2022).

The capital market is under pressure since financial markets, investors, and analysts closely monitor a company's financial performance and rely on accounting data when making investment decisions. When a company is publicly traded, its stock price can be highly sensitive to fluctuations in reported earnings. Consequently, managers may face strong incentives to manage earnings to maintain or increase the price of stock for the company for many reasons (Ningsih et al., 2023):

- Achieving Analyst Earnings Expectations: Businesses frequently have to reach or surpass financial analysts' earnings projections. If these expectations are not met, the market may respond negatively and the company's stock price may drop.

Earnings management is a tactic used by managers to prevent these undesirable results.

- Support for Stock Price: A higher stock price can have some positive effects on the business and its stakeholders, such as better access to cash, cheaper borrowing costs, and the capacity to remunerate employees with stock options. These benefits and a higher stock price can be sustained through the use of earnings management.
- Managerial Remuneration: A lot of executive compensation plans have elements based on the performance or stock price of the organization. Earnings management can boost reported earnings, resulting in higher executive bonuses, stock options, or other forms of compensation.

While capital market pressure provides an incentive for earnings management, it also raises ethical and regulatory concerns. Manipulating earnings to meet short-term market expectations may lead to long-term financial instability, damage a company's reputation, and harm the interests of various stakeholders. Therefore, striking a balance between responding to market pressures and maintaining financial transparency and integrity is a critical challenge for managers and boards of directors.

2.2.2.6 Contracting Motivation and Earnings Management

Contracting motivation represents another key driver of earnings management within organizations. In this context, contracting refers to various agreements and contracts between a company and its stakeholders, including creditors, suppliers, and employees. These contracts often contain financial covenants, performance targets, and other

provisions that rely on accounting numbers, such as earnings, as a basis for determining compliance and outcomes (Strakova, 2021).

The relationship between contracting motivation and earnings management is characterized by the following key considerations (Nurdiniah & Herlina, 2015):

- Debt Covenants: Many debt agreements include financial covenants that set thresholds for financial ratios, such as debt-to-equity ratios or interest coverage ratios. Failing to meet these covenants can trigger penalties or even default on the debt. It may be necessary to use earnings management to make sure that these contractual requirements are met.
- Executive Reimbursement: Stock options and performance-based bonuses for executives, including CEOs and top management, are frequently tied to financial performance indicators like earnings per share (EPS). In order to meet or beyond these performance goals and earn more money, managers may manipulate earnings.
- Supplier and Customer Contracts: Earnings management can also affect contractual relationships with suppliers and customers. For example, meeting or exceeding earnings targets may lead to favorable terms, discounts, or incentives in supplier contracts, benefiting the company.
- Employee Agreements: Employee compensation and benefit agreements may incorporate performance-related components based on financial metrics like earnings. Earnings management may be used to fulfill these contractual obligations and motivate employees.

While contracting motivation provides incentives for earnings management, it also highlights the importance of transparency and accurate financial reporting in contractual relationships. Misleading stakeholders through earnings manipulation can lead to legal and reputational consequences, underscoring the need for effective governance mechanisms to mitigate such risks.

2.2.3 Corporate Governance and Its Significance

Corporate governance encompasses a network of associations among an organization's leadership, its board, its shareholders, and other invested parties. It establishes the framework through which a company's goals are delineated, the strategies for achieving those goals are outlined, and the assessment of performance is conducted. Effective corporate governance aims to create appropriate motivations for both the board and management to actively pursue objectives that align with the company's best interests and those of its shareholders. Moreover, it should streamline the process of overseeing these pursuits to ensure their effectiveness (Ali, 2018).

According to OECD (2024) stated that “Stronger growth and more inclusive societies are supported by effective corporate governance because it contributes to the development of the trust, transparency, and accountability climate that is essential for long-term investment, financial stability, and business integrity”.

A system of rules, duties, and accountability known as corporate governance is put in place to guard the interests of shareholders and reduce conflicts of interest that arise naturally from the corporate structure. The goal of good corporate governance is to lessen the information asymmetry that exists between shareholders and managers, which will save

the company's capital expenses. Enhanced corporate disclosure and transparency increase stock market liquidity, ultimately reducing transaction costs for the firm's stocks (Mrabure & Abhulimhen-Iyoha, 2020).

Corporate governance (CG) is a practice that has gained rapid development and worldwide significance in recent times. It forms the basis for structuring the operations and activities of organizations. Essentially, corporate governance is a system of principles, mechanisms, and procedures that guide and regulate the way a company is directed and controlled. Ensuring a business runs effectively and transparently is the main goal of corporate governance. It includes a broad range of procedures and ideas that support responsibility, equity, accountability, and openness in running an organization. These guidelines frequently include outlining the obligations of a company's shareholders, management, board of directors, and other stakeholders (Garzón, 2021).

Despite the various definitions of governance found in the literature and previous studies, which lacked a unanimous consensus on a unified definition, it is possible to present some of them. Hussian et al. (2015), Armstrong & Heenetigala (2011), Okpara (2011), and Porta et al. (2000) converged on the definition of governance as "a set of mechanisms through which external investors protect themselves from the exploitation of company managers, as well as from the exploitation of controlling shareholders in the company.

According to the Organization for Economic Cooperation and Development (OECD), corporate governance has six main principles: 1) Ensuring the basis for an effective corporate governance framework. 2) The rights and equitable treatment of shareholders and key ownership functions. 3) Institutional investors, stock markets, and other

intermediaries; 4) the role of stakeholders. 5) Disclosure and transparency. 6) The responsibilities of the board". These principles are used as a reference when assessing the corporate governance within the companies (OECD, 2015).

Based on the provided definitions, corporate governance can be defined as a network of associations and a system of principles, mechanisms, and procedures within an organization. It encompasses the interactions and responsibilities of the leadership, board, shareholders, and stakeholders. Establishing a framework for formulating plans, assessing performance, and defining goals for the organization is the primary goal of corporate governance. Its goal is to inspire the board and management to actively pursue goals that are in the best interests of the business and its investors.

2.2.3.1 Corporate Governance in Modern Business

A basic idea that is essential to the management and supervision of contemporary commercial organizations is corporate governance. It includes all of the organizational frameworks, procedures, guidelines, and standards that direct, control, and run a business. Corporate governance seeks to ensure that a company's activities are conducted in a manner that aligns with the interests of various stakeholders, including shareholders, employees, customers, suppliers, and the broader community (Castrillón, 2021).

Key dimensions of corporate governance include:

- **Board Size:** The number of directors on a company's board of directors is referred to as board size. It includes the entire number of people who are members of this

legislature. A smaller, more homogeneous set of directors may make up the board, or it may have a larger, more diverse membership (Ali, 2020).

- **Board Independence:** the independence of the Board indicates the scope of which a company's board of directors is composed of individuals who do not have material relationships with the company, its management, or its major stakeholders. Independent directors are not involved in the day-to-day operations of the company and can provide an objective perspective (Melón-Izco et al., 2020).

- **CEO Duality:** CEO Duality are directors nominated or elected by the company's workers to represent their concerns and interests on the board. They must ensure that the opinions and needs of the workforce are considered when the company makes choices. (Belot & Waxin, 2022).

- **Audit Committee:** The audit committee of a corporation oversees the external audit activities, internal control systems, and financial reporting protocol under the guidance of the board of directors. Typically, it consists of independent directors who have experience with finance and accounting. (Sarwar et al., 2022).

- **Meetings of Board Directors:** A firm's board members meet on a scheduled basis to discuss and decide on a range of issues about the operations, strategies, and governance of the organization. Setting the company's direction and guaranteeing corporate compliance depend on these meetings (de Villiers & Dimes, 2021; Alkababji, 2019).

These governance dimensions play a vital role in shaping the structure and decision-making processes within organizations, ultimately impacting corporate behavior and performance. It would be helpful to examine how corporate governance practices affect non-financial Palestinian shareholding firms' profits management in order to better understand these practices and their impacts.

2.2.3.2 Role of Effective Corporate Governance

Effective corporate governance rehearses are vital for the accomplishment and sustainability of businesses. They maintain some central facets of a firm’s performance and operations (Syofyan & Putra, 2020; Mohamad & Muhamad, 2011; Garzón, 2021):

- Protection of Shareholder Interests: By guaranteeing that management is responsible, that shareholders' rights are upheld, and that the board of directors works in their best interests, good corporate governance protects shareholders' interests. This safeguard aids in luring and keeping investors.
- Access to Capital: Companies with strong corporate governance practices are often more attractive to investors and creditors. They can access capital markets more easily and on favorable terms, which supports growth and expansion initiatives.
- Risk Management: Effective corporate governance includes risk management processes that help identify and mitigate risks. By addressing potential risks proactively, companies can protect their assets and financial stability.
- Transparency and Trust: Transparency in financial reporting and decision-making builds trust among stakeholders. Transparent practices enhance the company's

reputation and credibility, fostering positive relationships with investors, customers, and partners.

- Long-Term Sustainability: Good corporate governance encourages a focus on long-term sustainability rather than short-term gains. It promotes responsible and ethical business practices that consider the interests of all stakeholders and the broader community.
- Compliance and Legal Obligations: Companies that adhere to corporate governance standards are more likely to comply with legal and regulatory requirements. Compliance reduces the risk of legal issues and penalties.

In summary, corporate governance serves as a vital framework for ensuring that businesses are managed efficiently, ethically, and in a manner that maximizes shareholder value while considering the interests of various stakeholders. It plays a critical role in shaping the behavior and decisions of organizations, ultimately contributing to their overall success and responsible business conduct.

2.2.3.3 Corporate Governance Instruments

The instruments, procedures, and frameworks that businesses use to establish and uphold sound corporate governance standards are known as corporate governance mechanisms. These procedures are essential for guaranteeing the successful implementation of corporate governance's tenets and goals. Several essential corporate governance frameworks comprise (Urban, 2019; Wang et al., 2019):

- Board of Directors: One of the main governance forms in place to give the organization control, direction, and strategic planning is the board of directors. It is

made up of executive directors, independent directors, and sometimes non-executive directors. In particular, independent directors support unbiased decision-making and act as a restraint on management.

- Board Committees: Boards often establish committees, such as audit committees, compensation committees, and nomination committees, to address specific governance issues. These committees focus on critical areas like financial reporting, executive compensation, and board composition.
- Shareholder Meetings: Regular shareholder meetings, such as annual general meetings (AGMs), provide a platform for shareholders to exercise their rights, cast votes on key matters, and engage with the board and management.
- Executive Compensation: Compensation practices, including performance-based incentives and stock options, are structured to align the interests of executives with those of shareholders. Transparent and equitable executive compensation is essential for attracting and retaining top talent.
- Financial Reporting and Auditing: Robust financial reporting and auditing processes ensure that financial statements accurately represent the company's financial performance. Independent auditors review the company's financial statements to assure shareholders.
- Codes of Conduct and Ethics: Companies often establish codes of conduct and ethical guidelines that outline expected behaviors for employees, management, and directors. These codes promote ethical behavior and integrity within the organization.

- Shareholder Activism: Shareholders may engage in activism to influence corporate decisions and governance practices. This can include advocating for changes in board composition, executive compensation, or strategic direction.

In conclusion, corporate governance mechanisms represent the practical means by which governance principles are realized in organizations. For researchers, a comprehensive understanding of these mechanisms and their effectiveness is essential in assessing the quality and impact of corporate governance practices on firms and stakeholders.

2.2.4 The Relationship between Corporate Governance and Capital Structure

In the realm of business policy decisions, managers' choices regarding capital structure hold immense importance. These decisions are notably significant due to their potential influence on a company's risk profile and overall performance. According to the agency theory, agency problems stemming from the separation of principal and agent roles within businesses result in conflicts of interest between shareholders and management. These conflicts give rise to agency costs, thus emphasizing the need for effective corporate governance (Boateng et al., 2017).

Corporate governance and capital structure are closely intertwined concepts. In organizations with low corporate governance standards, managers are more susceptible to agency problems and are, consequently, prone to choose less-than-ideal leverage in order to maximize available free cash flow. Higher levels of leverage have been proposed as a way to make up for inadequate governance procedures. In such scenarios, a reciprocal relationship emerges between leverage and governance quality. Companies with low corporate governance standards often resort to higher leverage as a strategy to minimize

agency costs and better align the interests of firm managers with those of shareholders (Herlambang et al. 2018; Chow et al. 2018).

Numerous studies have provided empirical evidence supporting the notion that corporate governance frameworks exert a substantial impact on the capital structure decisions of listed firms. For example, studies have shown that a firm's level of governance has a major impact on a company's leverage, with companies with poor governance standards typically having more debt financing. A different study examined how corporate governance affected non-financial listed companies in East Africa when it came to capital structure decisions. The study found that corporate governance significantly influenced decisions about capital structure negatively (Masum et al., 2020; Mansour et al., 2022; Shao, 2019).

In most studies, various corporate governance variables are utilized as proxies for corporate governance. However, it is worth noting that the use of a comprehensive measure of overall corporate governance quality to assess its impact on capital structure decisions remains relatively infrequent in existing research (Berthelot et al., 2010).

Capital structure can significantly affect corporate governance disclosure by influencing the level of compliance with the corporate governance Code and enhancing corporate disclosures. Companies with high debt are more likely to provide additional information to meet the demands of external capital providers and address the concerns of debt holders. This is because the presence of debt holders in a company's leverage exacerbates agency problems, raising monitoring costs and prompting companies to increase their disclosure practices to restore investor and creditor confidence and mitigate the risk of bankruptcy (Elfeky, 2017).

The available empirical data indicates a noteworthy affirmative correlation between corporate governance disclosure and capital structure. Research has found strong favorable relationships across several nations. Some studies have found statistically little correlation between capital structure and corporate governance transparency, while others have identified a strong negative correlation (Roy & Pal 2017; Mensah & Bein, 2023).

Capital structure and corporate governance are related in a reciprocal causal way, which means that each influences the other. Modifications to the debt and equity management procedure may have an impact on a company's incentive structure and managerial control. particular investor types converge within a corporation as a result of the combination of debt and equity, each having a particular influence on governance decisions. When creating a company's capital structure, managers are crucial in deciding whether to prioritize equity or debt. This has a substantial impact on the effectiveness of corporate governance. Therefore, the reciprocal relationship between capital structure and stockholder influence as a means of enforcing discipline and ensuring good corporate governance, as well as its application to solve issues of information asymmetry and transaction efficiency, is still obvious. (Nawaz & Nawaz, 2019).

2.2.4.2 The Impact of Governance Quality on Funding Decisions

The quality of corporate governance has a direct impact on a company's funding decisions, including the mix of debt and equity in its capital structure (M, 2015; Sari, 2023):

- Debt Issuance: Companies with effective governance practices often find it easier to issue debt instruments in capital markets. Investors and creditors have greater

confidence in companies that adhere to transparent financial reporting, ethical conduct, and strong risk management.

- Equity Offerings: Governance quality can also influence equity offerings. Companies with robust governance mechanisms may experience increased demand for their equity shares, as investors perceive them as reliable and trustworthy investment opportunities.
- Cost of Capital: Good governance practices can lead to a lower cost of capital for companies. When investors have confidence in the governance and management of a company, they may require lower returns, reducing the cost of equity and debt financing.
- Capital Allocation: Governance principles guide how companies allocate capital resources. A well-governed company is more likely to allocate funds efficiently, considering factors like growth opportunities, risk tolerance, and shareholder interests.
- Long-Term Sustainability: Companies with strong governance are often more focused on long-term sustainability. This perspective can influence funding decisions, encouraging a balanced approach that prioritizes the company's long-term financial health over short-term gains.

In conclusion, the two concepts of corporate governance and capital structure are closely related. Corporate governance principles influence how companies allocate cash, manage financial risks, and choose which projects to fund. It is essential to understand this interaction in order to assess how governance quality mediates the relationship between capital structure and financial management inside firms.

2.2.4.3 Corporate Governance and Cost of Capital

An important financial indicator that shows the rate of return demanded by creditors and investors to provide money to a business is the cost of capital. Through a number of channels, corporate governance significantly affects a company's cost of capital (Zhu, 2014; Affes & Jarboui, 2023):

- Investor Confidence: Good corporate governance practices inspire confidence among investors, including both equity and debt investors. When investors trust that the company is well-managed, transparent, and accountable, they may accept a lower rate of return on their investments, reducing the company's overall cost of capital.
- Risk Perception: Effective governance practices, such as risk management oversight, can mitigate the perceived risk associated with investing in a company. Lower perceived risk leads to lower required rates of return, which in turn reduces the cost of capital.
- Access to Capital Markets: Companies with strong governance are often better positioned to access capital markets and attract a wider pool of investors. Increased access to capital can lead to more competitive financing terms, including lower interest rates for debt issuance.
- Cost of Equity: Governance practices influence the cost of equity capital, which is the return required by equity investors. Companies with high governance standards may experience lower costs of equity as investors view them as less risky and more likely to deliver stable returns.

- Creditworthiness: Effective governance enhances a company's creditworthiness in the eyes of creditors and credit rating agencies. A strong credit rating can result in lower interest rates on debt, reducing the cost of debt financing.

Corporate governance is crucial for ethical and regulatory reasons, impacting a company's financial aspects. It boosts investor confidence, manages risk, provides access to capital markets, influences equity cost, and enhances creditworthiness, potentially gaining a competitive advantage.

