

## Corporate Governance Mechanisms and Earnings Management: Evidence from Jordan

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### ABSTRACT

This paper aimed to examine the influence of corporate governance procedures on earnings management of manufacturing firms listed on the Amman Stock Exchange (ASE) during the period 2015–2024. Based on agency theory and stakeholder theory, we analyze the influence of governance characteristics (i.e., board independence, audit committee independence, existence of a nomination and remuneration committee, and auditor independence) on earnings manipulation in Jordanian firms. A quantitative methodology was used in the study, based on secondary panel data from annual reports, corporate governance disclosures, and auditor statements. Descriptive, correlation, and panel regression analyses were used to test four hypotheses. The results indicate that all types of corporate governance mechanisms are significantly negatively related to earnings management, suggesting that stronger governance structures could help mitigate managerial opportunism and enhance financial reporting quality. Of these parameters, auditor independence had the most significant effect on earnings manipulation. The results provide a strong case for agency theory, based on empirical findings that good internal and external controls can help avoid conflicts of interest and contribute to a company's transparency. This paper contributes to the corporate governance literature by providing longitudinal evidence in an emerging market environment. It highlights the vital importance of regulators, boards of companies, and external auditors in Jordan to enhance the enforcement of governance principles in practice, promote independence of boards, and maintain the quality and integrity of external audit procedures. This information would be necessary in supporting investors' confidence, financial transparency, and corporate accountability in the Jordanian business milieu.

**Keywords:** Audit Committee, Corporate Governance, Board Independence, Earnings Management, Auditor Independence, Nomination and Remuneration Committee, Stata

### INTRODUCTION

Corporate Governance (CG) is among the key building blocks to ensure sufficient transparency, accountability, and ethical norms in governing operations in emerging economies where institutional enforcement continues to proceed. Due to the rise in financial scandals and questionable reporting practices, there has been an increasing global awareness of the effectiveness of governance mechanisms in correcting EM in recent years. EM occurs when an accounting firm knowingly manipulates its accounting figures to influence public perception, potentially leading to dubious financial statements and diminished investor confidence. In Jordan, the manufacturing sector is a significant feature that contributes to economic growth and capital market development. In contrast, weak monitoring frameworks as well as uneven regulatory compliance have cast doubt on the accuracy of data in reports

(Alsmadi, Salleh, & Laili, 2025; Alshehadeh et al., 2025). As businesses compete in the increasingly complex technological and market environment, corporate leaders are confronting opportunities and pressure to massage earnings to justify their performance. Hence, enhancing governance, especially the board independence process, audit committee independence, nomination and remuneration committees, and auditor independence, is now a vital matter of national urgency to safeguard the financial integrity and the long-term competitiveness of the firm. While literature reviews on corporate governance and EM from a global perspective have been widely collected, the results are contradictory in developing countries. For instance, research in developed countries is commonly predicated on the implementation of governance codes, whereas emerging economies have institutional barriers that preclude these from being fully operational. But while implementing governance reforms that stem from OECD principles, Jordan still faces the issue of weak board oversight and ineffective committee functioning (Al-Taani et al., 2025; AlZakwani et al., 2025). Based on their recent research work, that of Alshehadeh et al. (2025).

Utilizing advanced technologies, such as the Internet of Things (IoT) and Big Data, presents opportunities to investigate creative accounting: an emerging variant of EM that is influenced by information asymmetry. Similarly, Alsmadi et al. (2025) reported that the current state of governance quality interacts with AI financial decision-making, and its supervision must be further informed. In the Jordanian project, most of the literature has considered technology and macroeconomic dimensions, with limited investigation of the impact of conventional governance on EM behaviors of the manufacturing enterprises. Furthermore, cross-sectoral analysis has pointed out that EM is a problem that remains widespread in developing countries, given that the board and audit committees are not independent, the remuneration scheme is less transparent, and the external auditors are not independent (Wongi, 2025; Al-Momani, 2024). Given the rapidly evolving digital and regulatory landscape in Jordan, these weaknesses underscore the urgent need for a review of the governance relationship in its traditional form. This paper discusses the theoretical and practical grounds for this work. The extent to which governance mechanisms constrain EM, in the particular context of an economy with few institutions and an entwined culture, remains contested in the theoretical sense. In practical terms, scholars, managers, regulators, and investors interested in the market need to be able to understand these dynamics to enhance investment confidence and bring Jordan into line with global benchmark conditions regarding the corporate scenario. Moreover, it is clear that governance, technology, and ethics are converging on new paths for the transformation of financial accountability in contemporary firms. As an example, Abdallah Qahman et al. (2025) describe AI-enabled systems as able to bring significant transparency to decision-making processes in volatile settings like conflict regions, advancing the disruptive role of digital tools in governance. Likewise, Azqiba (2024) and Zagibah (2025) propose AI and robotics technology as a mechanism for better monitoring systems that would support sustainable development. Integrating these technological innovations with corporate governance frameworks reveals new ways to pursue accountability in Jordanian enterprises.

