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Effects of Corporate Governance on Earnings Management:
The Case of Lebanon
By

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Effects of Corporate Governance on Earnings Management: The Case of Lebanon

Lama M. Al-Hafi

ABSTRACT

Effects of corporate governance practices on various financial, managerial, and operational activities within organizations have been extensively studied in the previous two decades. Earnings management, viewed as legal and appropriate means by some researchers and illegal by others, is one of the financial activities that could be impacted by the corporate governance practices of the organization. Higher level of implementation of the corporate governance components (transparency of financial data, board of directors, ownership structure, corporate social responsibility and audit committee) is thought to reduce unfavorable earnings management. Several recent studies have concluded that Lebanese corporations do not give corporate governance much importance. Moreover, earnings management has not been tested thoroughly within the Lebanese context. This study focuses on determining the impact of good corporate governance practices on reducing unfavorable earnings management activities. In particular, the study aims at identifying the corporate governance components to reducing unfavorable earnings management by Lebanese organizations. Data were collected from questionnaires which were distributed to employees working at various Lebanese companies and having a certain level of familiarity with their company's financial reporting. Results show that companies with higher degree of independence of the board of directors, effective audit committee, transparency in terms of financial reporting, and good corporate social responsibility practices tend to have less unfavorable earnings management.

Keywords: Corporate Governance, Transparency of Financial Statements, Ownership Structure, Board of Directors, Audit Committee, Corporate Social Responsibility, and Earnings Management Practices.

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LIST OF ABBREVIATIONS

BOD: Board of Directors

CG: Corporate Governance

CSR: Corporate Social Responsibility

EM: Earnings Management

MENA: Middle East and North Africa

OECD: Organizations for Economic Cooperation and Development

Chapter I

INTRODUCTION TO CORPORATE GOVERNANCE & EARNINGS MANAGEMENT

This chapter includes the overview and background of corporate governance and earnings management, the need for undertaking this study, the research problem aimed to be investigated, the research objectives, the relevance of this study, and finally the limitations.

1.1 Overview and Background

In this section, a general summary of corporate governance functions will be presented as well as an overview about earnings management practices.

1.1.1 Corporate Governance

Corporate governance within the last twenty-five years has become one of the highly inquired studies in the business field. It frames and controls all the rules and regulations that must be followed by all the firm's participants. After the World War II, the United States exhibited the emergence of the high-status class. This class led to the expansion of corporations quickly without adequate accountability or control from the board of directors which resulted in several bankruptcies. Thus, the importance of corporate governance appeared, and over the past eras it has been expanding enormously in the U.S and other countries.

In the 1980s, the main purpose of applying corporate governance was focusing on arranging constitutional mechanisms for preventing managers, as much as possible, from serving their own interest (Khongmalai, Tang, & Siengthai, 2009). The board of directors played a major role in the internal governance of an organization by harmonizing the interests of owners and managers (O'Regan, O'Donnel, Kennedy, Bobtis, & Cleary, 2005). Moreover, the increasing difficulty of the challenging situations that are facing firms drove organizational practitioners and academicians to widen the corporate governance function. As a result, corporate governance functions have broadened to include not only monitoring and controlling, but also intensifying strategic plans and assuring the reliability of management procedures (Michie & Oughton, 2001).

Afterwards in 2007, the economic and financial crisis took place and created chaos on the level of the banking sector worldwide; it mostly affected the United Kingdom and the United States which are the world's leaders financially (Bruner, 2011). The capitals, London and New York, were in the center of the catastrophe in which their banks were harmed enormously through the high levels of losses and obligations on the mortgage securities. At the end of the crisis and the beginning of a new phase, both nations embraced several regulatory and instructive efforts to prevent such crises from reoccurring, and one of these efforts were corporate governance modification. This modification is needed to provide shareholders with more power to restrain irresponsible managers in the future in all types of organizations not only financial ones (Bruner, 2011).

Both countries used almost the same approaches toward the catastrophe in which they gave more authority to the shareholders. However, the U.K and U.S corporate governance structures significantly differ on some basic issues where the U.K structure stressed much more attention to the shareholders than the U.S structure. This means that

U.K system is more shareholder-oriented than the U.S system (Bruner, 2011). In general, the concept of corporate governance is the same in any country, but it is modified with respect to different circumstances that occur in each country.