2.2.4.4 Governance and Debt Financing

Corporate governance practices have a direct impact on a company's ability to secure debt financing, manage its debt obligations, and ensure responsible debt management (Muhammad et al., 2021):

- Debt Issuance: Companies with sound governance practices often find it easier to issue debt instruments, such as bonds or loans, in financial markets. Creditors have confidence in companies that uphold transparency and ethical standards, making them more attractive borrowers.
- Credit Terms: Governance quality can influence the terms of debt agreements. Companies with strong governance may negotiate more favorable terms, including lower interest rates, longer repayment periods, and fewer restrictive covenants, reducing the financial burden of debt.
- Debt Covenants Compliance: Governance mechanisms often include oversight of debt covenants compliance. Companies with effective governance are better

equipped to monitor and ensure compliance with financial ratios and other covenants, reducing the risk of default.

- Default Risk Mitigation: Governance practices can help mitigate default risks associated with debt. A well-governed company is more likely to make prudent financial decisions, maintain adequate liquidity, and manage cash flows effectively, reducing the likelihood of debt-related defaults.
- Debt Repayment: Governance practices guide how companies allocate funds for debt repayment. A governance-driven focus on long-term sustainability ensures that companies allocate resources responsibly to meet their debt obligations.

We understand that corporate governance influences the cost of capital and debt financing for companies. Effective governance practices can reduce a company's cost of capital by building investor confidence, mitigating perceived risk, and improving access to capital markets. Additionally, governance practices impact a company's ability to secure debt financing, negotiate favorable credit terms, and manage debt obligations responsibly.

2.2.5 OECD Principles of Corporate Governance

The Organization for Economic Co-operation and Development (OECD) has established a set of internationally recognized corporate governance principles that serve as a framework for promoting good governance practices in companies. These principles are designed to enhance transparency, accountability, and the protection of shareholder rights. An outline of the OECD corporate governance standards and their importance will be given in this section (Code of Corporate Governance in Palestine, 2009).

2.2.5.1 Application of OECD Principles in Corporate Governance

Although the OECD Principles of Corporate Governance are applied differently in different nations and companies, its fundamental ideas offer a useful foundation for evaluating and enhancing corporate governance procedures. Here, we explore how these principles are applied in practice (Lyons, 2023):

- Rights of Shareholders: Companies should ensure that shareholders have the ability to exercise their rights effectively. This may involve facilitating proxy voting, providing clear information about voting rights, and ensuring that minority shareholders are not disadvantaged in any way.
- Equitable Treatment of Shareholders: Corporations should demonstrate fairness and equity in their dealings with all shareholders, including minority and foreign shareholders. Transparent policies should be in place to prevent abuse of power by controlling shareholders.
- Role of Stakeholders: Effective stakeholder engagement involves regular communication with employees, customers, suppliers, and the broader community. Companies may establish mechanisms such as advisory boards or forums to facilitate stakeholder input.
- Disclosure and Transparency: Companies should maintain a high standard of financial reporting and disclosure. This includes publishing annual reports, financial statements, and other relevant information in a timely and accessible manner. Transparency also extends to disclosing ownership structures and related-party transactions.

- Responsibilities of the Board: The people on the board of directors should be capable, self-reliant, and knowledgeable enough to manage the business well. The function of independent directors is vital in ensuring impartial supervision.
- Risk Management and Internal Control: Corporations must establish and maintain effective risk management and internal control systems. These systems should identify, assess, and mitigate risks while ensuring the reliability of financial reporting.
- Remuneration of Directors and Executives: Executive remuneration should be aligned with performance and should not incentivize excessive risk-taking. Companies may implement compensation committees to ensure fairness and transparency in setting executive pay.
- Accountability and Auditing: Accountability mechanisms should be in place to hold companies and their management accountable for their actions. Independent external auditors should verify the accuracy of financial statements and compliance with accounting standards.
- Enforcement: Governments and regulatory authorities are responsible for enforcing corporate governance standards. Enforcement may involve penalties and sanctions for violations, ensuring that companies adhere to governance principles.
- Legal and Regulatory Framework: Governments play a vital role in establishing and maintaining a legal and regulatory framework that supports effective corporate governance. This framework should balance the need for transparency with the avoidance of excessive regulatory burdens.

The application of the OECD Principles of Corporate Governance provides a robust framework for assessing and enhancing corporate governance practices, offering valuable guidance for countries and organizations worldwide. These principles promote the rights of shareholders, ensuring their effective exercise, transparent equitable treatment, and active engagement with all stakeholders, fostering inclusive corporate decision-making. Furthermore, they emphasize disclosure and transparency, holding corporations accountable for high-quality financial reporting and revealing ownership structures and transactions. The critical role of the board of directors in overseeing the company effectively is underscored, with the necessity of independent directors for objective governance.

2.2.5.2 Assessing Corporate Governance Practices

Assessing corporate governance practices is essential for evaluating how effectively companies adhere to governance principles and identifying areas for improvement. Various methods and tools are available for assessing governance practices, including (Padachi et al., 2016):

- Corporate Governance Codes: Many countries and regions have developed their corporate governance codes or guidelines that companies are expected to follow. These codes provide a benchmark for assessing governance practices.
- Corporate Governance Ratings: Independent rating agencies assess and rate companies' governance practices based on predefined criteria. These ratings provide investors and stakeholders with insights into a company's governance quality.

- Governance Audits: Internal or external audits may focus on governance processes and compliance with governance standards. These audits help identify weaknesses and areas of non-compliance.
- Stakeholder Feedback: Companies can gather feedback from stakeholders through surveys, consultations, and engagement initiatives. Stakeholder input can highlight areas where governance practices may need improvement.
- Self-Assessment: Companies may conduct self-assessments of their governance practices, comparing them against established standards and principles.
- Regulatory Compliance: Regulatory authorities may conduct compliance assessments to ensure that companies adhere to legal and regulatory governance requirements.

2.2.5.3 Theories of Corporate Governance:

Agency Theory:

Fundamental Theories of corporate governance rooted in agency theory were developed in the early 70s American literature. The theory refers to the relationships established between the owners of a company and its directors; relationships embodied in a mandate (agent) contract which consists of one first part (the principal) that engages the other part (the agent) to perform some services on their behalf.

Agency theory has been developed from the theory of the firm, stated by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Fundamentals of agent theory can be found even in the writings of Adam Smith (1976): "You cannot expect those who manage other people's money to be as careful and caring as it would belong to

them. Waste and negligence are present, always, more or less, in the management of every business."

Although the development of agency theory is found only in the 70s, the idea of separating the control government has been highlighted since the 30s by Berle and Means (1932). According to studies by these authors, the divergence between ownership and control is a potential conflict between shareholders and management.

Under the agency theory, shareholders (the principal) expect the directors (the agents) to lead and make decisions in their interest, and that of those who have mandated. On the other hand, the agent can not only adopt the decisions that pursue only the interests of the principal. (Padilla, 2000). Such a conflict of interests between owners and managers was first highlighted by Berle & Means (1932) and Adam Smith (1976) followed by Ross (1973) and then expanded by Meckling (1976). Specifically, the conflict is highlighted by Davis, Schoorman & Donaldson (1997).

Agency theory leads to the need for harmonization of the interests of managers with those of shareholders for the objective of maximizing the company value could not be affected by the competing interests of managers in different decision-making circumstances.

Stewardship Theory:

Stewardship theory describes the role of management leadership in maintaining and developing the organization's value, although it works temporarily therein. Stewardship theory has its origins in the psychology and sociology areas and from this perspective this

theory assumes that managers are faithful, responsive, and effective people and therefore, they are good administrators of the resources entrusted.

According to this theory Schoorman & Donaldson (1997) state that "an administrator protects and maximizes shareholders' wealth; thus, the shareholder's utility functions are maximized. From this perspective, directors and managers work for shareholders ensuring the growth of shareholders' wealth. In comparison with agency theory, where the managers are tempted to make decisions for their advantage, not for the owners, the steward theory assumes that managers act not in their interests, but in a given conflict of interest situation, they put the company's interests in front of the personal ones.

The conceptual foundation of the theory is related to the development of work motivation theories by McGragor in the '60s and more specifically to the Y Theory that assumes that managers are rational beings, so there isn't any need to excessively monitor their behavior as the agency theory assumes. (Nicholson & Kiel 2007). According to Fulop (2011), because steward theory is considered an important factor in the board director structure, it must be composed of company intern members because they know best the company's problems and can react accordingly. If the board of directors is composed only of external members, they don't react as promptly to the daily problems of the company.

As Solomon (2007) highlights, the outside directors (outsiders directors) can monitor the maximizing of the business performance only in the short-term because their knowledge about the work activities is less compared to the directors coming from inside the company (the insiders) who closely know the daily company's problems.

Resource Dependency Theory

Resource dependency is an explanatory model of organization activities that emphasizes the fact that they are open systems and the environment in which they operate and the social relations are the basis in decision-making about resource allocation. In this context, Pfeffer and Salancik (1978) highlighting the resource dependence perspective on inter-organizational behavior, argue that: "To understand the organization behavior you must understand the context in which that behavior occurs [...] this is understandable from the perspective that organizations' activity is inevitably linked with the environmental conditions in which they operate."

Hillman, Canella, and Paetzold (2000) argue that the resource dependence theory y focuses on the roles that managers play in providing essential resources for the organization concerning the external environment. According to studies conducted by Hillman, Canella, and Paetzold (2000), in the decision-making process, the managers contribute with information resources, skills, and access to key business partners of an organization such as suppliers, creditors, government, social groups, etc.

According to Abdoullah & Valentine (2009), the managers responsible for leading a business are classified into four categories:

a) "insiders", meaning the current and former managers of the company offering expertise in specific areas of the company and finance law;

b)"business experts", meaning the managers of big companies who provide expertise in business strategy, decision-making, and solving economic problems facing the company;

c) "support specialists" represented by lawyers, bankers, insurance companies, public relations experts, and all those experts who provide specialized support in their specialization area;

d)"community influential", meaning political leaders, academic leaders, religious leaders, or social and community organization leaders.

From the point of view of allocated internal resources, the power engaged in the process of allocated resources can be stronger or weaker and it depends on the extent to which managers belong to one of the four categories listed above. The resource dependency theory emphasizes the complex character of the "network" concept underlying the corporate governance concept.

2.2.5.4 Effects of Capital Structure on Earnings Management

2.2.5.4.1 Direct Effects of Capital Structure on Earnings Management

1. **Leverage Impact**: High levels of debt can pressure management to meet financial covenants or expectations from creditors, leading to aggressive earnings management to present a favorable financial position (Needles et al., 2018).

2. **Cost of Capital**: The structure of capital affects the overall cost of capital, which can influence management's decisions regarding earnings manipulation. For instance, higher costs may lead to more aggressive reporting to boost perceived financial health (Ali, 2020).

3. **Investment Decisions**: Capital structure directly influences investment capacity. Firms with significant debt may prioritize short-term results over long-term growth, resulting in earnings management practices that favor immediate returns (Tran et al., 2023).

2.2.5.4.2 Indirect Effects of Capital Structure on Earnings Management (Mediated by Corporate Governance)

1. **Governance Quality**: Strong corporate governance can mitigate the pressures of high leverage. Effective boards and independent directors can reduce the likelihood of earnings manipulation, even when a company has high debt (Urban, 2019).

2. **Monitoring Mechanisms**: Well-structured governance systems can provide checks and balances that discourage earnings management practices, thus influencing how capital structure impacts financial reporting (Urban, 2019).

3. **Stakeholder Relationships**: Firms with strong governance are better positioned to maintain trust with stakeholders, which can lessen the need for management to resort to earnings manipulation as a strategy to maintain confidence among investors and creditors (Wang et al., 2019).

4. **Risk Appetite**: The governance framework can affect management's risk appetite. If governance structures promote transparency and ethical behavior, the negative indirect effect of capital structure (high leverage leading to earnings management) may be less pronounced (Nawaz & Nawaz, 2019).

In summary, the direct effects of capital structure on earnings management are characterized by immediate pressures and incentives tied to leverage, while the indirect effects are mediated by corporate governance mechanisms that can either exacerbate or mitigate those pressures. Strong corporate governance can reduce the likelihood of earnings management, even in highly leveraged firms, illustrating the complex interplay between capital structure, corporate governance, and financial reporting behavior.

2.2.6 Corporate Governance in the Palestinian Context

The practices of corporate governance play a pivotal role in shaping the characteristics of Palestinian marketplaces and enterprises. This section explores the unique aspects of corporate governance in the Palestinian context and how they affect the way local markets and enterprises operate (Code of Corporate Governance in Palestine, 2009).

2.2.6.1 The Role of Corporate Governance in Palestinian Markets

According to the Code of Corporate Governance in Palestine (2009), corporate governance is essential to the development and expansion of regional markets and companies in the Palestinian setting, for the following reasons:

- Fostering Investor Confidence: In Palestinian shareholding non-financial companies, corporate governance serves as a critical factor in fostering investor confidence. Given the challenges and uncertainties in the Palestinian business environment, robust governance practices can attract both local and international investors, encouraging capital inflows.

- Enhancing Transparency: Corporate governance mechanisms, when effectively implemented, enhance transparency in financial reporting and corporate decision-making. Transparent practices are vital for providing investors with accurate information and mitigating the risk of financial irregularities.
- Attracting Foreign Investment: As the Palestinian markets seek to attract foreign investment, corporate governance practices that align with international standards and best practices become essential. Foreign investors often prioritize governance quality when considering investments in emerging markets.
- Supporting Sustainable Growth: Good governance supports the long-term sustainable growth of Palestinian companies. It helps them make prudent financial decisions, maintain effective risk management practices, and build resilience in the face of economic challenges.
- Protecting Minority Shareholders: Corporate governance mechanisms provide protection for minority shareholders by ensuring their rights are respected and preventing potential abuses by controlling shareholders.
- Regulatory Framework: Palestinian corporate governance operates within a regulatory framework defined by local authorities. Understanding the nuances of this framework is essential for businesses and investors operating in the Palestinian context.

It can be inferred that corporate governance in Palestinian markets stands as a linchpin that holds together the various facets of economic growth, investor confidence, and transparency. Its impact goes beyond individual companies; it extends to the broader economic landscape, ultimately contributing to the resilience and prosperity of Palestinian

markets. As local authorities continue to fine-tune the regulatory framework, businesses and investors operating in Palestine must remain adaptable and well-informed to leverage the full potential of robust corporate governance practices.

2.2.6.2 Unique Challenges in Palestinian Corporate Governance

Palestinian corporate governance faces unique challenges as follows (Asmar & Abu Alia, 2018; Code of Corporate Governance in Palestine, 2009):

- Political and Economic Instability: The Palestinian territories have experienced long-standing political and economic challenges, including territorial disputes and restrictions on movement. These challenges can impact the stability of businesses and markets.
- Governance Gaps: Palestinian corporate governance practices may face gaps or limitations due to the unique political and economic context. Ensuring effective governance mechanisms can be particularly challenging.
- Role of Regulatory Bodies: Regulatory bodies in the Palestinian territories are tasked with overseeing corporate governance. Understanding the roles and effectiveness of these bodies is crucial for companies operating in the region.
- External Influences: The Palestinian territories are influenced by regional and international dynamics that can impact business operations and governance practices. This includes relationships with neighboring countries and international organizations.

- Socioeconomic Factors: Socioeconomic factors in the Palestinian territories, such as unemployment and economic disparities, can influence corporate governance priorities and challenges.
- Family Businesses: the Palestinian context is attributed to family-owned companies, which have problems in corporate governance and represent conflicts between board members from the same family (Qiu & Freel, 2020).

In conclusion, Palestinian corporate governance grapples with an intricate web of challenges, each of which is deeply interwoven with the broader political, economic, and social context. Meeting these challenges demands not only an understanding of the unique nature of Palestinian corporate governance but also an adaptive and strategic approach. Companies and stakeholders must be prepared to navigate this distinct landscape, embracing innovative solutions that address the region's specific needs while upholding the principles of transparency, accountability, and sound governance.

2.2.6.3 The Palestinian Capital Market Authority (PCMA)

The Palestinian Capital Market Authority (PCMA) plays a central role in regulating and overseeing the Palestinian financial markets, including corporate governance practices. Established in 2004, the PCMA aims to promote transparency, protect investors, and develop a sound and fair capital market in Palestine. Understanding the role and functions of the PCMA is essential for grasping the regulatory framework within which corporate governance operates in Palestine (Asmar & Abu Alia, 2018).

2.3 Literature Reviews

Tran et al. (2023): Capital Structure and Profitability of Listed Firms and a Transition Market, Does Debt Maturity Matter?

This study explores the influence of capital structure and debt maturity on the profitability of enterprises listed on the Vietnamese stock exchange. Drawing data from 631 non-financial companies in Vietnam between 2016 and 2020, the research uncovers several crucial findings. It suggests that capital structure has a negative impact on both return on assets (ROA) and return on equity (ROE). Additionally, it highlights that a higher ratio of short-term debt to total assets is linked to reduced profitability in Vietnamese companies, as they tend to rely on short-term loans due to their simplicity and lower borrowing costs compared to long-term debt. An interesting result is the reverse relationship between the long-term debt ratio and profitability. This study provides valuable empirical insights for managers and lending institutions, helping them comprehend the impact of factors such as capital structure, firm size, and state ownership on firm performance.

Yuniar et al. (2023): The Effect of Profitability, Capital Structure, Company Size, Corporate Social Responsibility, And Company Growth on the Value Of Companies In Business Index 27 On The Indonesia Stock Exchange (Idx).

For Indonesian companies listed on the Business Index 27 of the Indonesia Stock Exchange, the study looks at the effects of several factors on firm value. Growth, CSR, profitability, capital structure, and corporate scale are important variables. Descriptive and multiple linear regression analysis was performed on data from nine companies between 2016 and 2020. The findings indicated that while growth and corporate social responsibility

had no discernible impact on firm value, profitability, capital structure, and company size all positively affected it.

Kapoor & Seetanah (2023): The moderating and mediating effects of corporate governance and capital structure on firm performance: empirical evidence from an emerging market.