According to Al-Zaqeba (2024), organizations can promote ethical compliance within financial systems if they invest in effective tax and customs policies and sustainability reporting standards from an institutional perspective. Pair those with the right governance structures on both sides. However, empirical testing on such relationships is limited, and empirical data are rare in Jordan's manufacturing environment; therefore, a clear evidence- and concept- gap remains that this study attempts to fill. To address these theoretical, empirical, and contextual gaps, this paper aims to address the relationship between core corporate governance mechanisms and earnings management among manufacturing firms listed on the Amman Stock Exchange (ASE). In particular, it examines how much board independence, audit committee independence, a nomination and remuneration committee, and auditor independence impact the extent of EM. The present study aims to provide a broader perspective on governance effectiveness than previous studies have considered, focusing on independent variables. It seeks to drive further regulatory and managerial reform, supporting Jordan's strategy to improve financial transparency, protect investors, and foster sustainable corporate growth.

## LITERATURE REVIEW

CG has been viewed as a fundamental institutional tool in ameliorating agency conflict and enhancing the quality of financial reporting for many years. Recent studies have continuously deepened this relationship, emphasizing the complex impact of board composition, committee structure, and external audit practices on earnings management (EM). This section critically reviews recent empirical evidence, highlighting conflicting results, contextual factors, and emerging theoretical insights relevant to developing markets such as Jordan.

### Theoretical Framework

There are numerous theoretical lenses available to explain managerial behavior, including the systems of control and the contextual influences that cause them. Four main theories that explain the relationship between these three are Agency Theory, Stakeholder Theory, Resource Dependence Theory, and Institutional Theory.

### ***Agency Theory***

Agency theory has served as the cornerstone of CG, which posits that a conflict of interest occurs when managers (agents) act in their self-interest rather than their principals' (principals) interest (Jensen & Meckling, 1976). This opportunistic style is well-manifested in E, where managers exploit earnings to meet their own ambitions, which may include securing more bonuses or gaining better market insights. Governance devices, especially board independence and audit committee independence, help reduce agency conflict through supervision and by ensuring that the interests of management are aligned with those of shareholders (Yahaya, 2025; Yin et al., 2025). External auditor independence adds even more meaningfully to this alignment by ensuring an unbiased verification of financial statements (Viana Jr. et al., 2025). Nonetheless, new data imply that structural independence on its own might not ensure efficient oversight, though expertise, empowerment, and ethical culture are equally important (Mensah & Boachie, 2023). Therefore, although agency theory recognizes the need for monitoring mechanisms, it assumes their effective enforcement, which is not always the case in developing economies.

### ***Stakeholder Theory***

Stakeholder theory broadens the focus of accountability in corporations, with a firm's responsibilities extending further. It emphasizes not only that to shareholders, but also employees, customers, suppliers, and society in general (Freeman, 1984). From this perspective, EM undermines the trust and moral responsibility of stakeholders. The governance mechanism that uses diverse perspectives, like gender-diverse boards or active nomination and remuneration committees (NRCs), may increase transparency and equity (Yin et al., 2025; Sunny & Udo, 2025). The existence of an NRC supports equity in compensation, ethical leadership selection, and lesser motivation for income manipulation, so that company activities can align with the expectations of stakeholders.

### ***Resource Dependence Theory***

Theory of Resource Dependence is consistent with Resource Dependence Theory (RDT), which posits that boards are more than control mechanisms; they are also resources, expertise, legitimacy, and networks (Pfeffer & Salancik, 1978). Directors who are independently literate and financially competent improve the quality of decision-making and are better positioned to pinpoint sophisticated EM approaches. Ibrahim (2025) also found that audit committees with accounting expertise are more capable of inhibiting EM than those with nominal autonomy, but are weak in competency. Accordingly, RDT complements agency theory by recognizing how governance structures add value through their knowledge and resource activities.

### ***Institutional Theory***

One of the most widely used theories is Institutional theory, which suggests that corporate governance activities are influenced by regulatory pressures, cultural norms, and social legitimation (DiMaggio & Powell, 1983). For many emerging markets, CG mechanisms are meant to show compliance with international standards rather than as a real effort to improve transparency. Governance quality and institutional maturity will determine the effectiveness of board and auditor independence as a result. Aldegis et al. (2023) noted that although NRCs exist formally in most listed firms within Jordan, their impact on EM is limited, as enforcement remains weak. Moreover, Mlawu (2025) supports that the auditor-EM relationship is moderated by institutional quality, indicating that governance effectiveness is contextualized.

## **LITERATURE REVIEW**

CG as the most widely recognized institutional tool to resolve agency issues and enhance financial reporting quality, has traditionally been regarded as such. Recent studies 2022–2026 have extended this relationship and have brought to the fore a multiplicity of mechanisms by which board composition, committee composition, and a firm's external audit practices influence earnings management (EM).