In fact, scholars and governments accepted the idea that corporate governance systems affect the firm's performance and long-standing values (Nelson, 2005). The agency theory is the theory that stimulates the functions of corporate governance (Baker & Owsen, 2002). Because the owners are no longer in charge of control, a probable authority problem developed into the corporate system and this is the idea behind the theory. Agency conflicts occur when the managers, who are recruited to take decisions for the shareholders' maximum benefits, are taking decisions that best suit their own position or interest (Khongmalai et al., 2009).

According to Dima, Ionesscu, and Tudoreanu (2013), corporate governance has established an idea that is associated with the management and the system of an organization. Therefore, corporate governance, originally, was seen as a structure that monitors and controls firms. Besides, corporate governance is considered to be the system that focuses on the distribution of tasks and rights among stakeholders (Organizations for Economic Cooperation and Development, 2004). In addition, corporate governance is viewed as the administration and regulation procedures that are implemented by the firm. Also, it is defined as the key factor to enhance the financial and economic development, and provide more confidence to investors (Yassin, Ghanem, & Rustom). In general, corporate governance is a well-structured system that is established to control the organization through achieving long-term objectives, complying with rules and regulations, governing management practices and financial reports, and meeting the environmental needs. Furthermore, effective corporate governance should include specific characteristics:

transparency, accountability, responsibility, transparency in the organization's activities and structures, accountability of the management, audit committee, and board of directors, and responsibility of the firm toward its investors.

In Lebanon, according to the World Bank in 2003 addressing on the Corporate Governance in the MENA region, indicated that corporate governance is not that productive with respect to other countries in the Middle East and North Africa. Signifying that Lebanon is less effective considering public responsibility, data disclosure, and overall governance (Elgammal, Assad, and Jurdy, 2014). However, the Lebanese banking sector was able to relocate itself regarding the efficiency of corporate governance by applying the modern international principles, and implementing regulations that guarantee its reliability (Elgammal et al., 2014). Yet, other sectors in Lebanon still consider that corporate governance is not of a great importance. This is due to believing that Beirut Stock trade has a limited number of small to medium firms whose stocks are not broadly traded (Elgammal et al., 2014).

In general, many challenges are faced by corporate governance like globalization and technology progress (Fadun, 2013). Consequently, in the climate of dynamic and macro-environment changes, effective corporate governance must assist in the efficient organization's management. Additionally, because of less governmental monitoring and rules, effective corporate governance recognizes the need and importance for accountability and keeps records of all activities engaged as an evidence of its transparency. Effective corporate governance encourages economic expansion and improvement (Fadun, 2013). An effective corporate governance can be measured according to the transparency of financial statements, the structure of ownership, the

effectiveness of board of directors, the usefulness of audit committee, and the appliance of corporate social responsibility.

One of the many issues that corporate governance handles is earnings management. In the last few years, corporate earnings management has been standing out among the most widely examined parts in finance and financial accounting (Matsuura, 2008). By managing earnings, managers hide the real earnings and financial position of the organization (Matsuura, 2008).

1.1.2 Earnings Management

Earnings management is a strategy used to keep a stable image of the firm's earnings. "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 influence contractual outcomes that depend on reported accounting numbers" (Healy & Wahlen, 1999).

According to FASB (1985), the nature of accrual accounting "attempts to record the financial effects on an entity of transactions and other events and circumstances that have cash consequences for the entity in the periods in which those transactions, events, and consequences occur rather than only in the period in which cash is received or paid by the entity" (Abu Siam, Binti Laili, & Bin Khairi, 2014). This provides managers a substantial amount of discretion in recognizing the actual earnings an organization reports in any given time (Abu Siam et al., 2014).

As a matter of fact, earnings management can be separated into accounting and real. Accounting earnings management are decisions taken by managers and are accepted under the Generally Accepted Accounting Principles (GAAP), like converting the

inventory estimation method from FIFO to LIFO or vice versa, and changing from straight line depreciation method to double declining depreciation method. However, real earnings management are decisions related to actual investments and production, like decreasing the research and development expenses and administrative expenses (Matsuura, 2008).