The study examines the impact of corporate governance (CG) and capital structure (CS) on firm performance (FP) in 38 Mauritian non-financial companies over ten years. Results show that CG has a positive but insignificant influence on return on equity (ROE) and Tobin's Q, while CS has a significant negative impact on both. The interaction of CG and CS influences FP, with varying moderating effects depending on performance measures. CS and CG do not mediate their relationship with FP. The study suggests that combining high leverage ratios with good governance practices can improve FP and boost investor confidence.

Shoaib & Siddiqui (2022): Earnings management and theoretical adjustment in capital structure performance pattern: Evidence from APTA economies.

In APTA member nations, the study looks at how earnings management affects the connection between capital structure and company performance. To test hypotheses about capital structure, researchers separated earnings management into nondiscretionary and discretionary accruals. The study, which used data from 802 companies, discovered that the trade-off or pecking-order hypothesis applied to the relationship between capital structure and firm performance in the absence of earnings management. Discretionary

accruals, on the other hand, attempted to manipulate capital structure performance in order to lessen its influence on firm performance.

Chhillar & Lellapalli (2022): Role of earnings management and capital structure in signaling early stage of financial distress: A firm life cycle perspective.

In APTA member nations, the study looks at how earnings management affects the connection between capital structure and company performance. To test the hypotheses about capital structure, researchers separated earnings management into nondiscretionary and discretionary accruals. The study, which used data from 802 companies, discovered that the trade-off or pecking-order hypothesis applied to the relationship between capital structure and firm performance in the absence of earnings management. However, discretionary accruals aimed to manipulate capital structure performance, reducing its impact on firm performance.

Rizani et al. (2022): The Mediating Effect of Earnings Management on Financial Performance: The Importance of Good Corporate Governance.

The study looks at the connection between financial performance, earnings management, and corporate governance in Indonesian listed banks between 2010 and 2015. It was discovered that earnings management, which in turn influences a company's financial performance, is greatly impacted by excellent corporate governance. Reducing earnings management through increased managerial and institutional ownership may enhance financial performance. The study highlights how crucial sound corporate governance practices are to reducing earnings manipulation and gaining accurate assessments of a company's performance.

Tulcanaza-Prieto & Lee (2022). Real Earnings Management, Firm Value, and Corporate Governance: Evidence from the Korean Market.

This research delves into the relationship between real earnings management (REM), firm value (FV), and corporate governance (CG) in the Korean market. The study findings indicate that strong CG practices significantly mitigate the effectiveness of management's opportunistic REM behavior. Moreover, the study highlights that CG plays a substantial monitoring role in curbing opportunistic REM activities, preventing a decrease in FV associated with such activities. This study underscores the vital role of CG in ensuring the integrity and reliability of reported financial figures.

Adeneye & Kammoun (2022): Real earnings management and capital structure: Does environmental, social and governance (ESG) performance matter?

This research investigates the effects of real earnings management (REM) on the capital structure of ASEAN-listed companies between 2014 and 2019. It specifically looks at the contribution of environmental, social, and governance (ESG) performance as well as the breakdown of REM's sources. The findings demonstrate that REM greatly boosts leverage, particularly when derived from unusual production costs and discretionary spending. Leverage is not much impacted by anomalous cash flows from operating activities, though. The study also suggests weak corporate governance practices in ASEAN firms, with implications for stakeholder theory and reducing agency costs related to earnings manipulations.

Alkababji (2021): The Effect of Audit Quality on Reducing Earnings Management Practices: An Applied Study to Palestinian Banks - Public Shareholding.

This study aimed to investigate the existence of the earnings management practices of the public shareholding Palestinian banks listed in Palestine Exchange (PEX) and tests the impact of auditing quality factors represented by the audit fees, audit size (Big 4), size of bank and leverage ratio of the bank on reducing the earnings management practices. To achieve the objectives of the study, the researcher used the Modified Jones Model, which focuses on measuring the total accruals of the measurement of earnings management practices. The sample of the study consisted of the six public shareholding banks in Palestine during 2014-2016. The results of the study revealed that the public shareholding banks have been exercising earnings management during the period of the study, in addition to having variable relationships among audit quality ingredients and earnings management. The researcher recommended emphasizing the necessity to provide a high-quality audit environment, through compliance with the guidelines of the performance quality standards, encouraging the Palestinian auditing firms to deal with the public shareholding companies, especially the banking sector, adhering to the strict standards of quality, and paying attention to the size of auditors' fees commensurate with the effort, volume of operations and audit risk.

Javaid (2021): Impact of corporate governance on capital structure: mediating role of cost of capital.

The cost of capital in non-financial companies listed on the Pakistan Stock Exchange is the main subject of the study, which looks at how corporate governance affects capital structure. Panel data analysis techniques and 1800 firm-year observations were employed in this 2004–2016 research project. The findings demonstrated that some important criteria, including institutional ownership, management ownership, CEO/Chair duality, board size,

and composition, have an impact on financing decisions. A role is also played by other traditional determinants of capital structure, including firm size, asset structure, profitability, business risk, and growth. The discovery of the cost of capital's mediating function in the interaction between capital structure and corporate governance is the study's principal contribution.

Hapsoro & Bahantwelu (2020): Does earning management mediate the effect of capital structure on company value?

The study looks into how capital structure affects a company's value, using earnings management as a moderating factor. Utilizing Tobin's Q, the debt-to-equity ratio, and production costs, it examines 144 manufacturing firms that are listed on the Indonesia Stock Exchange. The findings demonstrate the positive association between capital structure and firm value, with actual earnings management serving as a partly mediating factor. More stringent laws governing real profits management techniques are recommended by the study.

Shahzad et al. (2020): Impact of Corporate Governance on Firm Value in the Presence of Earning Quality and Real Earnings Management. International Journal of Business Excellence.

The study looks at how Pakistani public limited companies' firm value is affected by effective corporate governance. It demonstrates how strong governance frameworks can enhance company value, control genuine earning management, and enhance earning quality. With implications for business policy, the study highlights the value-oriented

character of corporate governance and the significance of accurate financial and governance reporting.

Mendoza et al. (2020): Effects of capital structure and institutional–financial characteristics on earnings management practices.

This research seeks to understand how earnings management practices and the institutional-financial characteristics of countries affect the financing policies of Latin American companies. Analyzing panel data from 983 companies spanning 1995 to 2017, the study uncovered interesting findings. Positive discretionary accruals were found to reduce leverage and increase debt maturity, indicating that such accounting manipulation practices aim to avoid external supervision and liquidity risk. The institutional and financial development of countries was seen to promote leverage and long-term debt issuances, although these effects did not fully mitigate the impact of accounting manipulation activities. An interesting result is the identification of IFRS adoption as an effective means of control to counteract the influence of earnings management on capital structure.

Sovaniski (2020): Capital structure impact on the financial performance of Kurdistan manufacturing firms. Social Science Research Network.

The study looks at how capital structure affects Kurdistan's manufacturing companies' financial performance. It found a negative correlation between total debt and firm size, suggesting that more debt or assets decrease financial performance. However, improved performance was observed with increased liquidity and sales growth. The research suggests that companies in Kurdistan should consider borrowing less and using internal funds more efficiently to improve their financial performance.

Hussein et al. (2019): Capital Structure and Firm Performance: Evidence From Jordanian Listed Companies.

The study examines the correlation between capital structure (CS) and financial performance (FP) in Jordanian-listed companies on the Amman Stock Exchange (ASE). Panel data from 112 companies between 2005 and 2017 was analyzed. The results indicate that the best accounting performance metric for illuminating the relationship between CS and FP is Return on Assets (ROA). While short-term and total debt levels have a negative influence on ROA, firm size and asset growth have a considerable positive impact on ROA. For all industries, total debt has a major impact on Tobin's Q and Earnings Per Share (EPS). Thus, in Jordanian public companies, CS has a major impact on FP.

Alkababji (2019): The Role of Corporate Governance in Controlling the Earnings Management Practices of Palestinian Shareholding Industrial Companies: A Field Study.

The study examined the relationship between corporate governance components (proxied by Board Independence, Board Size, Board Meeting, CEO Duality, and Audit Committee Independence) and earnings management practices. The researcher utilized Jones' modified model (Jones, 1991) for measuring total accruals to assess earnings management. The study covers all public shareholding industrial companies in Palestine over the period from 2012 to 2015. The findings reveal that these industrial companies engaged in earnings management during the study period. Additionally, the study identified variable relationships between corporate governance components and earnings management. Recommendations derived from the study include preserving the independence of the

board of directors, ensuring audit committee independence with competent and experienced members, and avoiding CEO duality within companies to reduce managerial exploitation and enhance the effectiveness of financial reporting supervision.

Al Saedi (2018): Earnings management and its relationship with stock returns: An empirical study on a sample of Qatari listed industrial Companies

The study examines the correlation between earnings management and stock returns in Qatari industrial companies. It suggests that due to the competitive market, these companies often avoid earnings management practices in their financial reports, allowing them to achieve good earnings without manipulating figures. The study emphasizes the significance of the Modified Jones Model for measuring earnings management.

This table summarizes the key points in the previous studies:

Author(s), Year	**Title**	**Study Purpose**	**Study Method**	**Study Variables**	**Key Findings**
Tran et al. (2023)	Capital Structure and Profitability of Listed Firms in a Transition Market, Does Debt Maturity Matter?	Examine how capital structure and debt maturity affect the profitability of businesses that are listed on the stock exchange in Vietnam.	Not specified	Capital structure, debt maturity, profitability	Capital structure negatively affects ROA and ROE. A higher ratio of short-term debt to total assets reduces profitability, while a reverse relationship exists for the long-term debt ratio.
Yuniar et al. (2023)	The Effect of Profitability, Capital Structure, Company Size, Corporate Social	Analyze the effects of firm value for companies listed on the Indonesia Stock Exchange's	Descriptive, multiple linear regression	Profitability, capital structure, company size, CSR, company growth, firm value	Profitability, capital structure, and company size have a positive impact on firm value. CSR and company growth also influence firm value, but not significantly negatively.

	Responsibility, And Company Growth on the Value Of Companies In Business	Business Index 27 on profitability, capital structure, size, CSR, and growth.			
Kapoor & Seetanah (2023)	The moderating and mediating effects of corporate governance and capital structure on firm performance: empirical evidence from an emerging market	Examine how capital structure and corporate governance affect company performance directly, indirectly, and moderately.	Multivariate data regression	Corporate governance, capital structure, firm performance, ROE, Tobin's Q	Corporate governance positively impacts ROE and Tobin's Q, while capital structure negatively affects both. The interaction between corporate governance and capital structure influences firm performance, but neither mediates their relationship with ROE or Tobin's Q.
Shoaib & Siddiqui (2022)	Earnings management and theoretical adjustment in capital structure performance pattern: Evidence from APTA economies	Examine how earnings management affects how capital structure and company performance are related in the nations that make up the Asia-Pacific Trade Agreement (APTA).	Not specified	Earnings management, firm performance, capital structure	The relationship between capital structure and firm performance is established without earnings management, but discretionary accruals aim to manipulate capital structure performance opportunistically.
Chhillar & Lellapalli (2022)	Role of earnings management and capital structure in signaling early stage of financial distress: A	Examine how, in the life cycle of listed Indian companies, capital structure and earnings management might act as early warning	Not specified	Earnings management, capital structure, financial distress	The quality of optional benefits can predict financial distress in early company stages, and integrating accruals and discretionary leverage can improve investment, financing, operational, and policy decisions.

	firm life cycle perspective	signs of financial disaster.			
Rizani et al. (2022)	The Mediating Effect of Earnings Management on Financial Performance: The Importance of Good Corporate Governance	Explore the relationship between corporate governance, earnings management, and financial performance.	Structural equation modeling	Corporate governance, earnings management, financial performance	Good corporate governance affects earnings management, which, in turn, adversely affects financial performance. Increased managerial and institutional ownership reduces earnings management, potentially improving financial performance.
Tulcanaza-Prieto & Lee (2022)	Real Earnings Management, Firm Value, and Corporate Governance: Evidence from the Korean Market	Examine the relationship between real earnings management, firm value, and corporate governance in the Korean market.	Not specified	Real earnings management, firm value, corporate governance	Corporate governance effectively counters opportunistic real earnings management, with CG playing a crucial role in monitoring and curbing such activities, thereby preventing a decline in firm value.
Adeneye & Kammoun (2022)	Real earnings management and capital structure: Does environmental, social and governance (ESG) performance matter?	Investigate the impact of real earnings management (REM) on the capital structure of ASEAN-listed firms and examine the role of environmental, social, and governance (ESG) performance.	Not specified	Real earnings management, capital structure, ESG performance	REM significantly increases leverage in firms with low ESG performance, particularly when sourced from abnormal production costs and discretionary expenses, while it doesn't significantly affect cash flows from operating activities, indicating weak corporate governance practices.
Alkababji (2021)	The Effect of Audit Quality on Reducing Earnings Management Practices: An	Investigate earnings management practices of public shareholding	Application of Modified Jones Model	Audit quality, audit fees, audit size (Big 4), size of bank, leverage ratio, earnings	The study suggests that Palestinian public shareholding banks should enhance audit quality, adhere to performance standards, and ensure

	Applied Study to Palestinian Banks - Public Shareholding	Palestinian banks listed on the Palestine Exchange (PEX) and test the impact of audit quality factors on reducing earnings management practices.		management practices	reasonable auditor fees to improve earnings management and reduce audit risk.
Javaid et al. (2021)	Impact of corporate governance on capital structure: mediating role of cost of capital	Investigate the impact of corporate governance on capital structure, with a focus on the mediating role of cost of capital in non-financial firms on the Pakistan Stock Exchange.	Panel data analysis	Corporate governance, capital structure, cost of capital, non-financial firms	Board size, composition, CEO duality, institutional ownership, and managerial ownership significantly influence financing decisions, while conventional capital structure determinants and cost of capital mediate the relationship between corporate governance and capital structure.
Hapsoro & Bahantwelu (2020)	Does earning management mediate the effect of capital structure on company value?	Examine the influence of capital structure on company value, considering earnings management as a mediating variable.	Partial least squares (PLS) method	Capital structure, real earnings management, company value	The study suggests that capital structure positively impacts company value, with real earnings management playing a role in mediating this relationship, and recommends stricter regulations on real earnings management practices.
Shahzad et al. (2020)	Impact of Corporate Governance on Firm Value in the Presence of Earning Quality and	Investigate the impact of corporate governance on firm value, considering earning quality and real	Not specified	Corporate governance, firm value, earning quality, real earning management	Effective corporate governance practices are linked to enhanced earning quality and increased firm value.

	Real Earnings Management	earning management.			
Mendoza et al. (2020)	Effects of capital structure and institutional–financial characteristics on earnings management practices	Explore the effects of capital structure and institutional-financial characteristics on earnings management practices in Latin American companies.	Analysis of panel data	Capital structure, institutional-financial characteristics, earnings management practices	Positive discretionary accruals reduce leverage and increase debt maturity, avoiding external supervision and liquidity risk. Institutional and financial development promotes leverage and long-term debt issuances, while IFRS adoption controls earnings management's influence on capital structure.
Sovaniski, (2020)	Capital structure impact on the financial performance of Kurdistan manufacturing firms	Investigate the impact of capital structure on the financial performance of manufacturing firms in Kurdistan.	Multiple linear regression	Return on equity, capital structure, liquidity, size, growth	Total debt and firm size negatively affect financial performance, while liquidity and sales growth positively impact it.
Hussein et al. (2019)	Capital Structure and Firm Performance: Evidence From Jordanian Listed Companies	Explore the relationship between capital structure (CS) and financial performance (FP) in Jordanian-listed companies on the Amman Stock Exchange (ASE).	Panel data analysis	Capital structure, financial performance, ROA, ROE, EPS, Tobin's Q	ROA is the most effective measure explaining the connection between CS and FP in Jordanian-listed companies. Firm size and asset growth positively impact ROA, while short-term and total debt levels negatively affect ROE, EPS, and Tobin's Q.
Alkababji (2019)	The Role of Corporate Governance in Controlling the Earnings Management Practices of	Investigate the role of corporate governance in controlling earnings management	Analysis of corporate governance components and earnings	Corporate governance components, earnings management	The study reveals a complex relationship between corporate governance and earnings management in Palestinian industrial companies, suggesting the

	Palestinian Shareholding Industrial Companies: A Field Study	practices within Palestinian shareholding industrial companies.	management		need for board and audit committee independence.
Al Saedi (2018)	Earnings management and its relationship with stock returns: An empirical study on a sample of Qatari listed industrial Companies	Examine the relationship between earnings management and stock returns for Qatari-listed industrial companies.	Not specified	Earnings management, stock returns	Qatari industrial companies in the competitive market lack earnings management practices, suggesting the use of the Modified Jones Model for measuring such practices.

The current study, titled "The Impact of Capital Structure on Earnings Management and the Mediating Role of Governance in Palestinian Shareholding Non-Financial Companies," investigates the intricate relationships between capital structure, corporate governance, and earnings management within Palestinian non-financial shareholding companies. This research comprises four central research questions, each with specific sub-questions to explore various dimensions of these interactions. The primary focus on Palestinian companies offers a distinct regional perspective, setting it apart from the previous studies.

In comparison to "Adeneye & Kammoun (2022)," while there's a shared interest in the relationship between capital structure and leverage, the current study extends its scope to encompass corporate governance variables and earnings management in the Palestinian context. This expansion allows for a more profound understanding of the intricacies influencing leverage and governance within Palestinian companies.