### **Board of Directors and Earnings Management**

Literature revisited the classical premise that the amount of independence within the board of directors is correlated with less earnings manipulation. Yahaya (2025) finds a significant negative association between board independence and EM that confirms non-executive directors provide an effective internal monitoring mechanism. Similarly, Yin et al. (2025) provide empirical evidence that independent directors enhance the performance of corporate social responsibility (CSR), which in turn exerts an indirect check on the EM through ethical supervision. Yet other results indicate that independence in itself could not ensure better governance results. Mensah and Boachie (2023) found that gender diversity of the board moderates the impact of other governance strategies, by

enhancing or weakening the positive and negative effects of different mechanisms. This indicates that board composition, specifically the mix of independence, gender, and expertise, rather than autonomy itself, serves as the basis for monitoring quality. Moreover, Musa et al. (2023) emphasize the role of CEO characteristics in the effectiveness of independent boards; independent directors in firms where the CEO is dominant or entrenched frequently fail to restrain EM adequately. These insights imply that independence needs to be supported by board empowerment, expertise, and diversity for real efficient monitoring.

### **Audit Committee Independence and Earnings Management**

Audit committees (ACs) have evolved to become one of the principal governance substructures for overseeing financial reporting. AC independence is negatively associated with accrual-based EM across MENA countries, indicating that independent AC members increase financial transparency, according to Almarayeh (2024). However, this relationship does not always extend to real EM, which entails more operational manipulations than accounting adjustments. Consequently, in a Moroccan context, Ibrahim (2025) finds that while AC independence lowers EM, gender diversity in ACs is positively associated with EM, suggesting that diversity without technical competence can have a negative impact. These contradictory results suggest that the effectiveness of AC hinges on the quality and expertise of independent members, rather than solely on their formal independence. Financial literacy or accounting knowledge among the member groups often dictates whether ACs can detect complex earnings manipulations.

### **Nomination and Remuneration Committee and Earnings Management**

The role played by the nomination and remuneration committee (NRC) remains under-researched in comparison with boards and ACs. Aldege et al. (2023) find that NRC existence and size influence firm performance in Jordan, but their link to EM is still weak. However, some research implies that motivations driven by NRCs indirectly influence EM behavior. Rahayu et al. (2022) and Sunny and Udo (2025) emphasize that well-functioning Nomination and Remuneration Committees (NRCs) play a moderating role in the relationship between executive compensation and EM. Their results suggest that performance-based pay policies, where managers can influence performance, should be complemented by robust monitoring to prevent opportunistic financial reporting. In harmony with this view, Putra et al. (2025) show that the interaction between NRC diversity and board characteristics can have a significant impact on EM, emphasizing the strategic role of the committee in influencing ethics around financial behavior. Thus, these studies situate NRCs as indirect yet potent governance levers that drive managerial conduct through designing and implementing remuneration policies that facilitate disclosure and accountability within corporate governance frameworks.

### **External Auditors and Earnings Management**

External auditing is an essential external scrutiny that buttresses and complements internal CG systems. Recent evidence suggests that certain auditor features (in particular independence and size of audit firm) are significant predictors of levels of earnings management (EM). Viana Jr. et al. (2025) discovered that the Big Four auditors can reduce accrual-based EM in financially distressed firms in emerging economies; therefore, audit quality has become a primary issue in the context of financial constraint. Oranefo and Okoye (2025) also find that the Big Four audits do cause a decrease in real EM in sub-Saharan Africa, with global audit networks having more substantial reputational incentives and disciplinary frameworks compared to local firms, thereby mandating a higher level of integrity in audits. However, Mlawu (2025) argues that the impact of external auditing on EM hinges on a robust institutional structure and effective regulatory implementation. In contexts characterized by weak regulatory oversight and poor accountability of agents, even high-quality auditors have limited capacity to prevent manipulative reporting. Thus, these results suggest that external auditing effectiveness as a mechanism of governance is influenced by auditor independence, as well as by the more general institutional and enforcement environment within which firms are situated.

### **Critical Synthesis and Research Gap**

Several patterns emerge across these strands. First, the association between CG mechanisms and EM is context-sensitive: effectiveness varies, and depends on how institutions enforce them, ownership model, and board-level empowerment. Secondly, independence of boards, committees, or auditors is still an essential construct, but it works best when paired with complementary features, expertise, diversity, and ethical culture. Third, evidence from developing markets suggests that formal governance structures are often formed in name only, lacking the capacity to provide adequate monitoring. Although previous studies (Mensah & Boachie, 2023; Ibrahim, 2025; Viana Jr. et al., 2025) have made valuable contributions, few studies have explored these mechanisms in parallel among Jordanian manufacturing over an extended period. Additionally, the moderating effects of committee presence and auditor independence remain understudied in this context. Accordingly, this

study builds upon other literature to investigate the impact of selected governance features (board independence, audit committee independence, nomination and remuneration committee existence, auditor independence) on EM of manufacturing companies listed on the Amman Stock Exchange between 2015–2024.