Some consider these practices as illegal acts while others consider them legal. Those who view them as illegal acts believe that managers intentionally manipulate the organization's earnings to maintain an image that meets the prearranged goals. Therefore, to increase the number of investors in the firm, management deceives them by structuring transactions to keep the annual financial reports stable instead of having years of satisfying or dissatisfying balances. However, those who think these practices are legal believe that the company is adopting an added-value activity. Earnings management is perceived as a tool that guides management in allocating resources. It will increase the company's value without manipulating financial statements and at the same time it doesn't reflect the economic reality in any way. In addition, current accounting system contains some options that permit management to manage earnings. In general, managers can use these options to reach their objectives, and as long as they are using them within the borders of GAAP, earnings management is considered legal (Matsuura, 2008).

According to Abu Siam et al. (2014), internal and external members of any business depend on the financial statements that are supposed to deliver accurate and valuable data. Also, the efficiency of the market depends on the data which flow to capital markets. When earnings management occur and misleading data exit, the market will not be able to value securities appropriately. Therefore, earnings management can misrepresent the real performance of the organization and reduce the creditors' and shareholders' ability to make the right decisions (Abu Siam et al., 2014). Subsequently, the real question is can

earnings quality be trusted? This question is mainly asked by both creditors and regulators who ask for accurate ways to prevent factors that are possibly the reason behind misleading earnings. For example, one of these factors is managerial discretion which is mostly spotted. It mainly happens if the relationship between the agent and the principal is influenced due to some inadequacies, or if the corporate governance implementations are not availed. Many recent studies on earnings quality revealed that when managerial discretion occurs, the organization's real economic performance is lost (Jouber & Fakhfakh, 2011). In addition, many studied the factors and constraints that affect earnings management. They found that the audit quality is a major constraint on the magnitude of earnings management (Becker, DeFond, Jiambalvo, & Subramanyam, 1998). The destruction of creditors' certainty in the quality of financial reports, and the obstruction of the effectual movement of capital in the financial market result from the practice of earnings management (Jackson & Pitman, 2001). Therefore, in order to detect and limit earnings management, audit companies must distinguish themselves through specialization for example (Watkins, Hillison, & Morecroft, 2004). Specialization allows the auditor to deliver wider services and credibility; thus, the auditor will be able to find techniques for a more effective auditing process and improve the ability to detect and limit earnings management (Beasley & Petroni, 2001).

Why do managers record accruals? Mainly there are two motivations that make managers record accruals: performances/signaling reasons and opportunistic earnings management. Performance/signaling reasons means when managers want to show a better organizational economic performance, they record accruals. While the opportunistic earnings management is when managers hide bad performance or delay the recognition of good performance for them to maximize their effectiveness. As a result, when

shareholders notice that earnings management is opportunistic, they reduce the accounting numbers created by the organization's management (Habib, 2004).

Therefore, agency theory is considered a core reason behind earnings management practices (Richardson, 2000). The conflict that occurs between managers and shareholders urges for the separation between ownership and management (Khalil, 2010). This is due to the complete independence from managers when it comes to accounting decisions which gives them the authority to make selections and implement a scope of practices that may refute the owner's interests leading to earnings management practices (Khalil, 2010).

The aim of this research is to study the relation between corporate governance and earnings management, and to what extent the former influence the latter.

1.2 Purpose of the Study

As mentioned earlier, the main purpose of this research is to determine the effect of corporate governance on earnings management practices. Several researches were conducted to study the relationship of corporate governance and its impact on the limitation of earnings management. In their study, Chtourou, Bedard, and Courteau (2001), stated that effective corporate governance limits earnings management activities. In addition, the experience of the board of directors seems to decrease earnings management practices. According to Findlay (2006), an independent board of directors must be endorsed for the company to be more productive in monitoring the discretionary judgment of the management. In addition, according to a study done in Thailand, the board of directors that carries out several directional situations, has a greater experience,

knowledge, and skills in monitoring tasks than the one that handle only one firm's board (Sukeecheep, Yarram & Al Farooque, 2013).

After assuming the relation between the components of corporate governance with earnings management, several examinations must be done to test the effect of corporate governance on earnings management practices. Finally, some recommendations must be suggested for future studies.