Both "Alkababji (2019 & 2021)" and the current study examine earnings management in Palestinian companies. However, the current research builds upon this foundation by exploring the intricate interplay between corporate governance, capital structure, and earnings management, offering a more comprehensive understanding of the factors affecting earnings management practices in Palestine.

In comparison to "Javaid et al. (2021)," the current study examines the influence of corporate governance and capital structure on earnings management in the Palestinian context. This specific focus provides valuable insights into the Palestinian market, while "Javaid et al." concentrates on the Pakistan Stock Exchange.

While there are commonalities between the current study and "Rizani et al. (2022)" regarding corporate governance and financial performance, the current research takes a unique direction by emphasizing their influence on earnings management in Palestinian non-financial companies. This distinctive approach enriches the analysis and offers a more specific context for understanding the relationships among these variables.

The current study shares similarities with "Hapsoro & Bahantwelu (2020)" as both explore the mediation of earnings management in the relationship between capital structure and firm value. However, the current research is focused on the Palestinian non-financial sector, contributing insights into the Palestinian market dynamics.

In comparison to "Kapoor & Seetanah (2023)," both studies investigate corporate governance and capital structure, but the current research refines the focus by studying their direct, mediating, and moderating effects on earnings management within an

emerging market. This depth of analysis differentiates the current study by providing a more comprehensive understanding of these relationships within the Palestinian context.

To sum up, the unique strength of this study is its focus on Palestinian non-financial enterprises that hold shares. It also examines the complex relationships between capital structure, corporate governance, and earnings management. Through an exploration of these intricate connections within this particular setting, the study advances a more sophisticated comprehension of these variables' impact on wage management strategies in Palestine.

What sets this study apart from earlier research?

Seldom have studies examined the relationship between capital structure, governance, and earnings management as well as the interaction between corporate governance, earnings management, and capital structure in Palestine. The purpose of this study is to present compelling empirical data supporting the idea that capital structure affects earnings management. Additionally, how corporate governance can restrain unethical acts carried out by the board of directors in managing profits, as well as the mediating role that it plays in Palestinian shareholding non-financial enterprises to support decision-makers in this regard.

Chapter Three: Methodology

3.1 Introduction

To link the conceptual framework with the empirical results, this chapter identifies the study methodology, and design, which includes the data required for the study, and factors. The study population and sample, data collection method, and analysis method to examine the study hypotheses are also identified. The researcher depended on the descriptive and inferential analysis methodologies to answer the study's objectives.

3.2 Research design

The main aim of this study is to determine the impact of capital structure on earnings management through the mediator corporate governance. Thus, the quantitative study method will be applied to explain how the independent variables affect one another or to establish a relationship between variables. This study is a quantitative research that uses primary data represented in the financial reports of companies obtained from the Palestine Exchange Website, in addition to secondary data represented in the previous literature reviewed and presented in Chapter Two.

3.3 Data Collection Method and Resource

The sources of data from the secondary data source that is in the form of the annual financial reports of non-financial companies published in the Palestine exchange during (2018-2022) (www.pex.ps). The researcher has selected this period in order to show the earnings management, corporate governance, and capital structure variations through such events that occurred in this period, represented in COVID, security and political instability,

and other events. In addition, the study used primary data like research, a thesis, and articles that specifically focused on the study variable in general, whether locally or internationally. This helps in getting a thorough understanding of the research problem from different perspectives

3.4 Study Population and Sample

The targeted population for this study will be all the non-financial companies in the Palestine Stock Exchange for 5 years from 2018 to 2022 (Palestine Exchange, 2024). It is worth mentioning here that the researcher has excluded the Banking and Insurance sectors from this study, because they are financial sectors that are different from the non-financial sectors within the analysis of their reports, as non-financial companies are different in their work and products from the financial companies; in addition, there is a huge number of studies conducted in financial companies (Banks, fund institutions). The researcher did not intend to make a comparison between financial and non-financial companies in this study due to the time limits. As well as, the treatment with the financial reports of the financial sectors (Banks and Insurance) companies, need different and complex statistical tests and treatments, which will make the study too much wide.

According to the Palestine Stock Exchange, the total number of companies is 33 companies distributed in three sectors, 12 companies in the industrial sector, 10 companies in the service sector, and 11 companies in the investment sector. The efficient way to select the sample that represents the population is a proportional stratified sampling since the number of companies in each sector is not the same. According to Hair et al. (2007), stratified random sampling is a “process in which certain sub-groups or strata are selected for the

sample in the same proportion as they exist in the population". So, the non-financial companies divided the population into 3 groups, each group representing one sector. To calculate and gain a more accurate result on the sample size, the Stephen Thompson formula was used, equation 1 displays the basis to determine the sample size the through Stephen Thompson formula (Thompson, 2012).

$$n = \frac{N \times p(1-p)}{[N-1 \times (d^2 \div z^2)] + p(1-p)} \qquad eq.(1)$$

Where n is the sample size, N represents the population size, p represents the probability value (0.50), d represents the desired margin of error (0.05), and z represents the z-score of significant level 95% (1.96). The Stephen Thompson formula shows that the efficient sample size representing the population in this study is 30 companies (see eq.2).

$$n = \frac{33 \times 0.5\,(1-0.5)}{[30 \times (0.05^2 \div 1.96^2)] + 0.5\,(1-0.5)} = 30.45 \qquad eq.(1)$$

In order to determine the sample size of each sector, table 3.1 represents the sample distributed according to the three sectors that represent the non-financial companies, the sample contains 11 companies in industrial sectors, 8 and 10 in service and investment sectors respectively, one company of service sector was deleted from the sample because some data that needed to calculate the study variable is not available (see appendix 1 to see the study sample of companies and their characteristics)

Table 3.1: Distribution of sample size from non-financial companies

Sectors	Population		Sample requirement		Sample	
	N	Percent (%)	N	Percent (%)	N	Percent (%)
Industrial	12	36.4	11	36.7	11	37.9
Service	10	30.3	9	30	8	34.5

Investment	11	33.3	10	33.3	10	27.6
Total	**33**	**100.0**	**30**	**100**	**29**	**100.0**

Table 3.1 indicates that the industrial companies were the largest number of the sample within 11 companies that have been involved in this study, as well the investment companies formed 27.6 % of the overall sample, and the service companies 34.5 %. This indicates that all companies within different sectors have no significant differences in their numbers, as the number of companies involved in this study is too close to each other.

A sample of companies from all sectors was chosen to conduct this study after deleting all companies that do not meet the following criteria:

1. The companies must be listed on the Palestine Exchange.

2. The end of the financial period for companies until December 31 of each year.

3. Availability of sufficient data such as income statement, balance sheet

3.5 Measuring the variables of research

3.5.1 Dependent Variable (Earnings Management)

The dependent variable in this study is earnings management, which is estimated by the method of the modified Jones Model, which measures the overall accruals, and divides those accruals into Discretionary Unexpected Portions, and Non-Discretionary Expected Portions. Jones Model is widely used for estimating earnings management in the previous literature. It is an extension of the original Jones Model, which was developed by Jones (1991) and Dechow et al, (1995-1996). The Modified Jones Model includes an additional

variable for accounts receivable accruals (AR_{it}), which helps to control for the effects of changes in accounts receivable on total accruals.

To estimate earnings management by Modified Jones, four steps were performed as follows:

1. Estimate the total accruals value: they are estimated according to the income statement approach to reduce errors and bias when estimating accruals, and income is measured to reduce errors and bias when estimating accruals, which is measured according to the equation as follows:

$$TA_{it} = NI_{it} - CFO_{it} \qquad (1)$$

In which:

- ✓ TAit: indicates company A's total accruals in period 1 and represents the difference between net income before extraordinary items and net flows Cash from operating activities based on the statement of changes in financial position.
- ✓ NIit: the company's net operating income | In period 1.
- ✓ CFOit: Net cash flow from the company's operating activities | In period 1

2. Estimate the regression coefficient β_1, β_2 and β_3 value according to the equation 2:

$$\frac{TA_{it}}{A_{i,t-1}} = \beta_1 * \frac{1}{A_{i,t-1}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + e_i \qquad (2)$$

3. Estimate nondiscretionary accruals value (NDA) according to the equation 3:

$$NDA_{it} = \beta_1 * \frac{1}{A_{it}} + \beta_2 * \frac{\Delta REV_{it} - \Delta AR_{it}}{A_{i,t-1}} + \beta_3 * \frac{PPE_{it}}{A_{i,t-1}} + e_i \qquad (3)$$

4. Determine the accrual discretionary value according to equation 4:

$$DA_{it} = \frac{TA_{it}}{A_{i,t-1}} - NDA_{it} \qquad (4)$$

Where:

TA_{it}: is the total accruals in year t for firm i.

NI_{it}: is the Net income in year t for firm i.

CFO_{it}: is the Net cash flow from operations in year t for firm i.

$A_{i,t-1}$: is the Total assets for firm i in period t-1.

REV_{it}: is the Revenue for firm i in period t.

PPE_{it}: is the Net property, plant, and equipment for firm i in period t.

AR_{it}: is the Accounts receivable accruals for firm i in period t.

The relationship between earnings management and discretionary accruals is that a higher level of discretionary accruals means a higher likelihood of earnings management.

Figure 3.1 displays the earnings management of non-financial public shareholding companies and the earnings management of companies due to their sector between (2018-2022). For the earnings management of the non-financial public shareholding companies, the result indicates that the mean value of earnings management in non-financial public shareholding companies increased gradually and continuously from 2018 to 2021, the mean value starts from 0.002 in 2018 to 0.007 in 2021, while it was decreasing in 2022 by (0.008) compared to the mean value in 2021 as shown in Table (3.2). The results of comparing the mean value of earnings management across sectors show that there is variance in this value. Additionally, the study period's variable behavior was defined by oscillation between increases and decreases in value. The mean value of earnings

management of companies in the industrial sector ranged between -0.006 in 2018 and 0.012 in 2020, ranged between -0.010 in 2022 and 0.011 in 2018 for companies in the investment sector, and ranged between 0.007 in 2018 and 0.008 in 2022 for companies in the service sector (see table 3.2).

Those results might be related to the prosperous period that the West Bank witnessed in 2018, in which political and economic situations were stable in the area when companies from all sectors were managing their earnings easily and in a growing form. Moreover, COVID-19 might be a reason for the decreasing earnings management values, due to the lockdown and lack of exporting for the industrial companies, in addition to the fear of investment regarding the investment companies. Moreover, this result might be related to the board independence, in which the decrease in the earnings management value is linked with the decrease in the board independence indicator. Overall, this might cause the change of accounting policies at all companies in all sectors, during the studied period, which reflected on their performance (financial leverage, firm growth, and profitability). Those results are consistent with the studies of (Khanh & Thu, 2019; Jiang, 2020; Strakova, 2021), who argued that the increase in earnings management could be caused by motivation and the external environment that plays a role in the operations of the company.

Figure 3.1: Mean value of the non-financial public shareholding firms' earnings management in the period (2018-2022)

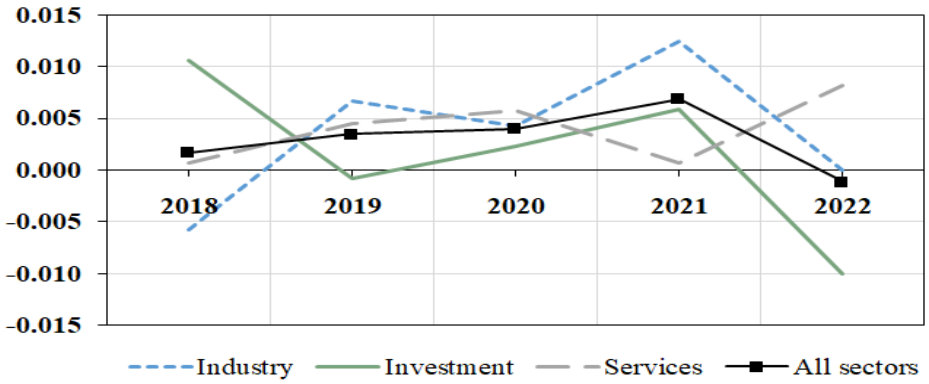


Table 3.2: Descriptive statistic of earning management during the study period (2018-2022)

Years	Industrial		Service		Investment		Non-financial companies	
	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation	Mean	Standard deviation
2018	-0.0058	0.0141	0.0007	0.0131	0.0106	0.0280	0.0017	0.0204
2019	0.0068	0.0116	0.0045	0.0215	-0.0008	0.0305	0.0035	0.0217
2020	0.0042	0.0122	0.0058	0.0187	0.0023	0.0174	0.0040	0.0155
2021	0.0124	0.0150	0.0007	0.0061	0.0058	0.0200	0.0069	0.0156
2022	0.0001	0.0065	0.0082	0.0187	-0.0100	0.0205	-0.0011	0.0170

3.5.2 Independent Variable (Capital Structure)

According to the study's aims, capital structure represents the independent variable by three indicators, which are financial leverage, firm growth, and profitability (Abed et al., 2012). The description and measurement of independent variables are summarized in Table 3.3.

Table 3.3: Description and measurement of variables

Variables	Measurement	Interpretation	Reference
Financial Leverage (L)	$\frac{Firm\ Debt}{total\ shareholders'\ equity}$	A higher level of financial leverage means that the firm has a greater proportion of debt to equity in its capital structure.	Ahmed Sheikh and Wang, (2011); Zhao et al. (2018)
Firm Growth (G)	$\frac{Market\ value\ of\ shareholder + Firm\ Debt}{Total\ Assets}$	A higher ratio means that the firm has more resources available to invest in firm growth opportunities.	Rajan and Zingales (1995); Fama and French (2002)
Profitability (P)	$\frac{Net\ Income}{Total\ Assets}$	A higher ratio indicates that the firm is more efficient at using its assets to generate profits.	Titman and Wessels (1988); Frank and Goyal (2003)

The results presented in Figure 3.2. A and Table 3.4 showed that during the study period, the firm growth indicator had a higher mean value than the two capital structure indicators (profitability and financial leverage). The mean firm growth value dropped to 0.869 during the first three years of the study (2018–2020), and then it grew to 1.024 in 2022, the end of the study period. However, throughout the same period, the mean value of financial leverage was larger than the mean value of profitability; the corresponding ranges were 0.169-0.186 and 0.023-0.059. In addition, the mean value of all capital structure indicators (financial leverage, firm growth, and profitability) has the highest value in the industry sector, followed by the service and investment sectors respectively. Also, the highest variation between sectors was found in the profitability indicator (see table 3.4).

This result is a positive result, in which the indicator of firm growth was higher than financial leverage and profitability; which can be due to the high competition among companies in the market, and often firm growth and profitability indicators are not linked

together directly. This means that the firm can be in a higher period of firm growth within small values of profitability in the period of 2018-2020. This result is consistent with the result of Tran et al. (2023) who found that a higher ratio of short-term debt to total assets is linked to reduced profitability in Vietnamese companies, as they tend to rely on short-term loans due to their simplicity and lower borrowing costs compared to long-term debt. The similarity between both studies is the reverse relationship between the long-term debt ratio and profitability.

While the result of firm growth and financial leverage that showed the decreasing of financial leverage and increase in firm growth indicators, revealed a positive indicator for the firms in Palestine, within different sectors. This result can be explained as whenever the financial leverage value increases, the debt-to-equity indicator will increase, which might lead to an increase in the firm expenses and decrease the growth of the firm, as this helps the company to reduce its financial risks. This result is consistent with the study of Javaid (2021) and Mendoza et al. (2020); who argued that some conventional determinants of capital structure, such as firm size, asset structure, profitability, business risk, and firm growth, also play a role in capital structure decisions.