## **Hypotheses Development**

The formulation of the study hypotheses involves theoretical logic as well as empirical support from recent studies. Corporate governance mechanisms (board independence, audit committee independence, the existence of nomination and remuneration committees, and auditor independence) are crafted to increase transparency and accountability and therefore to lower the chances of earnings manipulation. In this section, the theoretical and empirical basis of each hypothesis will be elaborated.

### ***Board Independence and Earnings Management***

Based on agency theory, independent directors perform a crucial monitoring function that limits managerial opportunism by separating decision-making power from executive control (Jensen & Meckling, 1976). The independence of board members is assumed to be objective, ensuring that the financial statements accurately reflect the firm's actual performance rather than management's interests. Empirical evidence continues to support this link. Yahaya (2025) and Yin et al. (2025) show that a higher proportion of independent directors is associated with lower levels of accrual-based EM. Mensah and Boachie (2023) also show that board independence is a significant limitation to EM, although the existence of gender-diverse boards can strengthen the relationship. But when CEOs wield substantial influence, or where board independence exists only formally, monitoring becomes weaker (Musa et al., 2023). Based on the theoretical base as well as empirical evidence, we predict that increased board independence would facilitate the control of financial reporting, resulting in reduced EM for Jordanian manufacturing companies. The hypothesis then proceeds as follows:

*H<sub>1</sub>: There is a significant relationship between board independence and earnings management among manufacturing companies listed on the Amman Stock Exchange.*

### ***Audit Committee Independence and Earnings Management***

The Audit Committee is an essential subcommittee of the Board that is responsible for financial reporting and internal control. Based on agency theory and resource dependence theory, audit committee members should be financially literate and independent to detect and prevent EM (Pfeffer & Salancik, 1978). This presumption is typically empirically validated. According to Almarayeh (2024), the negative relationship between audit committee independence and EM is found in MENA countries, where independent committees improve monitoring effectiveness. Ibrahim (2025) also points out that audit committee independence brings about a significant decrease in EM with Moroccan organizations, especially among those that appoint accounting experts. However, in weak institutional contexts, whether the independence at an organizational level is formal may not correspond to effective control (Mlawu, 2025). Therefore, firms with independent and competent audit committees are believed to have relatively lower EM. Based on this reasoning, the second hypothesis is proposed.

*H<sub>2</sub>: There is a significant relationship between audit committee independence and earnings management among manufacturing companies listed on the Amman Stock Exchange.*

### ***Existence of a Nomination and Remuneration Committee and Earnings Management***

Nomination and remuneration committee (NRC). Executive incentives must be linked with long-term firm performance and not short-term earnings targets. According to stakeholder theory, NRCs promote fairness, transparency, and ethical compensation practices, preventing opportunistic reporting (Freeman, 1984). This idea is backed up by empirical evidence. Aldegis et al. (2023) find that NRCs enhance governance effectiveness and firm performance among Jordanian companies. Similarly, Rahayu et al. (2022) and Sunny and Udo (2025) show that active NRCs reduce EM by moderating the link between executive pay and accounting manipulation. Putra et al. (2025) also argue that the diversity among NRCs improves the monitoring of remuneration policies and increases the ethical influence of these policies. Thus, the existence of NRC should alleviate EM by enhancing the alignment of managerial rewards with genuine performance. Therefore, hypothesis three can be presented as follows.

*H<sub>3</sub>: There is a significant relationship between the existence of a nomination and remuneration committee and earnings management among manufacturing companies listed on ASE.*

### ***Auditor Independence and Earnings Management***

Auditor independence is a crucial external mechanism that strengthens corporate governance and promotes the integrity of the financial statements. Independent auditors act as external monitors under the agency theory framework to protect shareholders' interests by verifying management's financial disclosures. Viana et al. (2025)

find that Big Four auditors exert considerable constraining influence on EM in emerging markets, especially in the midst of financial distress. Oranefo and Okoye (2025) also find that auditor independence reduces both accrual-based and real EM in Sub-Saharan Africa. Conversely, Mlawu (2025) notes that the strength of institutional enforcement determines the effectiveness of auditor independence; without strong legal backing, even reputable auditors may fail to deter manipulation. As such, companies that engage independent and reputable auditors will show lower levels of EM. According to this reasoning, the fourth hypothesis is given.