1.3 Research Question

In this section, the researcher tries to examine if there is a relationship between the transparency of financial statements , ownership structure, board of directors, audit committee and corporate social responsibility (corporate governance components) and earnings management practices. In other words, the researcher tries to answer a very important question which is how corporate governance components and earnings management practices are related.

1.4 Research Objective

Since corporate governance and earnings management have recently become the center of attention for all businesses, we studied the relation between these two matters. In addition, according to the latest studies, developing nations are in need for well advanced corporate governance. Therefore, this examination was done to test the corporate governance and its influence on earnings management in Lebanese companies. In this study, the effects of corporate governance on earnings management practices are studied in general. Then, some of the corporate governance components are examined to find their relation with earnings management.

The aim is to see which component of corporate governance, whether the transparency of financial statements, the ownership structure, the board of directors, the audit committee, or the corporate social responsibility lower(s) the likelihood of earnings management practices. Thus, the relationship between these components and earnings management will be tackled thoroughly. Finally, earnings management incentives are added to see their effect on the relationship of the corporate governance components and earnings management practices.

1.5 Relevance of the Study

The study upon its completion will reveal the relationship between the above components of the corporate governance and earnings management practices. Furthermore, it will show the influence of the incentives of earnings management on the practices of earnings management. Moreover, it will show how the application of corporate governance by corporations in a developing country like Lebanon impacts the practices of earnings management.

1.6 Limitations of the Study

The survey sought the view of different employment levels in which every employee's answer was a perspective of different sections; thus there wasn't much interest in the study. This was one of the limitations. Moreover, due to time limitation and deadlines, the surveyed employees were all within the campus of the Lebanese American University (LAU), Beirut.

The aim of this research is to study the relation between corporate governance and earnings management, and to what extent does the former influence the latter. The following section presents a view about previous studies done about the topic.

Chapter II

LITERATURE REVIEW

In this chapter of the study, the prior researches and the hypotheses are presented. The first section discusses the corporate governance including its components (transparency of financial statements, ownership structure, board of directors, audit committee, and corporate social responsibility). The second section discusses the earnings management practices. The third section links between the corporate governance performance and earnings management practices. The last section states the hypotheses that are tested.

2.1 Corporate Governance

Certainly, corporate policies are to a large scope responsible for the business performance, but the extent of earnings management depends more on the operating performance (Chung, Firth, & Kim, 2005). In addition, corporate governance policies offer conditions that might be satisfactory for earnings management like "opportunistic behavior, a culture of self-fulfillment that prizes short-term gains at the expense of long-term stability and habits of selective and subjective disclosure, etc.", or unsatisfactory like " a culture encouraging transparency, integrity and accountability" (El Mehdi & Seboui, 2011).

Corporate governance is the framework by which corporations are organized and ruled (Adiloglu & Vuran, 2012). Its main concern is generally with the ways organizations are ruled and specifically with the relation between the owners of the corporation and its

managers. Recently, the effects of corporate governance on the organization's performance have kept on increasing across the board conspicuousness in the capital market economy sector (Adiloglu & Vuran, 2012). The stakeholder's expectations regarding corporate governance performance have never been that high, and the examination done by investors and controllers has never been that strict (Adiloglu & Vuran, 2012). As a result, the scrutiny has not only been limited to the corporate governance performance in general but also it included transparency of financial statements, ownership structure, board of directors, audit committee, and corporate social responsibility.

2.1.1 Transparency of Financial Statements

Transparency in reporting all financial transactions and disclosures have always been a requirement that assures the honesty and credibility of any company. For long term survival, transparency is very essential in any business. Capital market depends on corporate governance to secure the transparency of financial statements (Fung, 2014). Transparency of financial reports means that all financial data and transactions must be conveyed regardless of its assessment. In addition, transparency in financial statements occurs when all stakeholders have the ability to access all the needed information to value financial institutes on a timely basis (Vishwanath & Kaufmann, 2001).

Transparency is noticeably related to the topic of governance reformulation, in which it represents a fundamental value of corporate governance (Adiloglu & Vuran, 2012). Also, in the corporate governance guiding principles of the Organization for Economic Cooperation and Development (OECD), transparency presents a primary foundation where the shareholder's assurance and the market efficiency rely on the disclosure of correct time data about the performance of the corporation. The company's

stakeholders will stay up-to-date about all the techniques used to govern and manage a company in a transparent atmosphere (Healy & Palepu, 2001).