Figure 3.2: Mean value of the non-financial public shareholding firms' capital structure in the period (2018-2022)

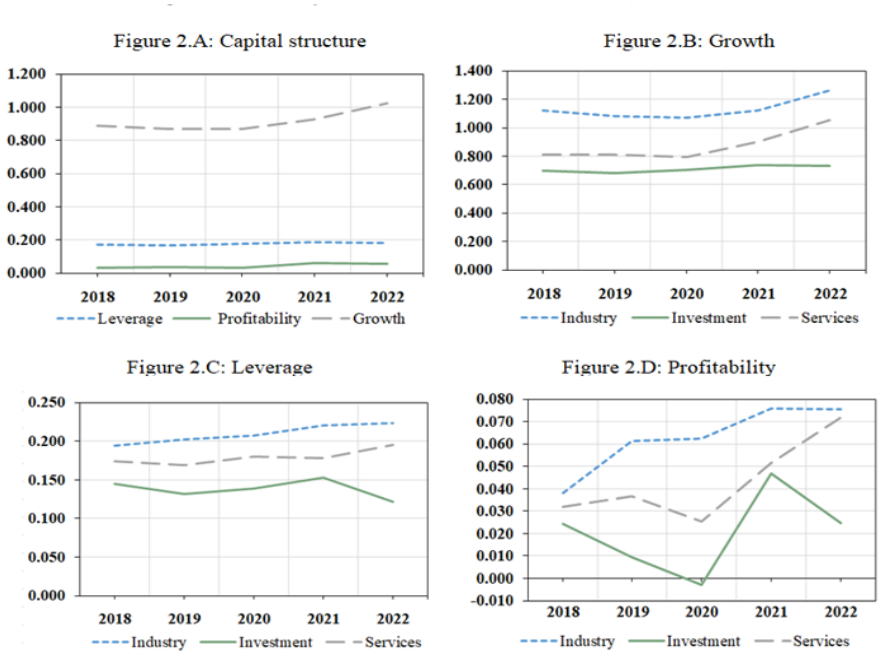


Table 3.4: Descriptive statistic of capital structure indicators during the study period (2018-2022)

Years	Industrial		Service		Investment		Non-financial companies	
	Mean	**Standard deviation**	**Mean**	**Standard deviation**	**Mean**	**Standard deviation**	**Mean**	**Standard deviation**
1. leverage								
2018	0.1945	0.0978	0.1739	0.2070	0.1451	0.1309	0.1718	0.1309
2019	0.2020	0.0988	0.1689	0.2247	0.1312	0.1485	0.1685	0.1485
2020	0.2075	0.0825	0.1802	0.2131	0.1389	0.1481	0.1763	0.1481

2021	0.2210	0.0973	0.1782	0.2035	0.1530	0.1511	0.1857	0.1511
2022	0.2238	0.1127	0.1957	0.2319	0.1217	0.1294	0.1808	0.1294
2. Profitability								
2018	0.0383	0.0653	0.0319	0.0454	0.0244	0.0420	0.0317	0.0514
2019	0.0613	0.0631	0.0368	0.0506	0.0093	0.0491	0.0366	0.0578
2020	0.0624	0.0515	0.0254	0.0658	-0.0028	0.0778	0.0297	0.0691
2021	0.0758	0.0522	0.0515	0.0511	0.0470	0.0650	0.0592	0.0562
2022	0.0755	0.0435	0.0720	0.0604	0.0247	0.0302	0.0570	0.0495
3. Growth								
2018	1.1213	0.4825	0.8103	0.2330	0.7003	0.3166	0.8903	0.4057
2019	1.0820	0.4371	0.8114	0.2971	0.6825	0.3675	0.8696	0.4061
2020	1.0735	0.4842	0.7942	0.3013	0.7038	0.4622	0.8690	0.4504
2021	1.1242	0.4790	0.9000	0.3167	0.7391	0.4651	0.9296	0.4523
2022	1.2657	0.5981	1.0550	0.4470	0.7343	0.5090	1.0243	0.5605

It is obvious from Table 3.4 that regarding the leverage ratios of sectors, the industrial and service sectors witnessed an increase in the ratios of leverage mean score (0.1945 in 2018, until 0.2238 in 2022), (0.1739 in 2018 until 0.1957 in 2022). In addition, the mean value of all capital structure indicators (financial leverage, firm growth, and profitability) has the highest value in the industry sector, followed by the service and investment sectors respectively. Also, the highest variation between sectors was found in the profitability indicator.

3.5.3 Mediating Variables (Corporate Governance)

According to the study's aims, corporate governance represents the mediating variables by five indicators which are board size, board independence, CEO duality, the independence of audit committee, and board of directors' meetings. The description and measurement of mediating variables are summarized in Table 3.5.

Table 3.5: Description and measurement of variables

Variables	Measurement	References
Board size (BS)	Number of members on the board	Mande et al.(2012); Zaid et al. (2020); Saleh et al.(2020); Alkababji (2019); Alkababji (2021).
Board Independence (BI)	$\frac{The\ number\ of\ independent\ memberson\ the\ board}{Total\ number\ of\ members}$	Zaid et al. (2019); Zaid et al. (2020b); Alkababji (2021).
CEO duality (CEOD)	Dummy variable: statistically number (1) is inserted if the board has CEO duality; otherwise, the number inserted (0).	Gul et al. (2002); Peasnell et al. (2005); Alkababji (2021).
Independence of audit committee (AC)	Dummy variable: statistically number (1) is inserted if the company has an independent audit committee; otherwise, the number inserted (0).	Green (1994); Alkababji (2021).
Board of Directors Meeting (BDM)	$\frac{The\ number\ of\ \ meetings}{Total\ number\ of\ board\ members}$	Habash (2012), Sani., et al, (2012)

The results in Figure 3.3 and Table 3.6 showed the average value of the board size indicator. The results showed that the average board size was roughly 8.310 in 2018 and 2021 and fell to approximately 8.276 in 2022, on the other hand, the highest mean value of board size was found in service sectors in the study period (mean of approximately 8.500),

followed by investment (mean approximately 8.600 from 2019 to 2021) and industrial sectors (mean approximately 7.909) respectively.

Regarding the board independence indicator, the result in Figure 3.3.B indicates that the change of mean value is very small, because the difference between the highest value and lowest value did not exceed 0.10 (change = maximum value- minimum value= 3.690-3.621=0.071), and it ranged between 3.621 to 3.690 as indicated in Table 3.6. Also, the highest mean value of board independence was found in service sectors in the study period (mean =2.375), followed by industrial (4.000 in 2018, 2019,2021, and 2022 while 4.090 in 2020) and investment sectors (mean =4.300 in study period except 2020 it was equal 4.400 and 4.200 in 2022) respectively as shown in Table 3.6.

Furthermore, the mean value of board of directors' meetings ranged between 0.707 to 0.712, and the mean value of the investment is the largest in the study period in general (mean=0.686 in the study period except 2020 it was equal 0.689), followed by the industrial (mean=0.715 in the study period except 2019 it was equal 0.733) and service (mean=0.721 in the study period except 2020 it was equal 0.739) respectively (see Table 3.6)

This result might be related to the stability period in the WEST BANK 2018-2021, which helps companies maintain their board members so that every member holds some stock in the company. While in 2022 after one year of COVID-19 and lockdown, the board size indicator might be affected due to the withdrawal of board members from the company. Moreover, the board independence indicator did not vary over the years, just in the period of lockdown and economic decrease, the board had to intervene in the earnings management procedures to maintain the profitability and financial leverage of the

company, while in the stable and prosperous periods, when there were free movements of products, and stable political and economic situation, the board was independent. This result affects also the board meetings that have been increased due to the urgent required economic situation. This means that whenever the company is facing a risk or uncertain situation, the board meetings and independence will be affected. This result is consistent with such studies as: Javaid (2021) and Alkababji (2019), who argued that the industrial companies engaged in earnings management during the study period. The study also found erratic correlations between earnings management and corporate governance elements.

Figure 3.3: Mean value of the non-financial public shareholding firms' governance dimensions (board size, board independence, and the board of directors' meetings) in the period (2018-2022)

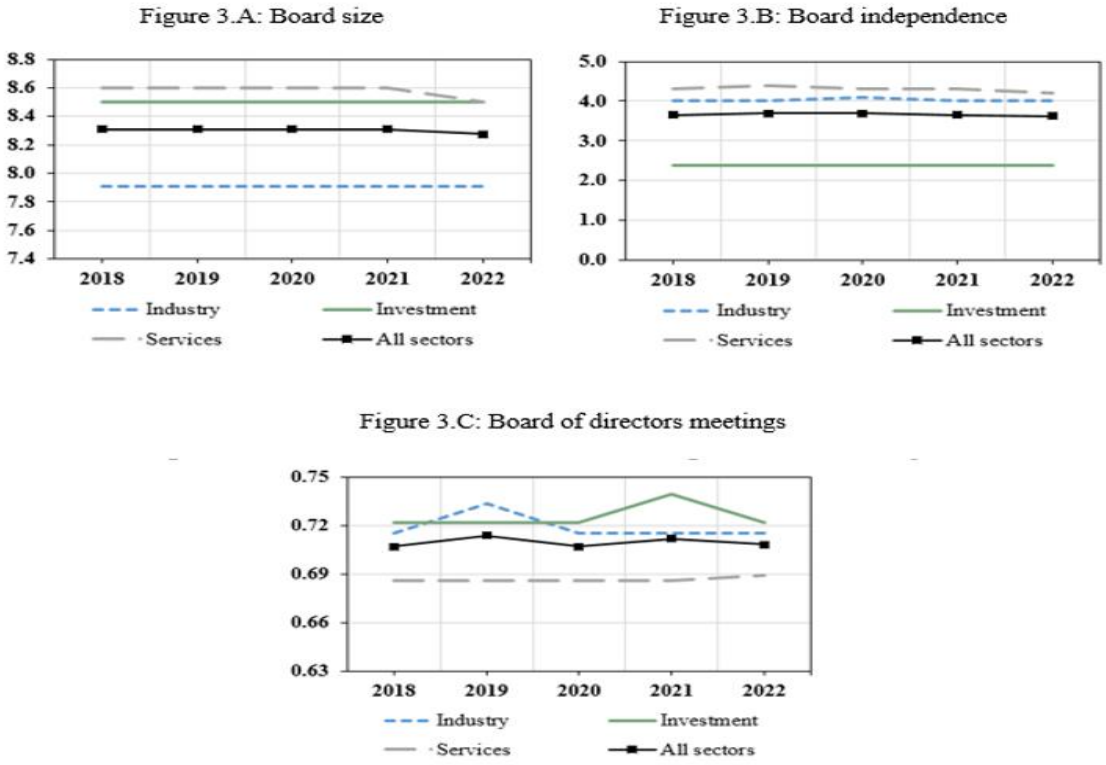


Table 3.6: Descriptive statistic of board size, board independence and the board of directors' meetings during the study period (2018-2022)

Years	Industrial		Service		Investment		Non-financial companies	
	Mean	**Standard deviation**	**Mean**	**Standard deviation**	**Mean**	**Standard deviation**	**Mean**	**Standard deviation**
1. Board size								
2018	7.9091	1.9212	8.5000	2.7255	8.6000	2.7162	8.3103	2.3770
2019	7.9091	1.9212	8.5000	2.7255	8.6000	2.7162	8.3103	2.3770
2020	7.9091	1.9212	8.5000	2.7255	8.6000	2.7162	8.3103	2.3770
2021	7.9091	1.9212	8.5000	2.7255	8.6000	2.7162	8.3103	2.3770
2022	7.9091	1.9212	8.5000	2.7255	8.5000	2.5927	8.2759	2.3283
2. Board independence								
2018	4.0000	1.9494	2.3750	2.7223	4.3000	2.6687	3.6552	2.4825
2019	4.0000	1.9494	2.3750	2.7223	4.4000	2.7568	3.6897	2.5228
2020	4.0909	1.8684	2.3750	2.7223	4.3000	2.6687	3.6897	2.4655
2021	4.0000	1.9494	2.3750	2.7223	4.3000	2.6687	3.6552	2.4825
2022	4.0000	1.9494	2.3750	2.7223	4.2000	2.5298	3.6207	2.4263
3. Board of directors' meetings								
2018	0.7152	0.2472	0.7215	0.2590	0.6857	0.2891	0.7068	0.2564
2019	0.7334	0.2901	0.7215	0.2590	0.6857	0.2891	0.7137	0.2723
2020	0.7152	0.2472	0.7215	0.2590	0.6857	0.2891	0.7068	0.2564
2021	0.7152	0.2472	0.7393	0.2741	0.6857	0.2891	0.7117	0.2607
2022	0.7152	0.2472	0.7215	0.2590	0.6895	0.2855	0.7081	0.2549

Both CEO duality and the independence of audit committee indicators were measured as dummy variables represented by 0 and 1. The result indicates that the percentage of non-financial public shareholding companies that had independence of audit committee in 2018

is 44.83% (n=13), this percentage decreased to 41.38% (n=12) in the other years, also the result indicates that the percentage of non-financial public shareholding companies that had CEO duality is 58.62% (n=17) all the most of years, while it found 55.17% (n=16) in 2021 (see table 3.7).

The decrease in the ratio of CEO duality and independence of audit committees in the non-financial shareholding companies in the years after 2018, might be related to the decrease in the profitability of the companies caused due to such circumstances as COVID and other political issues. This might lead companies to decrease the number of employees toward raising the financial leverage indicator which is linked with firm growth and profitability, as well this lead to decreasing the independence of audit committee expenses, by decreasing the number and work of independence of audit committee and might delegate the tasks of independence of the audit committee for CEO or to the accounting department in the company. Those procedures might relate to increasing the earnings management capability of the company, however, this is a negative procedure regarding the necessity of independence of audit committee work and supervision on the financial reports and earnings management. This result is inconsistent with the study of Alkababji (2019) who recommended preserving the independence of the board of directors, ensuring audit committee independence with competent and experienced members, and avoiding CEO duality within companies to reduce managerial exploitation and enhance the effectiveness of financial reporting supervision. Also, this result is inconsistent with Alkababji (2021) who stated that there are relationships between audit quality ingredients and earnings management.

Furthermore, the result in Figure 3.4 indicates that most investment companies had a CEO duality (75%; n=6) from 2018 to 2021, and this percentage decreased to 62.5% (n=5) in 2022. The percentage of both industrial and service companies that had a CEO duality less than the investment companies by around (40%); thus 30% (n=3) of service companies had a CEO duality in each year. Whereas, 27.27% (n=3) of industrial from 2018 to 2020 had a CEO duality, and 36.36% (n=4) of them had a CEO duality in 2021 and 2022. Regarding the independence of audit committee, the result indicates that 63.63% (n=7) and 50% (n=5) of industrial and service companies had an audit committee each year respectively, while the 50% (n=4) of investment companies had an independence of audit committee in 2018, then the percentage was increased to 62.5% (n=5) from 2019 to 2022.

Regarding the CEO duality indicator that did not change during the years, it could be explained that this result is linked with the earnings management ratio stability in 2018-2021. The CEO duality has decreased due to the decrease in earnings management indicator, which led the companies to decrease the workload and expenses of employees, toward recovering the earnings management. While, the investment companies have increased the percentage of independence of the audit committee because they witnessed decreasing in the earnings management value, which led the companies to increase the work and tasks of independence of the audit committee for assessing and investigating the reasons beyond the mitigation of earnings management.

Figure 3.4: Percentage of non-financial public shareholding firms that have CEO duality and independence of audit committee in the period (2018-2022)

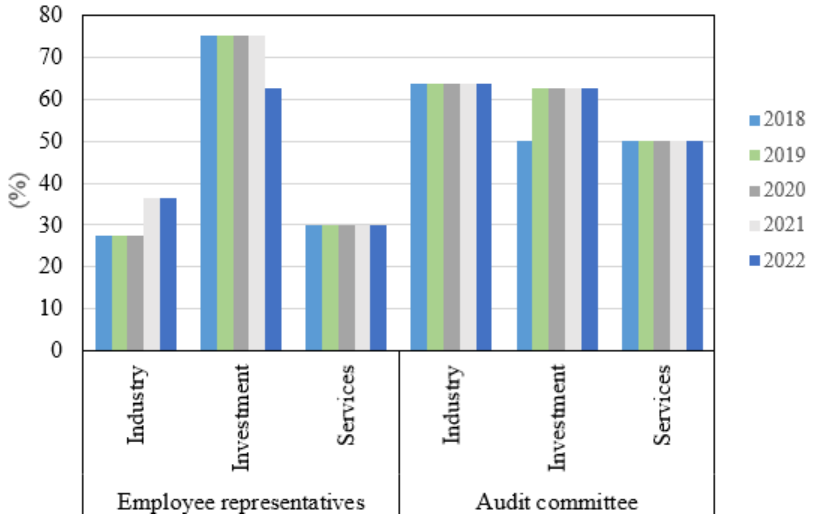


Table 3.7: Descriptive statistics of CEO duality representatives and the audit committee during the study period (2018-2022)

Years	Industrial		Service		Investment		Non-financial companies	
	0	**1**	**0**	**1**	**0**	**1**	**0**	**1**
1. CEO Duality								
2018	8	3	2	6	7	3	17	12
2019	8	3	2	6	7	3	17	12
2020	8	3	2	6	7	3	17	12
2021	7	4	2	6	7	3	16	13
2022	7	4	3	5	7	3	17	12
2.Audit committee								
2018	4	7	4	4	5	5	13	16
2019	4	7	3	5	5	5	12	17
2020	4	7	3	5	5	5	12	17
2021	4	7	3	5	5	5	12	17
2022	4	7	3	5	5	5	12	17

Note: 1: represents the company has a characteristic; 0: otherwise.

3.6 Data analysis

In this study, both descriptive and inferential statistical tools to examine the hypothesis and questions by Stata program V. 18 as follows:

- **Descriptive statistics**
    1. Frequencies and percentages were used to describe the dummy variables (independence of audit committee, CEO duality).
    2. Means and standard deviation were used to describe the quantitative variables (earnings management, board size, board independence, board of directors meeting, firm growth, financial leverage, and profitability).
- **Inferential statistics**

  Data analyses were performed by using Stata version 12 to answer the study hypothesis by the Panel model.

3.6.1 Panel model

In order to test the impact of capital structure on earnings management through the mediator corporate governance during (2018-2022), panel regression models were used, since the researcher deals with the repetition of companies and time, the panel data approach is considered more reasonable, since panel data are suitable to study the behavior of individual companies as well over different periods.

There are three main types of panel data models: pooled regression model (PRM); fixed effect regression model (FEM) and random effect regression model (REM). The general equation of the panel data regression model can be written as follows:

$$Y_{it} = B_{0i} + \sum_{j=1}^{k} B_j X_{jit} + \varepsilon_{it} \qquad (i = 1,2, \dots, n; t = 1,2, \dots, t; j = 1,2, \dots k)$$

Where Y_{it} is the dependent variable in company i during the t period, X_{it} represents the independent variable at time t and company i, and ε_{it} represents the error term in the models, while B_{0i} and B_j represent the scalar constant and regression coefficient respectively.