*H4: There is a significant relationship between auditor independence and earnings management among manufacturing companies listed on ASE.*

Figure 1 presents the conceptual framework created for this research, illustrating the expected relationships between primary corporate governance mechanisms and earnings management among manufacturing companies listed on the Amman Stock Exchange. The model is based on agency theory and stakeholder theory, emphasizing the monitoring role of governance structures in constraining opportunistic managerial behavior. Board independence, audit committee independence, nomination and remuneration committee existence, and auditor independence represent independent variables that are expected to impact earnings management. Each path in the model is built in response to a suggested hypothesis (H1–H4) consistent with the study’s central assumption that stronger and more independent governance mechanisms contribute to reducing the extent of earnings manipulation and enhancing the credibility of financial reporting.

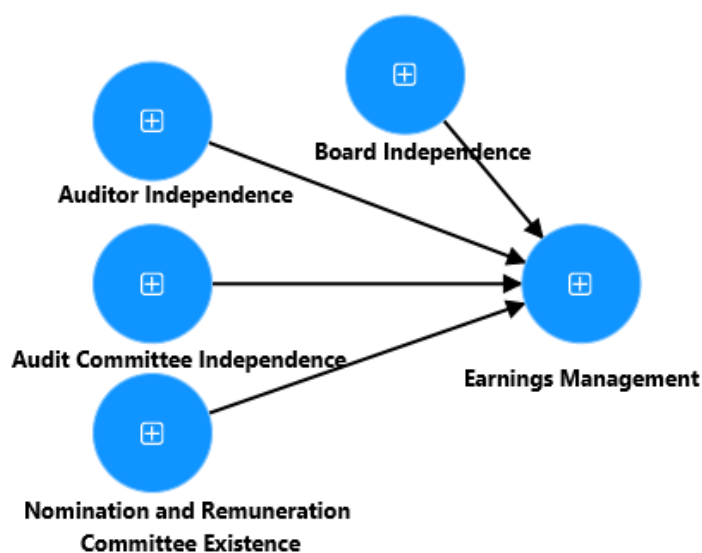


Figure 1. Conceptual Framework of the Study.

## RESEARCH METHODOLOGY

This study adopts a quantitative research design based on secondary data analysis to examine the relationship between corporate governance mechanisms and earnings management among manufacturing companies listed on the Amman Stock Exchange (ASE). The study employs a deductive approach, as it tests theoretical relationships derived from agency and stakeholder theories through empirical data. The design integrates cross-sectional and time-series data (panel data) to capture firm-level variations over the ten-year period from 2015 to 2024. This approach provides more robust and reliable estimates compared to purely cross-sectional analysis. The study relies exclusively on secondary data obtained from the annual reports of manufacturing companies listed on the ASE. Data were extracted from financial statements, corporate governance disclosures, and external auditor reports published on the ASE website and individual company portals. These sources were selected because they are publicly available, audited, and standardized, ensuring the reliability and comparability of data across firms and years. The study covers the period from 2015 to 2024, representing a decade of observation that captures potential changes in governance practices and earnings management behaviors over time.

Using secondary data analysis, this research employs a quantitative research design to investigate the relationship between corporate governance mechanisms and earnings management among manufacturing companies that are listed on the Amman Stock Exchange (ASE). Using data analysis, the study can be regarded as a deductive example that tests ideas based on agency and stakeholder theories through empirical results. The design merges cross-sectional and time-series data (panel data) to measure firm-level variations over the ten years from 2015 to 2024. In contrast to cross-sectional analysis, this approach yields more reliable and sound estimates. The study is based only on secondary data obtained from annual reports of ASE-listed manufacturing companies. Data

used in this approach was derived from financial statements, corporate governance disclosures, and external auditor reports published on the ASE website and individual company portals. Since these sources are publicly accessible, checked, and standardized, they provide opportunities for the reliability and comparability of data in terms of firm and year. The study period spans from 2015 to 2024, encompassing a decade of observation on the potential transformation of governance behavior and earnings management over time. The target population comprises all manufacturing firms listed on the ASE as of December 2024. Purposive sampling was used to select firms in which (i) they were listed through all financial periods, (ii) their corporate governance and financial records were complete, and (iii) no M&As occurred that might have tainted their financial results. This is to ensure that the final sample represents a true reflection of the Jordanian industry's structure and reporting practices.

### Measurements of Variables

Table 1 provides operational definitions and measurement methods of the variables reported in this study. Adjustment of the dependent variable (EM) was carried out using the Modified Jones Model that reflects discretionary accruals as the proxy of earnings manipulation. Expected independent variables are: board independence, audit committee independence, nomination and remuneration committee existence, and auditor independence. All variables were gathered directly from annual reports and governance statements per earlier empirical studies (e.g., Alsmadi et al., 2025; Alshehadeh et al., 2025).