Several activities and procedures lead to an off-balance sheet item resulting in a decrease in the transparency of financial statements. Investments in the equity of other companies, transfers of financial assets, retirement procedures, leases, and conditional debts and guarantees are all examples of actions that lessen the transparency of financial reporting (Lander & Auger, 2008). As a result, consecutive let-downs of several corporations like Adelphia and WorldCom showed a real failure in the corporate governance system, auditing procedure, and financial reporting practices. Sarbanes-Oxley Act of 2002 aroused due to huge efforts that were exerted to regain the citizens' confidence in the American business, the accounting profession, and the stock market. (Lander & Auger, 2008). The main aim behind Sarbanes Act is to increase transparency in the financial reporting and accounting.

According to Ştefănescu and Ţurlea (2014), transparency is a way of action or an attitude of confident leaders who make all their actions public and recognized permanently. Transparency is a wide flow of information. Transparency overcomes ethics in which everything must be reported to the public to ensure effective governance (Ball, 2009). Transparency and ethical values are associated because of the fact that they assure all the population of the quality of services offered, and satisfy the population needs (Holzner & Holzner, 2006).

It is important to note that one of the reasons behind the subprime crisis in 2008 was the absence of transparency of the data in the financial market (Mendonca, Galva˜o, & Loures, 2010). Furthermore, these data are considered important since they are to some extent related element to the market discipline. Likewise, a tool for observing financial

organizations is the viable transparency in the data revealed to the private operators (Flannery, 1998). Also, transparency of data to the market permits the private operators to examine the main information on investments, assessment process, and risk exposure (Mendonca et al., 2010).

2.1.2 Ownership Structure

Ownership structure of a firm is the distribution of equity according to the capital and votes. This structure is very essential for corporate governance because it decides on the incentives that must be given to managers who will direct the firm's financial efficiency.

The perception of ownership structure is a core concept within the wide range of corporate governance. Actually, ownership structure is considered a tool of corporate governance. Berle and Means in 1932 argued that in modern corporations, management motivation to maximize organization's productivity decreases through the separation of ownership and control (Hu & Izumida, 2008).

Ownership is considered a power that is supported socially in a way that gives it the authority to control something that is completely owned and employed for personal purposes (Henryani & Kusumastuti, 2013). However, ownership structure is considered as the different patterns and systems of ownership that are present in a firm or the amount of stocks owned by inside and outside shareholders (Jensen & Meckling, 1976). Furthermore, ownership structure is important to show essential variables in the capital structure. They are determined by the percentage amount of shares owned by internal and external shareholders not only by the amount of debts and equity (Xu & Yan, 1999).

There are several sorts of ownership structures: public ownership, government ownership, managerial ownership, institutional ownership, and ownership which is a combination of all. Public ownership is the shares owned by the government in an organization. Public ownership has a crucial role in forming an effective government system functions because it acts independently when it comes to management assessment (Jensen, 1993). As a regulator, the government is responsible to govern individuals and make sure that the firm is operating under a corporation management to look over its stakeholders mainly the investors (Henryani & Kusumastuti, 2013). Government is the superior controller in organizations that it owns and are well-known as the State Owned Corporations. Companies owned by the government are less independent than those that are not because their main aim is to stay in collaboration with the country's well-being (Henryani & Kusumastuti, 2013).

The most significant types of ownership are the managerial and institutional. The agency conflict occurs between managers who represent shareholders and shareholders or investors who are the principal of the organization. Agency conflict explains the presence of managerial ownership structure (Henryani & Kusumastuti, 2013). Agency problems lower the value of any corporation. An increase in the managerial ownership creates an essential incentive that encourages managers to act on the behalf of the shareholders and maximize the share's price (Warfield, Wild, & Wild, 1995). Managerial ownership is a share ownership controlled by the board of directors, employees, managers and the company's other internal devices. Unlike managerial ownership which focuses on the personal owners, institutional ownership focuses on the institution itself (Henryani & Kusumastuti, 2013). It refers to the shares that are owned by other large financial

corporations. In general, companies buy large lumps of a corporation's shares in order to have control on the management.