The pooled regression model is one type of model that has constant coefficients, referring to both intercepts and slopes. For this model, researchers can pool all of the data and run an ordinary least squares regression model. The equation of the pooled regression model can be written with assumed $E(\varepsilon_{it}) = 0,\ \text{var}(\varepsilon_{it}) = \sigma_{\varepsilon}^2$ as follows:

$$Y_{it} = B_{0i} + \sum_{j=1}^{k} B_j X_{jit} + \varepsilon_{it} \qquad (i = 1,2, \dots, n; t = 1,2, \dots, t; j = 1,2, \dots k)$$

Fixed effect model for a particular individual i, means that the factors that do not change with time, in other words, the fixed effect model studies the relationship between dependent and independent variables within an entity. The equation of the fixed effect regression model can be written with assumed $E(\varepsilon_{it}) = 0,\ \text{var}(\varepsilon_{it}) = \sigma_{\varepsilon}^2$, and B_0 for all companies doesn't change over time, but it changes over companies as follows:

$$Y_{it} = B_{0i} + \sum_{j=1}^{k} B_j X_{jit} + \varepsilon_{it} \qquad (i = 1,2, \dots, n; t = 1,2, \dots, t; j = 1,2, \dots k)$$

While the random effect model handles the intercept for each section not fixed, but as random parameters as follows:

$$\mathbf{B_{0i}} = \mu + \mathbf{v_i}$$

Also, the random error term in the random effect model is divided into two parts, one part is the error term (ε_{it}) that does not change with time, and the other part is the error term (v_i) that changes with time, the random effect model can be written with an assumed $E(\varepsilon_{it}) = 0$, var $(\varepsilon_{it} + v_i) = \sigma_\varepsilon^2 + \sigma_v^2$ as follows:

$$Y_{it} = \mu + \sum_{j=1}^{k} B_j X_{jit} + v_i + \varepsilon_{it}$$

To choose the sufficient model to answer the research hypotheses, two stages of the test were used, first Breusch and Pagan LM test was applied to choose the sufficient model between the random effect model and pooled model, if the p-value of this test more than (0.05), the pooled model was used, while if the p-value of this test less than (0.05), then Hausman test used to select a fixed effect model or a random effect model to applied. If the null hypothesis is accepted (p-value of this test more than 0.05), then the random effect model should be adopted, and if the null hypothesis is rejected, then the fixed effect model should be adopted.

Finally, before performing the estimation and statistical analysis, the model must be diagnosed. The main four diagnostic tests that should be conducted before start analyzing the data are

- Stationarity test
- Multicollinearity test
- Autocorrelation test
- Heteroscedasticity test

To test the meditation variable, the Sobel test was used (Sobel, 1986). In mediation, the link between the independent and dependent variables is hypothesized to be an indirect effect caused by the influence of a third variable (the mediator). As a result, when the mediator is included in the same regression analysis model as the independent variable, the independent variable's influence is lowered while the mediator's effect remains substantial. The Sobel test is essentially a specialized t-test that allows us to assess whether the reduction in the effect of the independent variable after incorporating the mediator in the model is significant, and hence whether the mediation effect is statistically significant.

3.8 Normal Distribution & Test Outliers Value

In panel models analysis, the data should not have any outlier, which is the first assumption to apply, in order to evaluate the existence of outliers, skewness, and kurtosis value were used, the skewness measures the asymmetry of the distribution of variables, while the kurtosis is a measure for the peakedness of a distribution (Mehmetoglu & Jakobsen, 2017). The absolute values for skewness and kurtosis must be less than 1.96 and 2 respectively are considered acceptable, in other words, the data do not have an outlier.

According to the result in Table (3.5), the skewness and kurtosis values of the quantitative variable which is board size less than the cut-off value (skewness (1.96) and kurtosis (2), while the kurtosis and skewness values of the other quantitative which are profitability, earnings management, board independence, financial leverage, firm growth, and board of directors meeting, so to minimize the outliers of these variables, the Winsorizing method at 5% was used (Rousseeuw & Leroy, 1987).

Checking for the data normality is imperative in deciding which correlation matrix has to be applied when the multicollinearity assessment. According to Brooks (2014), the normality assumption is also important for conducting single or joint hypothesis tests regarding the model parameters but isn't an assumption to apply to the panel models. As shown in Table (3.8) and through using the Shapiro-Wilk test, profitability, and board of directors' meetings were in normal distribution, while all other variables (earnings management, board size, board independence, financial leverage, firm growth) were not in normal distribution. Consequently, the Spearman correlation matrix was applied to show the correlations among variables to test the multicollinearity between the independent and mediating variables.

Table 3.8: Normal distribution & test outliers value of the quantitative variables

Variable	Skewness coefficient	Kurtosis coefficient	z-test	P-value
Earnings management	0.025	8.74	6.04	0.00**
Financial Leverage	1.22	4.51	5.67	0.00**
Profitability	-0.41	3.98	1.11	0.133
Firm Growth	0.90	3.58	4.49	0.00**
Board size	0.25	1.94	2.71	0.00**
Board independence	0.17	2.03	1.77	0.04**
Board of Directors meetings	0.10	2.78	1.05	0.15

** represents statistical significance at a 5% level. **Source:** output of Stata software 12

Chapter Four: Results & Discussion

4.1 Introduction

This chapter includes the presentation of data analysis and testing of the research hypotheses. It starts with an assessment of the diagnosis test before applying the panel data models. Finally, the researcher presents the study results about the study hypotheses**.**

4.2 The Diagnosis Tests of Panel Models

In general, before performing the estimation and statistical analysis, the model must be diagnosed. This section represents the diagnostic checks for panel data used in this study. The main four diagnostic tests that should be conducted before analyzing the data are the stationarity test and the multicollinearity test for the study's data before the hypotheses testing. Autocorrelation and heteroskedasticity will be tested with hypotheses testing.

4.2.1 Panel Unit Root Test for Stationarity

Harris–Tzavalis test was used to assess the panel unit root for the study variables, where the null hypothesis for the Harris–Tzavalis test is that panels contain unit roots and the alternative hypothesis is that panels are stationary. Oppong et al. (2019) confirmed that the stationarity test must be used as a diagnosis test when the period of study is more than 10 years, because it is always the effect of instability variables on the result, otherwise the stationary test is not important. This study was applied over 5 years from 2018 to 2022, according to Oppong et al. (2019) stationary test is not important to assessment, but the researcher tests the stationarity of study variables. The result in Table 4.1 indicates that all variables are stationary (board size, board independence, independence of audit committee,

board of directors meeting, earnings management, leverage, profitability) except CEO duality and firm growth.

Table 4.1: Panel unit root test results for study variables.

Study variables	z-test	P-value
Earnings management	-9.617	0.000**
Financial Leverage	-5.153	0.000**
Profitability	-5.899	0.000**
Firm Growth	0.029	0.512
Board size	-5.525	0.000**
Board independence	-9.208	0.000**
CEO duality	1.842	0.967
Independence of audit committee	-5.525	0.000**
Board of Directors meetings	-9.208	0.000***

Note: Harris–Tzavalis Panel Unit Root test including the z-statistic and P-value; ** and * represent statistical significance at 5% and 10% levels, respectively.

4.2.2 Multicollinearity test

Multicollinearity occurs when any single independent variable is highly correlated with another set of independent variables (Mayer, 1999). To assess the multicollinearity, correlation coefficient, and Variance Inflation Factor (VIF) were used, Kennedy (1985) suggested a correlation coefficient between two independent variables in the same model of more than (0.8) shows the existence of multicollinearity, which is a serious problem. Ringle et al. (2015) recommended that multicollinearity is a concern if the VIF value is greater than 5. According to the result in Table 4.2, the correlation coefficient values

between any independent pairwise variables are less than (0.8), also all VIF values of independent and mediator variables are less than 5, so the multicollinearity problem doesn't occur.

Table 4.2: Correlation matrix for the independent and mediator variables

	Leverage	Profit.	Firm Growth	B Size	B. I.	CEO D.	I. AC.	B. DM.	VIF
1. L	1.000								1.92
2. P	0.298**	1.000							1.25
3. G	0.358**	0.406**	1.000						2.01
4. BS	0.335**	0.127	-0.019	1.000					2.54
5. BI	0.150*	-0.078	-0.284**	0.315**	1.000				1.31
6. CEO D.	0.191**	0.088	-0.064	0.221**	-0.039	1.000			1.27
7. AC	-0.265**	0.006	-0.152*	-0.004	0.101	-0.321**	1.000		1.28
8. BDM	-0.039	0.028	-0.180**	-0.587**	-0.167**	-0.118	-0.057	1.000	2.11
	Note: ** and * represent statistical significance at 5% and 10% levels respectively; L: Financial Leverage; P: Profitability; G: Firm Growth; BS: Board size; BI: Board independence; ER: CEO duality; AC: Independence of audit committee; BDM: Board of directors' meetings.								

4.2.3 Autocorrelation Test

The autocorrelation problem causes the standard errors of the coefficients to be smaller than they are and higher R-squared, and it is a problem for macro panels with long time series, but in our study panels are micro. However, the Wooldridge (2010) test of autocorrelation was applied, which has the null hypothesis that there is no first-order autocorrelation. The result in Table 4.3 confirmed to accept the null hypothesis, since the significant value ranged between 0.186 and 0.917 and all of them is more than 5%, which means no first-order autocorrelation of the study models.

Table 4.3: Autocorrelation test for study models

	Study Models	F-test (1, 28)	Sig.
H_1	The impact of the capital structure on the dimensions of corporate governance	1.841	0.186
H_2	The impact of the dimensions of corporate governance on earnings management	0.011	0.917
H_3	The impact of the capital structure on earnings management	1.841	0.186
H_4	Corporate governance mediates the influence of capital structure on earnings management	0.018	0.894

4.2.4 Heteroskedasticity Test

Heteroskedasticity occurs when the variance of the residuals is unequal over a range of measured values, The Breusch-Pagan/Cook-Weisberg test was used to check the heteroscedasticity, which has the null hypothesis that there is no heteroscedasticity (constant variance). The result in Table 4.4 indicates that the models of studying the impact of the capital structure on earnings management and corporate governance mediate the influence of capital structure on earnings management since the p-value of both models is less than the significant level (α=0.05). Robust standard error (Rogers, 1993) evaluations were used in both models to address the heteroscedasticity issue. However, there is no heteroscedasticity issue with any of the models used to examine how capital structure affects corporate governance characteristics or how corporate governance characteristics affect earnings management.

Table 4.4: Heteroscedasticity test for study models

	Study Models	$\chi^2(1)$	Sig.
H_1	The impact of the capital structure on the dimensions of corporate governance	0.00	0.963
H_2	The impact of the dimensions of corporate governance on earnings management	0.75	0.387
H_3	The impact of the capital structure on earnings management	11.35	0.001**
H_4	Corporate governance mediates the influence of capital structure on earnings management	10.70	0.001**

Note: ** and * represent statistical significance at 5% and 10% levels respectively.

4.3 Result of research hypotheses

This section has been devoted to testing the study models of the hypotheses by estimating the impact of independent variables, which are the capital structure indicators on the dependent variable which is earnings management.

4.3.1 Result of the first hypothesis

In this section, the intention is to investigate the possibility of building a regression model to test the first hypothesis that focuses on the impact of the capital structure (independent variable) on the dimensions of corporate governance (mediator variable).

The first hypothesis (H_1) which states **"There is a significant statistical impact at the level ($\alpha \geq 0.05$) of the capital structure on the dimensions of governance in Palestinian shareholding non-financial companies"**.

Five dimensions were used to represent corporate governance, so five independent variables lead to five models to answer this hypothesis.

According to the result of the Breusch and Pagan LM test and Hausman test, both fixed effect and random effect models were used to answer the first hypothesis and their sub-hypotheses, random effect model was used to assess the effect of capital structure on board independence, CEO duality, independence of audit committee and board of directors' meetings since the significant value of the Breusch and Pagan LM test is equal 0.00 which is less than ($\alpha = 0.05$) and also the significant value of Hausman test is more than ($\alpha = 0.05$). While fixed effect model was used to assess the effect of capital structure on board size since the significant value of both the Breusch and Pagan LM test and Hausman test is less than ($\alpha = 0.05$) (see table 4.5).

Table 4.5: Breusch and Pagan LM test and Hausman test result

	Study Models	Breusch and Pagan LM test		Hausman test		Model type
		$\chi^2(1)$	Sig.	$\chi^2(3)$	Sig.	
$H_{1,1}$	The impact of the capital structure on the board size	263.9	0.00**	8.14	0.04**	FEM
$H_{1,2}$	The impact of the capital structure on the board independence	2.73.8	0.00**	4.96	0.17	REM
$H_{1,3}$	The impact of the capital structure on the CEO duality	248.8	0.00**	0.84	0.84	REM
$H_{1,4}$	The impact of the capital structure on the independence of the audit committee	267.3	0.00**	2.67	0.45	REM
$H_{1,5}$	The impact of the capital structure on the board of directors' meetings	283.4	0.00**	0.42	0.94	REM

Note: ** and * represent statistical significance at 5% and 10% levels respectively.

The results in Table 4.6 indicate that:

- There is no significant impact of the capital structure on the board size (Sig=0.941>0.05), so the first hypothesis was rejected ($H_{1.1}$), also the result indicates there is no significant impact of the financial leverage (Sig=0.759>0.05), firm growth (Sig=0.659>0.05) and profitability (Sig=0.721>0.05) on the board size, so H_{1a}, H_{1b} and H_{1c} were rejected respectively.
- There is no significant impact of the capital structure on the board independence (Sig=0.444>0.05), so the second hypothesis was rejected ($H_{1.2}$), also the result indicates there is no significant impact of the financial leverage (Sig=0.515>0.05), firm growth (Sig=0.146>0.05), and profitability (Sig=0.554>0.05) on the board independence, so $H_{1.a}$, $H_{1.b}$ and $H_{1.c}$ were rejected respectively.
- There is a significant impact of the capital structure on the CEO duality (Sig=0.000<0.05), so the third hypothesis was accepted ($H_{1.3}$), and the capital structure can explain 17.93% of the variation in CEO duality. Furthermore, there is a significant positive impact of financial leverage on CEO duality (Sig=0.001<0.05), and there is a significant negative impact of firm growth on CEO duality (Sig=0.000<0.05), so both $H_{1.a}$and $H_{1.b}$ were accepted, while there is no significant impact of profitability on CEO duality (Sig=0.066>0.05), so the sub-hypothesis $H_{1.c}$ were rejected.
- There is no significant impact of the capital structure on the independence of the audit committee (Sig=0.889>0.05), so the fourth hypothesis was rejected ($H_{1.4}$), also the result indicates there is no significant impact of the financial leverage (Sig=0.525>0.05), firm growth (Sig=0.673>0.05), and profitability

(Sig=0.705>0.05) on the independence of the audit committee, so $H_{1.a}$, $H_{1.b}$ and $H_{1.c}$ were rejected respectively.

- There is no significant impact of the capital structure on the board of directors' meetings (Sig=0.995>0.05), so the fifth hypothesis was rejected ($H_{1.5}$), also the result indicates there is no significant impact of the financial leverage (Sig=0.825>0.05), firm growth (Sig=0.951>0.05) and profitability (Sig=0.969>0.05) on the board of directors' meetings, so $H_{1.a}$, $H_{1.b}$ and $H_{1.c}$ were rejected respectively.

It is obvious from the above results that capital structure has no significant impact on Board size, Board independence, independence of audit committee, and board meetings, this could be related to the uninfluenced values of those variables in the capital structure of the company. In other words, it could be concluded that capital structure doesn't affect the board size, independence, independence of audit committee, and board meeting, because those are related to the governance of the company, which their roles might be increased when the earnings management affected either in decreasing or increasing situations. Taking into consideration the three sectors evaluated in this study, it might be illustrated that there are differences between them. Therefore, the capital structure might have an impact on governance components in the services and investments sectors, while in the industrial sector, there might not be an impact because of the nature of the industry that somehow has routine operations, while the service and investment companies might change their operation frequently, which capital structure can impact the governance components. This result is consistent with the study of Yuniar et al. (2023) who argued that profitability, capital structure, and company size all contribute positively to firm value,

while corporate governance and firm growth, although influential, do not negatively affect firm value significantly. In addition, the results are consistent with the study of Rizani et al. (2022), which found that good corporate governance significantly impacts earnings management, which, in turn, adversely affects a company's financial performance.

While capital structure has a significant impact on CEO duality. This might be because CEO duality has a relationship with financial leverage. After all, the firm growth indicator in the study is higher than the financial leverage indicator, which financial leverage has a positive impact on CEO duality since the financial leverage level is stable and high. Whereas, the study also revealed that there is a negative relationship between firm growth and CEO duality, which might relate to the higher expenses for the firm to tolerate regarding CEO duality, which decreases the capability of the company to grow and increase in the market. This is different among the three sectors in this study, relating to the ownership of the company. However, the services and investment companies might be logically owned by partners and boards of directors, while the industrial companies might be owned and operated by family members. This result is consistent with the study of Javaid (2021) who indicated that board size, board composition, CEO/Chair duality, institutional ownership, and managerial ownership significantly influence a firm's financing decisions. Furthermore, the result of this study is supported by the study of Kapoor & Seetanah (2023) who indicated that the interaction of Corporate Governance and Capital Structure influences firm performance, with varying strengths of moderating effects depending on the performance measure used.

4.6: Result of the first hypotheses

	Board size		Board independence		CEO duality		Audit Committee		Board of Directors meetings	
Variables	β	Sig.	β	Sig.	β	Sig.	β	Sig.	β	Sig.
Intercept	8.319	0.000**	3.816	0.00**	0.551	0.000**	0.618	0.000**	0.710	0.000**
L	0.067	0.759	-0.244	0.515	0.969	0.001**	-0.133	0.525	-0.007	0.825
G	-0.024	0.659	-0.138	0.146	-0.291	0.000**	-0.023	0.673	0.001	0.951
P	-0.101	0.721	0.288	0.554	-0.719	0.066	0.105	0.705	-0.002	0.969
Significance of model										
Test statistic value	F(3,113)=0.13		Wald$\chi^2(3)$=2.63		Wald $\chi^2(3)$=26.21		Wald $\chi^2(3)$=0.63		Wald $\chi^2(3)$=0.07	
Significant	Sig.=0.941		Sig.=0.444		Sig.=0.000		Sig.=0.889		Sig.=0.995	
R-squared	0.004		0.023		0.1793		0.1096		0.001	

Note: ** and * represents statistical significance at 5% and 10% levels respectively; L: Financial Leverage; P: Profitability; G: Firm Growth.