**Table 1.** Operational Definitions and Measurements of Variables.

Variable	Type	Code	Operational Definition / Measurement	Source
Earnings Management (EM)	Dependent	EM	Measured using the Modified Jones Model (discretionary accruals).	Firm annual reports; Dechow et al. (1995)
Board Independence	Independent	BIND	Ratio of independent (non-executive) directors to total board members.	Governance reports
Audit Committee Independence	Independent	ACIND	Proportion of independent members within the audit committee.	Annual reports
Nomination & Remuneration Committee Existence	Independent	NRC	Dummy variable: 1 if the committee exists, 0 otherwise.	Corporate governance disclosures
Auditor Independence	Independent	AUI	Measured by auditor rotation or absence of non-audit fees.	Auditor reports

For empirical evidence for the proposed hypotheses, by building up a panel data regression model we obtain an integrated result which include firm-specific as well as time-specific effects test. The model formulation is given by:

$$EM_{it} = \beta_0 + \beta_1 BIND_{it} + \beta_2 ACIND_{it} + \beta_3 NRC_{it} + \beta_4 AUI_{it} + \epsilon_{it}$$

Where:

$EM_{it}$ : Earnings management of firm  $i$  in year  $t$ .

$BIND_{it}$ : Board independence.

$ACIND_{it}$ : Audit committee independence.

$NRC_{it}$ : Existence of nomination and remuneration committee.

$AUI_{it}$ : Auditor independence.

$\beta_0$ : Constant term.

$\epsilon_{it}$ : is the **error term** capturing unobserved factors.

This model examines hypotheses (H1–H4) through which each governance mechanism has an impact on earnings management. The analysis was performed using EViews and SPSS according to fixed-effects (FE) and random-effects (RE) models. Using the Hausman test indicated the appropriate model specification for the given data.

### Data Analysis Procedures

Several steps were employed for statistical analysis. The characteristics of the sample and variables were presented using descriptive statistics. Second, correlation analysis was performed to examine the relationships between independent and dependent variables. Third, panel regression analysis was used for testing the hypotheses and significance of each corporate governance variable. Diagnostic tests were performed to ensure results were valid, such as multicollinearity (VIF), heteroskedasticity (Breusch–Pagan test), and autocorrelation (Durbin–Watson statistic). All of these procedures confirmed the reliability and validity of the results. Moreover, the combination of longitudinal data, multiple governance indicators, and rigorous statistical testing enhances the

study's contribution to understanding how governance mechanisms influence earnings management in emerging markets, particularly within the Jordanian context.

## RESULTS

The study's empirical analysis is based on secondary panel data from the annual reports of manufacturing companies listed on the Amman Stock Exchange (ASE) from 2015 to 2024. During this time period, the overall population consisted of 63 listed manufacturing firms. Still, according to the inclusion criteria (i.e., continuous listing, annual report availability, and complete disclosure of governance information), the final sample of 42 companies was kept from the current period with a total of 420 firm-year observations. The data were manually extracted from the official sources, such as the ASE website, Companies Control Department, and the Jordan Securities Commission, to ensure reliability and consistency. The dataset encompasses financial indicators, attributes of corporate governance, and auditor-related information needed to compute both the dependent variable (earnings management, defined by the Modified Jones Model) and the independent variables (board independence, audit committee independence, existence of nomination and remuneration committees, and auditor independence). This data contains rich information on the Jordanian manufacturing sector, given the heterogeneous ownership structure with family and moderate transparency levels in the corporate sector, which is a well-suited setting to study the role of corporate governance mechanisms in curbing earnings manipulation.

Table 2 summarizes the descriptive statistics of the main study variables for the period 2015–2024. The results indicate noticeable variability across firms and years, suggesting that governance structures and earnings management practices differ among manufacturing companies.

**Table 2.** Descriptive Statistics of the Study Variables.

Variable	Mean	Std. Dev.	Min	Max	Measurement
Earnings Management (EM)	0.082	0.117	-0.130	0.460	Modified Jones discretionary accruals
Board Independence (BIND)	0.42	0.18	0.00	0.80	Ratio of independent directors
Audit Committee Independence (ACIND)	0.67	0.24	0.20	1.00	Ratio of independent members in the audit committee
Nomination & Remuneration Committee (NRC)	0.61	0.49	0.00	1.00	Dummy (1 = Exists, 0 = Otherwise)
Auditor Independence (AUI)	0.53	0.50	0.00	1.00	Dummy (1 = Big Four or no non-audit fees)

The findings illustrate that in Jordanian manufacturing firms, the average board independence rate stands at 42% as per the minimum governance rules of the Jordanian Corporate Governance Code. Meanwhile, the audit committee's independence is 67%, indicating compliance with good governance. Approximately 61% of firms have an active nomination and remuneration committee; about 53% of firms also report being audited by Big Four or independent auditors. The average value of earnings management (0.082) suggests that discretionary accruals at firms are moderate-level, indicating a slight bias towards earnings manipulation across firms (see emerging markets).