2.1.3 Board of Directors

The board of directors is the elected members that supervise all the activities of the organization. The board of directors as the highest authority in an organization which exerts a great influence on the firm's performance. As a result, all activities and transactions are influenced by the board's sovereignty. The board's main aim is to act for the favor of all shareholders. The board represents the shareholders in the firm and strives to make the greatest outcome of the corporation's activities (Argandona & Ayuso, 2009).

The board of directors plays an important role in controlling and supervising an organization's management to assure that the managers are working for the shareholders' benefits (Abu Siam et al., 2014). Thus, the board of directors has an essential job when it comes to monitoring and regulating the quality and consistency of financial statements (Beasley, 1996). In addition, the board ensures the disclosures of financial reports and the operating outcomes of the firm are being provided to all stakeholders including all shareholders. This is a significant responsibility that has been delegated to the board of directors in order to govern. As a result, the supervision of the board on all financial statements is very important because managers have the tendency to manage earnings and possibly mislead investors (Abu Siam et al., 2014).

In relation to the board of directors, one can consider several characteristics like the independence, size, meeting, etc…This study focuses on the independence and effectiveness of the board of directors. Outside directors dominate the board, and they must be independent and separated from the management. Many studies found that as the

independence and effectiveness of board of directors increases, the organization's performance improves (Agrawal & Knoeber, 1996; Baysinger & Butler, 1985).Sustaining independent members in the board of directors can accomplish the principles of a righteous effective corporate governance ("King Report on Corporate Governance," 2002). Thus, the independence of directors leads to more effectiveness in to controlling the activities of the organization (Bhagat & Black, 2001). Moreover, all meetings must be planned and arranged by the board's members directly; specifically when the situation needs immediate movement and regulation (Shivdasani & Zenner, 2004). In order to monitor the firm's performance constantly, the board's members should meet at least one to four times yearly ("King Report on Corporate Governance," 2002).

2.1.4 Audit Committee

Audit committee is one of the crucial components of corporate governance since it plays an important role in ratifying it (Badara & Saidin, 2013). It includes specialists of different parts in a firm for self-governing purposes. Auditing committee is an operating group of the board of directors responsible for the supervision of financial reports and disclosures. In fact, audit committee improves the quality of auditing at two levels (Piot & Janin, 2007). First, the committee reduces or limits the use of earnings management activities by monitoring the performance of the accounting department. Second, any indiscretion in the financial statements or disclosures will more likely be revealed due to the committee assortment between the internal and external auditors, and its protection for the sovereignty of external auditors (McMullen, 1996).

Members of auditing committee are in charge of many responsibilities like the reliability of financial statements, the effectiveness of internal audit and external audit, and

the prevention of any prohibited actions (El-Kassar, Elgammal, and Bayoud, 2014). Moreover, the Sarbanes-Oxley Act (2002) defines audit committee as a group of individuals that are selected by the board of directors to oversee all accounting and financial information. Nowadays, the role of audit committee in controlling the auditing process has become more traceable and difficult. Thus, it is known as the most reliable patrol in any business (Levitt, 2000). In addition, the audit committee task as mentioned in the Lebanese Code of Corporate Governance in 2006, is to design and asses the organization's financial statements and data. Further, it supervises the financial reports done by the internal audit. It also makes a meticulous yearly report that is revised by the board of directors beforehand of the addition to the organization's annual report (Lebanese Code of Corporate Governance, 2006).

Several studies were conducted to assess the effectiveness of the audit committee when working as a team with the internal audit. It is important to note that the audit committee has the greater power when assessing the internal audit responsibilities and hiring the best person for directing the internal auditing (Davies, 2009). Also, audit committee must provide guidelines for the internal audit to perform its tasks and achieve enhancement in all of its functions (Karamanou & Vafeas, 2005). It is as well responsible for sustaining the independence of the internal audit (Goodwin & Yeo, 2001).

2.1.5 Corporate Social Responsibility

Corporate social responsibility (CSR) is a new concept to business. Being compliant with the laws, norms, and ethics improve the quality of life of all creatures. Since it has been an important issue in the last few years, and it affects the organizations

performance as a whole, a study has been conducted to examine the relation between corporate social responsibility and earnings management.