4.3.2 Result of the second hypothesis

To answer the second hypothesis (H_2), which states **"There is a significant statistical impact at the level (α ≥ 0.05) of the dimensions of corporate governance on the earnings management in Palestinian shareholding non-financial companies".**

The second hypothesis is rejected because the pooled regression model was used, and the results in Table 4.7 show that there is no significant impact of the corporate governance dimensions on earnings management in Palestinian shareholding non-financial companies. This is because the model's significant value (0.3261) is greater than the significant level of 5%. However, the outcome shows that corporate governance dimensions have no

discernible effect on earnings management. This implies that board independence, CEO duality, board size, audit committee independence, and board of directors meetings have no discernible effect on earnings management, so the five sub-hypothesis ($H_{2.a}$, $H_{2.b}$, $H_{1.e}$, $H_{2.d}$ and $H_{2.e}$) were rejected, thus the significant level of this sub-hypothesis (0.345, 0.499, 0.332, 0.304, and 0.383 respectively) is more than the significant level of 5%.

This result can be explained as corporate governance of the company has no relationship with earnings management because earnings management is linked with the operations of the company, so this result might be related to that the CEOs of the companies have the tasks of managing earnings, and the board is independent part in the company. Also, CEO duality has no relationship with earning management due to the stable level of financial leverage indicator, in addition to the independence of the audit committee has no impact on earnings management under the stable and high financial leverage and profitability, while the independence of the audit committee might have a significant impact on earnings management, whenever earnings management indicator decreased. Therefore, the independence of the audit committee will be responsible for checking and investigating the reasons beyond the decrease in earnings management. Moreover, in general, the quality of optional benefits is predictive of financial distress during the early stages of a company's life cycle. The integration of information gleaned from accruals and discretionary financial leverage at various life cycle stages can significantly enhance investment, financing, operations, and policy-making. Thus, we can say that good governance of the company can impact positively earnings management. This is consistent with the study of Rizani et al. (2022) who asserted that effective earnings management has a major impact on strong corporate governance and that this has impacted the company's financial success

negatively. However, this result is consistent with the study of Tulcanaza-Prieto & Lee (2022) which highlights that corporate governance plays a substantial monitoring role in restricting opportunistic real earnings management activities, preventing a decrease in firm value associated with such activities.

4.7: Result of the second hypothesis

Variables	β	Std.	Sig.
Intercept	-0.006	0.008	0.457
Board size	0.001	0.001	0.345
Board independence	0.0003	0.000	0.499
CEO duality	0.002	0.002	0.332
Audit Committee	-0.003	0.002	0.304
Board of Directors meetings	0.005	0.005	0.383
Breusch and Pagan LM test ($\chi^2(1)$=0.000, sig.=1.000)			
Significance of model			
Test statistic value	F(5,139)=1.17		
Significant	Sig.=0.3261		
R-squared	0.0404		

4.3.3 Result of the third hypothesis

To answer the third hypothesis (H_3) which states **"There is a significant statistical impact at the level (α ≥ 0.05) of capital structure on the earnings management in Palestinian shareholding non-financial companies"**

The third hypothesis is accepted, and the capital structure can account for 18.52% of the variation in earnings management. A pooled regression model was used, and the results in

Table 4.8 show that there is a significant impact of the capital structure on the earnings management in Palestinian shareholding non-financial companies. This is because the significant value (0.000) of the model is less than the significant level of 5%.

As both financial leverage and profitability have significant positive effects on earnings management and have significant values (0.001 and 0.017, respectively) below the significant level of 5%, the results show that these effects are both significantly positive, so the first sub-hypothesis ($H_{3.a}$) and third sub-hypothesis ($H_{3.c}$) are accepted, while there is no significant impact of firm growth on the earnings management since the significant value (0.221) of it is more than the significant level of 5%, so the second sub-hypothesis ($H_{3.b}$) were rejected.

Furthermore, if the financial leverage increases by 1%, the earnings management increases by 0.035, and if the profitability increases by 1%, the earnings management increases by 0.065.

The significant impact of the capital structure on the earnings management at non-financial companies might be related to the manipulating of the capital structure rates, which influences the earnings management, due to the aim of the company toward either firm growth or profits or financial leverage ratio. In other words, whenever the company is growing, gaining profit, and has a high financial leverage rate, the company can be able to distribute the earnings along with the strategic goals of the company. For example, if the company aims to grow, the earning management will be intended for firm growth. Which leads to an increase in the firm value in the market and within the competition. This result is consistent with the study of Chhillar & Lellapalli (2022) who stated that the integration

of information gleaned from accruals and discretionary financial leverage at various life cycle stages can significantly enhance investment, financing, operational, and policy decisions. This explanation is also consistent with the study of Adeneye & Kammoun (2022) who recommended the reduction of firm costs related to earnings manipulations. Additionally, it is consistent with the findings of Hapsoro & Bahantwelu (2020), who showed that real earnings management mediates the relationship between capital structure and business value to some extent and that capital structure has a favorable effect on company value. Furthermore, Shoaib & Siddiqui (2022) contended that earnings management appeared to be centered on opportunistically manipulating capital structure performance, especially in the form of discretionary accruals.

This corroborates the findings that financial leverage has a major beneficial influence on earnings management and that profitability has a big positive impact on earnings management, due to the high level of financial leverage and high level of profits. This helps the company to decide where to distribute the earnings, which leads to mitigating the loans and debt of the company. Mendoza et al. (2020) stated that the institutional and financial development of companies was seen to promote financial leverage and long-term debt issuances, although these effects did not fully mitigate the impact of accounting manipulation activities. Also, the results are consistent with Chhillar & Lellapalli (2022) who found that the integration of information gleaned from accruals and discretionary leverage at various life cycle stages can significantly enhance investment, financing, operational, and policy decisions.

4.8: Result of the third hypothesis

Variables	β	Std.	Sig.
Intercept	-0.002	0.002	0.302
Financial Leverage	0.035	0.010	0.001**
Profitability	0.065	0.027	0.017**
Firm Growth	-0.004	0.003	0.221
Breusch and Pagan LM test ($\chi^2(1)$=0.000, sig.=1.000)			
Significance of model			
Test statistic value	F(3,141)=9.70		
Significant	Sig.=0.000**		
R-squared	0.1852		

Note: ** and * represent statistical significance at 5% and 10% levels respectively.

4.3.4 Result of the fourth hypothesis

This section displays the result of the fourth hypothesis (H_4) which states **"Corporate governance (board size, board independence, CEO duality, the independence of audit committee, board of directors' meetings) mediates the influence of capital structure (financial leverage, firm growth, profitability) at the level ($\alpha \leq 0.05$) on the earnings management in Palestinian non-financial shareholding companies."**

The Sobel test was used in three steps to determine whether the corporate governance dimensions—board size, board independence, CEO duality, audit committee independence, and board of directors' meetings—mediate the influence of capital structure on earnings management. First, a regression model was built to examine the impact of capital structure on earnings management (in order to address the third hypothesis). Next,

a new model that includes a significant variable from the first model and the mediator variables was built (see appendix 2), finally used result in the first and second steps to build the Sobel formulae to test the fourth sub-hypotheses.

Table 4.9 displays the result of three Sobel tests used to assess the significance of each mediating variable. The result indicates that the board size, board independence, the independence of the audit committee, and board of directors' meetings do not mediate the influence of capital structure (financial leverage, firm growth, profitability) on the earnings management of Palestinian non-financial shareholding so $H_{4.a}H_{4.b}$, d $subscript\ were$rejected.

In addition, the result indicates that the CEO duality partially mediates the influence of financial leverage on the earnings management of the Palestinian non-financial shareholding companies, it provided evidence of the indirect impact of financial leverage on earnings management through the CEO duality since the significant value (0.012) of the model is less than the significant level 5%. CEO duality is not mediating the influence of firm growth and profitability on the earnings management of the Palestinian non-financial shareholding companies.

Regarding the result that governance is not mediating the impact of capital structure on earnings management, it could be said that the tasks related to earnings management are given to CEOs in the companies, in which the governance does not intervene in the process of earnings management. Moreover, this result might be related to that whenever the CEO of the company is unable to make the best decision for earnings management, the CEO will present the issues to the board. All of this can be explained by the manipulation of earnings

management at the companies, which represents the absence of good corporate governance. This argument aligns with the findings of Rizani et al.'s study from 2022, which emphasized the need for sound corporate governance practices in reducing managers' ability to manipulate earnings and receive accurate assessments of a company's performance. Furthermore, Tulcanaza-Prieto & Lee's study from 2022 demonstrated the critical impact company governance plays in guaranteeing the accuracy and dependability of reported financial data. As well, Shahzad et al. (2020) suggested that strong corporate governance practices are significantly associated with improved earning quality and firm value.

Table 4.9: Results of Sobel test for mediation

Sobel test	BS		BI		CEO D.		AC		BDM	
	t-value	Sig.	t-value	Sig.	t-value	Sig.	t-value	Sig.	t-value	Sig.
L -> EM	0.307	0.759	-0.642	0.521	2.516	0.012**	-0.626	0.531	-0.218	0.827
G -> EM	0.044	0.964	0.824	0.410	0.968	0.333	0.413	0.679	-0.062	0.950
P -> EM	-0.335	0.722	0.579	0.562	-1.553	0.120	1.307	0.191	-0.048	0.962

Note: ** and * represents statistical significance at 5% and 10% levels respectively; L: Financial Leverage; P: Profitability; G: Firm Growth; BS: Board size; BI: Board independence; CEO D.: CEO Duality; AC: Audit committee; BDM: Board of directors' meetings.

Chapter Five: Results and Recommendations

5.1 Conclusion

Based on the results presented in the previous chapter, we can conclude that capital structure affects earnings management, there is neither a mediating function nor an impact of governance in the connection between capital structure and earnings management. especially in the industrial sector where family enterprises and ownership play a major role. This study contributes to providing a comprehensive vision for non-financial companies about the influence of good corporate governance in the relationship between capital structure and earnings management. In addition, the study provides insights for regulators, investors, and managers on the role of corporate governance in shaping the relationship between capital structure and earnings management. This study recognizes that firms' decision-making can be explained by non-economic motives, such as corporate governance, which can serve as a less costly external mechanism to alleviate company costs compared to other economic motives.

5.2 Results' Summary

The main results of the study are the following:

- The mean value of earnings management in non-financial public shareholding companies was increasing gradually and continuously from 2018 to 2021, while it was decreasing in 2022.
- There is a variation in the mean value of earnings management, also the variable behavior in the study period is characterized by vibration between increases and decreased value.

- The mean value of earnings management of companies in the industrial sector ranged between -0.006 in 2018 and 0.012 in 2022, ranged between -0.010 in 2022 and 0.011 in 2018 for companies in the investment sector, and ranged between 0.007 in 2018 and 0.008 in 2022 for companies in the service sector.
- The firm growth indicator has a higher mean value compared to the mean value of other capital structure indicators (financial leverage and profitability) during the study period.
- The mean value of firm growth decreased in the first three years (2018-2020) to 0.869, after that this value increased to the end of the study period to 1.024 in 2022.
- The mean value of financial leverage is higher than the mean value of profitability during the same period, and these values ranged between (0.169-0.186) and (0.023-0.059) respectively.
- The mean value of all capital structure indicators (financial leverage, firm growth, and profitability) has the highest value in the industry sector, followed by the service and investment sectors respectively. Also, the highest variation between sectors was found in the profitability indicator.
- The mean value of the board size is equal in each year from 2018 to 2021, which is approximately 8.310, while it decreased in 2022 to approximately 8.276.
- The highest mean value of board size was found in service sectors in the study period (mean approximately 8.500), followed by investment (mean approximately 8.600 from 2019 to 2021) and industrial sectors (mean approximately 7.909) respectively.
- The highest mean value of board independence was found in service sectors in the study period, followed by industrial and investment sectors.

- The percentage of non-financial public shareholding companies that had independence of audit committee in 2018 is 44.83%, which decreased to 41.38% in the other years.
- The percentage of non-financial public shareholding companies that had CEO duality is 58.62% all the most of years, while it found 55.17% in 2021.
- Most investment companies had a CEO duality (75%) from 2018 to 2021, and this percentage decreased to 62.5% in 2022. While 30% of service companies had a CEO duality in each year. Whereas, 27.27% of industrial companies from 2018 to 2020 had a CEO duality, and 36.36% of them had a CEO duality in 2021 and 2022.
- The results indicated that 63.63% and 50% of industrial and service companies had an audit committee each year respectively, while 50% of investment companies had an independent audit committee in 2018, then the percentage increased to 62.5% from 2019 to 2022.
- There is a statistically significant impact of the capital structure on the CEO duality in Palestinian shareholding non-financial companies.
- There is a statistically significant impact of the financial leverage and firm growth on the CEO duality.
- There is no significant impact of the capital structure (financial leverage, firm growth, and profitability) on the CEO duality in Palestinian shareholding non-financial companies.
- There is no significant impact of the capital structure (financial leverage, firm growth, and profitability) on board size, board independence, the independence of the audit committee, and board of directors' meetings.

- There is no statistically significant impact of the dimensions of corporate governance e (board size, board independence, CEO duality, independence of audit committee, and board of directors meeting) on the earnings management in Palestinian shareholding non-financial companies.
- There is a statistically significant impact of capital structure on the earnings management in Palestinian shareholding non-financial companies in Palestinian shareholding non-financial companies.
- There is a positive impact of financial leverage and profitability on earnings management, while there is no significant statistical impact of the firm growth on earnings management.
- Board size, board independence, the independence of audit committee, and board of directors' meetings are not mediating the influence of capital structure (financial leverage, firm growth, profitability) on the earnings management of the Palestinian non-financial shareholding companies.
- CEO duality partially mediates the influence of financial leverage on the earnings management of the Palestinian non-financial shareholding companies.
- CEO duality is not mediating the influence of firm growth and profitability on the earnings management of the Palestinian non-financial shareholding companies.

5.2 Recommendations

Based on the results of this study, below are some recommendations to enhance the relationship between capital structure and earnings management within the mediating role of governance in Palestinian non-financial firms:

- ✓ Firms should focus on maintaining the financial leverage and profitability indicators, which play a role in the firm growth.
- ✓ Firms should always monitor the capital structure and earnings management indicators, in order to enable them to make the right decisions and forecast the events that might influence the capital structure and earnings management.
- ✓ Firms should form and design their short-term and long-term goals, for which they can decide effectively how to manage the earnings and for which purposes.
- ✓ Services and Investment firms should be aware of the capital structure components, by which those firms must form strategies toward raising the level of capital structure components toward maintaining the operations in unstable situations.
- ✓ Firms in industrial and investment sectors should enable the board of directors' responsibilities and independence of the Board toward deciding for the decisions related to earning management, toward supervising the capital structure and earnings management policies, due to the ownership of the firms that is related to board members.
- ✓ Firms should activate the roles of the audit committees and the independence of those committees, for their role into supervising, monitoring, forecasting, and following up the results of the financial reports, which keeps the firm up to date with any change in the capital structure and earnings management indicators.
- ✓ Businesses, particularly those in the services and investment sectors that are not family-run enterprises, should assign all duties associated with this role to the CEO in exchange for the CEO reporting to the board of directors on matters about capital structure and profits management.

- ✓ Regardless of the capital structure of the company, investors need to be aware of the possible risks associated with earnings management. Nonetheless, investing in companies with large debt ratios and lax corporate governance should be done with extra caution. These companies might be more inclined to manipulate their earnings in order to pay off debt or give investors the impression that they are doing well financially.
- ✓ Managers should be aware of the potential risks of earnings management and should take steps to mitigate these risks. This includes developing strong corporate governance structures and implementing internal controls to prevent earnings manipulation. Managers should also be transparent with investors about their earnings management practices.
- ✓ Firms should adopt best practices in corporate governance. There are a number of best practices in corporate governance that firms can adopt, such as having a majority independent board of directors, having an independent audit committee, and providing regular and transparent financial reporting. These practices can help to ensure that firms are managed in a fair and accountable manner and that the interests of shareholders are protected.
- ✓ Develop and implement a strategic plan that focuses on improving profitability. This plan should identify the firm's key strengths and weaknesses, and develop strategies to capitalize on the strengths and improve on the weaknesses.

5.3 Directions for Future Research

Regarding the directions for future research, there is an opportunity for researchers to conduct research on this topic in the financial companies and other non-financial

companies in different sectors such as the tourism sector, commercial sector, Real Estate sector, and Banking sector. Furthermore, future research can be carried out to examine the impact of capital structure on earnings management within different dimensions of capital structure such as “Debt value, Stocks, and Return on Equity”. Also, future research can be conducted to examine the impact of capital structure on earnings management taking into consideration social responsibility as a mediation variable. Moreover, further research can be conducted on examining the relationship between the earning management and various incentives like enhanced managerial compensation of increase capital.