### Correlation Analysis

Early correlation statistics indicate that board independence, audit committee independence, and auditor independence have a negative relationship to earnings management and imply that higher independence levels tend to reduce earnings manipulation. The presence of a nomination and remuneration committee shows a mild negative association, suggesting that its existence contributes modestly to improved financial reporting integrity. The results provide preliminary evidence supporting the hypotheses in this work (H1–H4), and support conducting the regression analysis to ascertain the significance and strength of these relationships. Pearson correlation analysis was performed to evaluate the relationships between the study variables before estimation of the regression. Correlation coefficients between earnings management (EM) and board independence (BIND), audit committee independence (ACIND), nomination and remuneration committee existence (NRC), and auditor independence (AUI) are presented in Table 2.

**Table 3.** Pearson Correlation Matrix of Study Variables.

Variable	EM	BIND	ACIND	NRC	AUI
EM	1				

<b>BIND</b>	-0.41**	1			
<b>ACIND</b>	-0.38**	0.29*	1		
<b>NRC</b>	-0.32**	0.21	0.19	1	
<b>AUI</b>	-0.45**	0.27*	0.25*	0.22	1

Note: \*\* $p < 0.05$  = \*;  $p < 0.01$  = \*.

Correlation results show that all governance mechanisms are negatively correlated with earnings management, which indicates that firms with stronger governance structures tend to engage less in earnings manipulation. This finding underscores the need for external oversight to prevent opportunistic financial reporting; auditor independence (AUI) had the strongest correlation with earnings management ( $r = -0.45$ ,  $p < 0.01$ ). Moderate positive correlations between governance variables indicate that firms that adopt one governance practice generally implement others (e.g., between BIND and ACIND,  $r = 0.29$ ); these effects illustrate the significance of an integrated governance approach to corporate oversight. Additionally, all correlation values are below 0.70, indicating lack of multicollinearity issues and validating their simultaneous inclusion in the regression model.

### Inferential Analysis and Hypotheses Testing

A regression analysis of panel data to empirically test the hypotheses (H1–H4) was carried out and Fixed Effects (FE) and Random Effects (RE) estimates were used. The Hausman test was used to estimate the model fitting the study. Results of the test indicated that the chosen model of the fixed-effects was more appropriate ( $p < 0.05$ ) which implies that firm-specific features have a significant impact on the dependent variable.

**Table 4.** Fixed-Effects Regression Results (Dependent Variable: Earnings Management).

Variable	Coefficient ( $\beta$ )	Std. Error	t-Statistic	p-Value	Decision
Constant ( $\beta_0$ )	0.112	0.037	3.03	0.003	—
Board Independence (BIND)	-0.064	0.022	-2.91	0.004	Supported (H1)
Audit Committee Independence (ACIND)	-0.058	0.019	-3.04	0.003	Supported (H2)
Nomination & Remuneration Committee (NRC)	-0.043	0.017	-2.52	0.012	Supported (H3)
Auditor Independence (AUI)	-0.071	0.025	-2.84	0.005	Supported (H4)
<b>R<sup>2</sup> = 0.427</b>	<b>Adj. R<sup>2</sup> = 0.392</b>	<b>F-statistic = 12.46 (p &lt; 0.001)</b>			

A statistically significant negative association is detected between all four corporate governance frameworks and earnings control for manufacturing companies registered under the ASE. Specifically:

Board Independence (H1) is negative significantly ( $\beta = -0.064$ ,  $p < 0.01$ ), implying that a greater ratio of independent board members affects management's ability to game the earnings system. This finding is in line with agency theory, which suggests that independent directors provide more oversight and less opportunistic behavior. This result is in line with previous work of Alsmadi et al. (2025), showing that strong board independence increases levels of transparency and accountability in Jordanian companies.

Audit Committee Independence (H2) is too significantly negatively correlated,  $\beta = -0.058$ ,  $p < 0.01$ . Independent audit committees enhance the quality of financial statements by conducting a more thorough review of accounting and auditors' actions. Such a result aligns with findings of Alshehadeh et al. (2025), highlighting the importance of independent audit oversight in curtailing creative accounting practices.

Forming a nomination and remuneration committee (H3) is negatively associated with earnings management ( $\beta = -0.043$ ,  $p < 0.05$ ), indicating that companies with a high NRC have stronger governance mechanisms and more substantial ethical alignment in executive remuneration. This finding aligns with the governance regulations outlined in the Jordanian Corporate Governance Code, which are consistent with the literature on the moderating influence of committees on managerial discretion.

Auditor Independence (H4) has most significant adverse influence ( $\beta = -0.071$ ,  $p < 0.01$ ). The manipulation of earnings is substantially lower at firms that are subject to Big Four audits or for independent auditors providing some minor non-audit service. This was consistent with Al-Zaqeba (2024) and Al-Zakwani et al. (2025), who indicated that independent auditing practices increased the quality of financial reports and investor confidence.