Corporate social responsibility has attained notice in the last few years from several industrial entities. CSR has become a requirement for all organizations, not only for large ones. It assists firms to stay in compliance with all norms, laws, and ethics to ameliorate the human's welfare. According to Kim, Park, and Wier (2011), CSR proponents believe that all entities should carry out social practices for stakeholders' advantage. Also, CSR isn't considered a waste of the company's scarce resources; however, it is viewed as an important constituent that contributes in creating value for all stakeholders (El-Kassar, Messarra, & Elgammal, 2015). Moreover, CSR supporters assume that firms are materialistic prospectors that don't initiate any social activity unless they get pressured; this is typical in underprivileged countries.

According to an editor in the Canadian Financial Post magazine, corporations must always make sure that their practices agree with all the standards and rules of CSR strategy that is applied by the Canadian government (Hassselback, 2014). Applying CSR activities are considered easy to huge organizations, because they have all the resources needed to be socially responsible unlike the case of small corporations. Corporate social responsibility is when the business act with conscious and all corporations should be socially active for them to survive (Legg's, 2014). In addition, Gainer (2010) referred to social responsibility as "movements" that define a custom of ideas and thoughts about business practices in which promoters encourage their implementation by corporations. Through engaging social practices, organizations possess positive behavior from their stakeholders, make strong relations with them, and build a respectable image for the business (Du, Bhattacharya, & Sen, 2010).

Moreover, corporate social responsibility is a strategic assessment where an organization has an obligation towards the society. This obligation includes many responsibilities within and outside the firm. Obligations within the organization consist of all commitments towards employees like providing fringe benefits, paying wages and paying transportation. Obligations carried outside the organization include sponsorship, funding different associations, being ecofriendly, etc… (Mitchell R, 1992). The main purpose of CSR is that the firm should be responsible for more than its commitment towards its stakeholders. It must also be responsible for all the consequences of its activities that are not due to economic results; however, it must consider the society and environment resources (Robins, 2005). According to Garriga and Domenec, (2004), there are four concepts of CSR: the instrumental, the political, the integrative, and the ethical. The instrumental concept suggests that a business is a way to make profit and its social activities are a tool to recognize the financial results. The political concept proposes that a firm uses its power in the society in order to achieve political aims. The integrative concept mainly focuses on the society's necessities. Finally, the ethical concept is perceived when a firm does all its ethical obligations towards the society.

A way to measure corporate social responsibility is by determining the corporate social performance (CSP). A way to practice CSR and make it feasible is by CSP (Huang, 2010). Stakeholder theory is one way to evaluate CSP. The management and the stakeholders' interests are very essential for the continuity of any company (Tokoro, 2006). However, management's interests sometimes contradict stakeholders' interests. Therefore, the best thing to do is to maximize profit while meeting the interest of a wide range of stakeholders (Jensen, 2002).

2.2 Earnings Management Practices

Arosa, Iturralde, and Maseda (2012) defined earnings management as "the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about a desired level of reported earnings." While Li, Ho Park, and Shuji Bao (2014) defined earnings management as the use of management perception in financial statements and transactions structure to deceive stakeholders about the firm's financial performance or to attract external creditors. Chtourou et al. (2001), concluded that the practices that best fit an organization are linked to less earnings management activities which will lead to a better governance performance. The difference between earnings management and fraud is that it uses the accounting principles and procedures which apply to the Generally Accepted Accounting Principles (GAAP).

In their book, Ronen and Yaari (2007) differentiated between three types of earnings management: the white, the black and the grey. White earnings management are the beneficial ones in which they take advantage of the elasticity of choice in the accounting treatment to improve the transparency of financial data. However, the black earnings management are the pernicious ones in which they are used to misrepresent financial data, decrease transparency of financial reports, and mislead stakeholders; this concept is close to fraud. The grey earnings management are used when the firm uses the accounting methods to either maximize the management value, or to increase the economic efficiency.

Several reasons lead to the practice of earnings management. For instance, organizations might manage the earnings with the intention to affect the stock market perceptions in order to raise their compensation. Hence, this decreases the possibility of

violating the lending agreements and avoiding the governing interventions (Healy et al., 1999). Earnings management can cause severe and destructive influences on the future performance of any organization according to previous studies that revealed evidence of the harmful effects on the long term (Kao, Wu, & Yang, 2009). Nevertheless, wrong data about the financial performance of the business will be delivered to stockholders and thus lead to hostile choices (Bhattacharya, Daouk, & Welker, 2003).