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Appendices

Appendix 1: Study sample

#	Name	Symbol	Sector	Currency
1	APC Paints	APC	Industry	JD
2	AZIZA	AZIZA	Industry	JD
3	Beit Jala Pharmaceutical	BJP	Industry	JD
4	BPC	BPC	Industry	USD
5	Golden Wheat Mills	GMC	Industry	JD
6	Jerusalem Cigarette	JCC	Industry	JD
7	Jerusalem Pharmaceuticals	JPH	Industry	USD
8	Palestine Plastic Industries	LADAEN	Industry	JD
9	NAPCO	NAPCO	Industry	JD
10	The National Carton Industry	NCI	Industry	USD
11	VOIC	VOIC	Industry	JD
12	APIC	APIC	Investment	USD
13	Al Aqariya Trading Investment	AQARIYA	Investment	USD
14	Arab Investors	ARAB	Investment	JD
15	Jerusalem Real Estate Investment	JREI	Investment	USD
16	PADICO Holding	PADICO	Investment	USD
17	Palestine Investment & Development	PID	Investment	JD
18	Palestine Industrial Investment	PIIC	Investment	JD
19	PRICO	PRICO	Investment	JD
20	Sanad Construction Resources Plc	SANAD	Investment	USD
21	UCI	UCI	Investment	USD
22	Al Wataniah Towers	ABRAJ	Services	USD
23	The Arab Hotels	AHC	Services	JD
24	Nablus Surgical Center	NSC	Services	JD
25	Ooredoo	OOREDOO	Services	USD
26	Palestine Electric	PEC	Services	USD
27	PALTEL	PALTEL	Services	JD
28	Ramallah Summer Resorts	RSR	Services	JD
29	WASSEL	WASSEL	Services	USD

Appendix 2: the result of the second step of the Sobel test

	Model (1)		Model (2)		Model (3)		Model (4)		Model (5)	
Variables	β	Std.	β	Std.	β	Std.	β	Std.	β	Std.
Intercept	-0.002	0.005	-0.002	0.003	-0.003	0.003	-0.002	0.003	-0.003	0.004
Leverage	0.040	0.009**	0.035	0.009**	0.034	0.009**	0.034	0.009**	0.035	0.008**
Profitability	0.068	0.022**	0.065	0.022**	0.064	0.022**	0.065	0.022**	0.046	0.022**
Growth	-0.005	0.004	-0.004	0.003	-0.003	0.003	-0.004	0.002	-0.004	0.002
Board Size	-0.001	0.0005								
Board Independence			-0.0001	0.0005						
CEO Duality					0.001	0.002				
Independence of Audit Committee							-0.001	0.002		
Board of Directors' Meetings									0.0004	0.004
Significance of model										
Test statistic value	F(4,140)=8.40		F(4,140)=7.96		F(4,140)=8.03		F(4,1410)=8.01		F(3,141)=7.96	
Significant	Sig.=0.000**		Sig.=0.000**		Sig.=0.000**		Sig.=0.000**		Sig.=0.000**	
R-squared	0.1936		0.1852		0.1867		0.1863		0.1852	

Appendix 3: Study data

Year	Company	Currency	Sector	Leverage	Profitability	Growth	Board Size	Board Indep.	CEO Duality	Indep. Of AC	BDM
2018	ABRAJ	USD	Services	0.0340	0.0599	0.6412	7	2	0	0	0.8571
2019	ABRAJ	USD	Services	0.0327	0.0655	0.6064	7	2	0	1	0.8571
2020	ABRAJ	USD	Services	0.0316	0.0546	0.6154	7	2	0	1	0.8571
2021	ABRAJ	USD	Services	0.0261	0.0506	0.5748	7	2	0	1	0.8571
2022	ABRAJ	USD	Services	0.0215	0.0801	0.5905	7	2	0	1	0.8571
2018	AHC	JD	Services	0.0238	-0.0414	0.4252	7	0	1	1	0.8571
2019	AHC	JD	Services	0.0240	-0.0473	0.4182	7	0	1	1	0.8571
2020	AHC	JD	Services	0.0049	-0.1205	0.4250	7	0	1	1	0.8571
2021	AHC	JD	Services	0.0042	-0.0541	0.4245	7	0	1	1	1.0000
2022	AHC	JD	Services	0.0037	-0.0428	0.4471	7	0	1	1	0.8571
2018	APC	JD	Industry	0.1382	0.0996	1.8298	5	2	0	0	1.2000
2019	APC	JD	Industry	0.1641	0.1363	1.5131	5	2	0	0	1.4000
2020	APC	JD	Industry	0.1608	0.1263	1.3896	5	3	0	0	1.2000
2021	APC	JD	Industry	0.2549	0.1280	1.4914	5	2	1	0	1.2000
2022	APC	JD	Industry	0.2801	0.0805	2.1444	5	2	1	0	1.2000
2018	APIC	USD	Investment	0.2419	0.0531	0.7449	12	6	1	1	0.3333
2019	APIC	USD	Investment	0.2513	0.0613	0.7755	12	7	1	1	0.3333
2020	APIC	USD	Investment	0.2584	0.0606	0.7788	12	6	1	1	0.3333
2021	APIC	USD	Investment	0.3033	0.0693	0.8640	12	6	1	1	0.3333
2022	APIC	USD	Investment	0.2560	0.0516	0.8291	12	6	1	1	0.3333
2018	AQARIYA	USD	Investment	0.0969	0.0022	0.7033	6	0	0	0	1.0000
2019	AQARIYA	USD	Investment	0.1564	0.0598	0.5879	6	0	0	0	1.0000
2020	AQARIYA	USD	Investment	0.2526	0.0791	0.6016	6	0	0	0	1.0000
2021	AQARIYA	USD	Investment	0.1271	0.0640	0.5010	6	0	0	0	1.0000
2022	AQARIYA	USD	Investment	0.1042	0.0589	0.4185	6	0	0	0	1.0000
2018	ARAB	JD	Investment	0.0238	0.0056	0.7813	11	3	1	0	0.5455
2019	ARAB	JD	Investment	0.0151	0.0059	0.7350	11	3	1	0	0.5455
2020	ARAB	JD	Investment	0.0000	0.0390	0.7192	11	3	1	0	0.5455
2021	ARAB	JD	Investment	0.0035	0.0022	0.6776	11	3	1	0	0.5455
2022	ARAB	JD	Investment	0.0134	0.0133	0.7643	11	3	1	0	0.5455
2018	AZIZA	JD	Industry	0.1919	0.0270	1.1761	9	4	0	1	0.6667
2019	AZIZA	JD	Industry	0.2107	0.1069	1.1719	9	4	0	1	0.6667
2020	AZIZA	JD	Industry	0.2251	0.1107	0.9996	9	4	0	1	0.6667
2021	AZIZA	JD	Industry	0.2089	0.0702	1.0438	9	4	0	1	0.6667
2022	AZIZA	JD	Industry	0.2166	0.0743	1.1450	9	4	0	1	0.6667
2018	BJP	JD	Industry	0.1477	0.0528	1.2314	9	1	0	1	0.6667
2019	BJP	JD	Industry	0.2052	0.0897	1.2234	9	1	0	1	0.6667

2020	BJP	JD	Industry	0.2312	0.0518	1.2799	9	1	0	1	0.6667
2021	BJP	JD	Industry	0.2580	0.0536	1.2200	9	1	0	1	0.6667
2022	BJP	JD	Industry	0.3345	0.1469	1.5737	9	1	0	1	0.6667
2018	BPC	USD	Industry	0.2941	0.0977	1.3774	7	2	1	0	0.8571
2019	BPC	USD	Industry	0.2511	0.1049	1.2832	7	2	1	0	0.8571
2020	BPC	USD	Industry	0.2432	0.0823	1.2791	7	2	1	0	0.8571
2021	BPC	USD	Industry	0.2940	0.1195	1.2720	7	2	1	0	0.8571
2022	BPC	USD	Industry	0.3047	0.0734	1.6945	7	2	1	0	0.8571
2018	GMC	JD	Industry	0.3521	0.0016	0.8001	8	4	0	1	0.7500
2019	GMC	JD	Industry	0.3461	0.0437	0.9158	8	4	0	1	0.7500
2020	GMC	JD	Industry	0.2798	0.0055	0.8795	8	4	0	1	0.7500
2021	GMC	JD	Industry	0.3065	-0.0233	0.8369	8	4	0	1	0.7500
2022	GMC	JD	Industry	0.2678	0.0776	0.7125	8	4	0	1	0.7500
2018	JCC	JD	Industry	0.1964	0.0006	0.3849	11	5	1	0	0.5455
2019	JCC	JD	Industry	0.2169	0.0037	0.4160	11	5	1	0	0.5455
2020	JCC	JD	Industry	0.2511	0.0494	0.4504	11	5	1	0	0.5455
2021	JCC	JD	Industry	0.1980	0.0561	0.6712	11	5	1	0	0.5455
2022	JCC	JD	Industry	0.1811	0.0483	0.5533	11	5	1	0	0.5455
2018	JPH	USD	Industry	0.2691	0.0905	1.2304	10	7	1	1	0.6000
2019	JPH	USD	Industry	0.2817	0.0710	0.9940	10	7	1	1	0.6000
2020	JPH	USD	Industry	0.3114	0.0481	0.9531	10	7	1	1	0.6000
2021	JPH	USD	Industry	0.3546	0.0877	0.9408	10	7	1	1	0.6000
2022	JPH	USD	Industry	0.3777	0.1079	1.0829	10	7	1	1	0.6000
2018	JREI	USD	Investment	0.0455	-0.0037	0.3280	9	7	0	1	0.6667
2019	JREI	USD	Investment	0.0593	-0.0263	0.3209	9	7	0	1	0.6667
2020	JREI	USD	Investment	0.0449	-0.0036	0.2993	9	7	0	1	0.6667
2021	JREI	USD	Investment	0.0433	0.0064	0.2694	9	7	0	1	0.6667
2022	JREI	USD	Investment	0.0445	0.0030	0.2542	9	7	0	1	0.6667
2018	LADAEN	JD	Industry	0.0634	-0.0905	1.8693	5	3	0	1	0.2000
2019	LADAEN	JD	Industry	0.0177	-0.0712	1.9819	5	3	0	1	0.2000
2020	LADAEN	JD	Industry	0.0935	-0.0166	2.2260	5	3	0	1	0.2000
2021	LADAEN	JD	Industry	0.0817	0.0428	2.3386	5	3	0	1	0.2000
2022	LADAEN	JD	Industry	0.0360	0.0512	2.3369	5	3	0	1	0.2000
2018	NAPCO	JD	Industry	0.2734	0.0248	0.4750	9	7	0	0	0.6667
2019	NAPCO	JD	Industry	0.2799	0.0168	0.5486	9	7	0	0	0.6667
2020	NAPCO	JD	Industry	0.2695	0.0003	0.4900	9	7	0	0	0.6667
2021	NAPCO	JD	Industry	0.2721	0.0275	0.6107	9	7	0	0	0.6667
2022	NAPCO	JD	Industry	0.2486	-0.0227	0.6548	9	7	0	0	0.6667
2018	NCI	USD	Industry	0.1812	-0.0191	0.7915	7	5	0	1	0.8571
2019	NCI	USD	Industry	0.2081	0.0363	0.7949	7	5	0	1	0.8571
2020	NCI	USD	Industry	0.1770	0.0986	0.9765	7	5	0	1	0.8571

2021	NCI	USD	Industry	0.1724	0.1122	1.0561	7	5	0	1	0.8571
2022	NCI	USD	Industry	0.1919	0.0755	1.1012	7	5	0	1	0.8571
2018	NSC	JD	Services	0.6274	0.0189	1.0322	11	8	1	0	1.0909
2019	NSC	JD	Services	0.6951	0.0276	1.1189	11	8	1	0	1.0909
2020	NSC	JD	Services	0.6103	0.0244	0.9816	11	8	1	0	1.0909
2021	NSC	JD	Services	0.6061	0.0773	0.9909	11	8	1	0	1.0909
2022	NSC	JD	Services	0.6594	0.0724	1.1065	11	8	1	0	1.0909
2018	OOREDOO	USD	Services	0.0523	0.0004	1.0074	7	0	0	1	0.8571
2019	OOREDOO	USD	Services	0.0463	0.0047	1.2040	7	0	0	1	0.8571
2020	OOREDOO	USD	Services	0.0665	0.0320	1.1248	7	0	0	1	0.8571
2021	OOREDOO	USD	Services	0.0666	0.0635	1.3083	7	0	0	1	0.8571
2022	OOREDOO	USD	Services	0.0660	0.0719	1.1388	7	0	0	1	0.8571
2018	PADICO	USD	Investment	0.0463	0.0194	0.4282	12	8	0	1	0.4167
2019	PADICO	USD	Investment	0.0528	0.0351	0.3927	12	8	0	1	0.4167
2020	PADICO	USD	Investment	0.0490	0.0076	0.2990	12	8	0	1	0.4167
2021	PADICO	USD	Investment	0.0514	0.0313	0.4381	12	8	0	1	0.4167
2022	PADICO	USD	Investment	0.0446	0.0353	0.4835	11	7	0	1	0.4546
2018	PEC	USD	Services	0.3151	0.0859	1.1125	13	2	1	0	0.2308
2019	PEC	USD	Services	0.2319	0.1134	1.0681	13	2	1	0	0.2308
2020	PEC	USD	Services	0.3989	0.1007	1.2464	13	2	1	0	0.2308
2021	PEC	USD	Services	0.3473	0.1123	1.3112	13	2	1	0	0.2308
2022	PEC	USD	Services	0.4370	0.1474	1.4949	13	2	1	0	0.2308
2018	PID	JD	Investment	0.2845	0.1078	1.2158	7	4	0	0	0.4286
2019	PID	JD	Investment	0.0027	-0.0429	1.2565	7	4	0	0	0.4286
2020	PID	JD	Investment	0.0039	-0.1724	1.6283	7	4	0	0	0.4286
2021	PID	JD	Investment	0.1382	0.2080	1.7063	7	4	0	0	0.4286
2022	PID	JD	Investment	0.0029	-0.0166	1.5890	7	4	0	0	0.4286
2018	PIIC	JD	Investment	0.1241	0.0509	0.7491	9	7	0	1	0.6667
2019	PIIC	JD	Investment	0.1178	0.0670	0.5949	9	7	0	1	0.6667
2020	PIIC	JD	Investment	0.1317	0.0687	0.4938	9	7	0	1	0.6667
2021	PIIC	JD	Investment	0.1107	0.0791	0.6759	9	7	0	1	0.6667
2022	PIIC	JD	Investment	0.1068	0.0653	0.5497	9	7	0	1	0.6667
2018	PRICO	JD	Investment	0.0629	-0.0465	0.3614	5	4	0	1	1.2000
2019	PRICO	JD	Investment	0.0584	-0.0812	0.3487	5	4	0	1	1.2000
2020	PRICO	JD	Investment	0.0621	-0.0626	0.3753	5	4	0	1	1.2000
2021	PRICO	JD	Investment	0.0921	-0.0133	0.4167	5	4	0	1	1.2000
2022	PRICO	JD	Investment	0.0735	0.0085	0.3959	5	4	0	1	1.2000
2018	Paltel	JD	Services	0.1005	0.0928	0.7632	11	0	1	1	0.5455
2019	Paltel	JD	Services	0.0938	0.0873	0.7232	11	0	1	1	0.5455
2020	Paltel	JD	Services	0.1110	0.0743	0.7235	11	0	1	1	0.5455
2021	Paltel	JD	Services	0.1286	0.0871	0.9824	11	0	1	1	0.5455

2022	Paltel	JD	Services	0.1506	0.1423	1.8084	11	0	0	1	0.5455
2018	RSR	JD	Services	0.0635	0.0288	0.8348	6	4	1	0	0.6667
2019	RSR	JD	Services	0.0574	0.0261	0.8529	6	4	1	0	0.6667
2020	RSR	JD	Services	0.0625	0.0226	0.7793	6	4	1	0	0.6667
2021	RSR	JD	Services	0.0793	0.0155	0.8239	6	4	1	0	0.6667
2022	RSR	JD	Services	0.0721	0.0312	0.8559	6	4	1	0	0.6667
2018	SANAD	USD	Investment	0.4268	0.0093	1.2033	10	1	0	0	0.6000
2019	SANAD	USD	Investment	0.4993	-0.0030	1.3710	10	1	0	0	0.6000
2020	SANAD	USD	Investment	0.4695	-0.0653	1.4101	10	1	0	0	0.6000
2021	SANAD	USD	Investment	0.5160	0.0013	1.3953	10	1	0	0	0.6000
2022	SANAD	USD	Investment	0.4239	-0.0158	1.6908	10	1	0	0	0.6000
2018	UCI	USD	Investment	0.0988	0.0460	0.4879	5	3	1	0	1.0000
2019	UCI	USD	Investment	0.0993	0.0170	0.4417	5	3	1	0	1.0000
2020	UCI	USD	Investment	0.1173	0.0204	0.4329	5	3	1	0	1.0000
2021	UCI	USD	Investment	0.1445	0.0218	0.4471	5	3	1	0	1.0000
2022	UCI	USD	Investment	0.1472	0.0433	0.3679	5	3	1	0	1.0000
2018	VOIC	JD	Industry	0.0320	0.1359	1.1679	7	4	0	1	0.8571
2019	VOIC	JD	Industry	0.0401	0.1357	1.0593	7	4	0	1	0.8571
2020	VOIC	JD	Industry	0.0402	0.1298	0.8844	7	4	0	1	0.8571
2021	VOIC	JD	Industry	0.0295	0.1593	0.8842	7	4	0	1	0.8571
2022	VOIC	JD	Industry	0.0225	0.1173	0.9238	7	4	0	1	0.8571
2018	WASSEL	USD	Services	0.1745	0.0098	0.6659	6	3	1	1	0.6667
2019	WASSEL	USD	Services	0.1701	0.0172	0.4998	6	3	1	1	0.6667
2020	WASSEL	USD	Services	0.1561	0.0154	0.4579	6	3	1	1	0.6667
2021	WASSEL	USD	Services	0.1675	0.0602	0.7843	6	3	1	1	0.6667
2022	WASSEL	USD	Services	0.1553	0.0737	0.9984	6	3	1	1	0.6667

BDM: Board of directors' meetings.