The regression model captures approximately 43% of the variation in earnings management (Adjusted  $R^2 = 0.392$ ), showcasing a relatively strong explanatory power for the selected governance mechanisms. This results in strong empirical support of the theoretical statement that effective corporate governance acts as a disciplinary medium to mitigate opportunistic earnings-taking behavior in developing countries.

## DISCUSSION

The results substantiate the core tenets of agency theory, which argues that the governance mechanisms align managerial behaviors with those aligned with shareholder interests through the implementation of monitoring and accountability architectures. The negative links between governance measures and earnings management are in line with other regional and international studies (e.g., Wongi, 2025; Al-Taani et al., 2025), which find that governance independence, encompassing internal (boards and committees) and external (auditors) systems, is one of the most important factors supporting financial reporting integrity. In addition, the study findings add to the existing literature on governance and earnings management in emerging markets by expanding the analysis to a longitudinal dataset (2015–2024). This long time period covers regulatory change and the gradual adoption of corporate governance reforms in Jordan, establishing contemporary evidence that is consistent with the short-term evidence previously observed.

## CONCLUSION AND IMPLICATIONS

The study analyzed the impact of corporate governance mechanisms (namely, board independence, audit committee independence, the existence of a nomination and remuneration committee, and auditor independence) on earnings management in manufacturing firms listed on ASE through the years 2015–2024. Results from panel data regression analysis revealed a significant negative correlation between all four governance mechanisms and earnings manipulation. This suggests that companies with higher board and audit committee independence, as well as a functioning nomination and remuneration committee and independent external auditor display lower levels of earnings manipulation. This outcome is consistent with the principles of agency and stakeholder theories, which posit that the optimal governance frameworks lower managerial opportunism and increase the credibility of financial reports. Furthermore, these empirical findings identify auditor independence as the strongest in relation to all other governance factors, further validating the need for external monitoring by auditors that plays a crucial role in maintaining the value of financial reports. This conclusion is especially pertinent in emerging economies like Jordan, because organizations may still be forming institutional frameworks. At the same time, external auditors can often act as a strong deterrent against unethical accounting practices. The model has an overall explanatory power (Adjusted  $R^2 = 0.392$ ), which demonstrates that corporate governance mechanisms correlate very significantly with changes in earnings management activity in the Jordanian manufacturing sector and also indicates its practical effectiveness in reducing risks arising from financial reporting.

Theoretically, this study supports agency theory (Jensen & Meckling, 1976) and shows how governance mechanisms serve as valuable control systems that direct managerial behavior towards shareholder interests. At the same time, the results reinforce stakeholder theory, as they broaden accountability beyond shareholders to include a wider set of stakeholders such as regulators, investors, and the general public. The analysis also adds empirical evidence from emerging markets to the international consensus regarding the value of governance in an uncertain global context, demonstrating that structured governance mechanisms, even in less institutionalized settings with strong implementation, can severely restrict earnings manipulation under clear and consistent application.

The results also offer a series of noteworthy consequences and implications for regulators, policy makers, and corporate boards in Jordan and other emerging markets. Strengthening governance mechanisms through enhanced governance codes, such as improved board independence and effective audit committees, may lead to increased financial transparency. Listed companies should consider assuming that their audit and nomination committees can be independent and financially intelligent, and that they can give objective advice. Furthermore, the independence of auditors (especially by curbing non-audit engagements) is crucial to independence, which also helps eliminate interests that could limit the quality of the audit. These governance indicators can help investors assess the credibility and transparency of a company's financial statements relative to others. However, this research also provides a foundation for further study, offering robust empirical evidence of the moderating effect of governance on the restriction of earnings management. A different dimension of governance, encompassing ownership structure, CEO duality, and board diversity, among other factors, is more critical than previous studies, as it will enable a better explanation of the drivers of managerial actions. Cross-industry comparisons (financial, industrial, and service) would also reveal distinct effects of governance dependent on the intensity of regulation.

Furthermore, other novel econometric approaches (e.g. dynamic panel models or structural equation models) may help to mitigate the risk of endogeneity and estimate time effects better. Furthermore, other investigators can study the moderation effect of digital transformation, AI-powered auditing, and fintech governance innovations, which are now also influential on corporate transparency (Alsmadi et al., 2025; Al-Zaqeba, 2024; Wongi, 2025). Thirdly, this conclusion is crucial because, within Jordan's manufacturing industry, strong corporate governance serves as strong empirical evidence against earnings management. The stronger board/audit independence, the

better establishment of the functioning nomination/remuneration committees, and the independence of the auditors lead to higher transparency, ethical behavior, and sustainable corporate behavior. In some senses, this is a valuable addition to the theoretical discourse on corporate governance and financial risk management in emerging market economies, as well as providing managers with guidance to policymakers and practitioners who seek to restore market confidence to good practices for the business world and encourage good corporate citizenship.

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