2.3 Corporate Governance Components and Earnings Management Practices

All components of corporate governance (transparency of financial statement, ownership structure, board of directors, audit committee, and corporate social responsibility) that were discussed earlier play a role in influencing earnings management practices.

2.3.1 Transparency of Financial Statement and Earnings Management Practices

Transparency of financial statements help in detecting and reporting all forms of earnings management practices. In a transparent atmosphere, any reader can easily detect earnings management practices. Several examinations were done to study the influence of transparency in reporting on the ability of users to identify earnings management (Hunton, Libby, & Mazza, 2006). In general, many studies detected that the greater the transparency in disclosures, the higher the recognition of earnings management. Usually, managers prefer a lower transparency in disclosing formats like the addition of liabilities and expenses in the closing notes and changes in the market value of stakeholder's equity

(Hunton et al., 2006). Thus, managers consider that there is a benefit resulting from depriving some shareholders' ability to determine earnings management (Hunton et al., 2006). According to a study done by Hunton et al. in 2006, members in a lower transparent atmosphere reported that earnings management practices is not noticeable to users, increases stock value, and do not have any influence on the reputation of management's honesty. On the contrary, this study added that participants in a higher transparent atmosphere indicated that earnings management can easily be detected by users. Moreover, this decreases stock value, and harms the management's reputation. The results advocated that an increase in the requirements of transparent reporting lowers the attempts of earnings management practices in the part of high transparency or modifies the practices of earnings management to more concealed techniques.

2.3.2 Ownership Structure and Earnings Management Practices

Because of its instability in the last few years, ownership structure has been improved. According to Heubischl (2006), managers can control the firm more independently in a more isolated share ownership. Since ownership structure has an influence on management performance, and the latter can engage earnings management practices, therefore, ownership structure indirectly has an effect on earnings management practices.

Different predictions were deduced concerning managerial ownership and earnings management. Some anticipated that when managerial ownership rises, the motivations to modify in earnings decrease (Aygun, IC, & Sayim, 2014). However, other suggested that when managers have high levels of ownership in the company, they might manipulate earnings to increase their profits (Stulz, 1988). Previous studies showed that both

predictions were applicable. In addition, Warfield et al. in 1995 studied the managerial influence on earnings management and they found that there is a negative correlation between these two variables (Aygun et al., 2014). Similarly, a study that was done by Gabrielsen Jeffrey and Thomas in 2002, found that there is a relation between managerial ownership and earnings management in some different countries like the US and Denmark. On the other hand, Yeo, Tan, Hoand Chen in 2002, conducted a similar study and found that in Singapore there is a positive relation between those two variables. Also, the research that was conducted by Aygun et al., in 2014, revealed that there is a significant relation between ownership structure and earnings management.

In addition, earlier studies indicated that high amounts of institutional ownership have a huge influence on corporate governance structure (Alves, 2011). It was expected that institutional investors in comparison with individual investors have larger resources and capabilities for an effective monitoring of managers (Aygun et al., 2014). As a result, this will decrease the ability of managers to manipulate the company's earnings (Chung, Firth & Kim, 2002). Thus, the relation between institutional ownership and earnings management is inversely related. Conversely, previous studies show diverse results regarding the influence of institutional ownership on earnings management (Aygun et al., 2014).

For example, in 2003, Koh examined the connection between the Australian companies' institutional ownership and strategies of aggressive earnings management. He found that there is a positive correlation between these two variables which may propose that institutional investors offer motivations for managers to change earnings. Likewise, Al-Fayoumi, Abuzayed and Alexander in 2010, indicated that in Nigerian manufacturing companies there is a positive significance between earnings management and institutional

ownership. However, one study suggested that there is a negative correlation between the two variables that means high levels of institutional ownership. This signifies that the monitoring of institutional investors is one of the elements that reduce managers' manipulation of earnings (Aygun et al., 2014). Moreover, according to a study done in Turkey there is a negative significance between institutional ownership and earnings management (Aygun et al., 2014).

The combination of all these types of ownership plays a role in maintaining the organization's performance and reducing chances of earnings manipulation. According to Hajiha and Farhani (2011), ownership structure is used in the corporate governance system, or the firm's management structure and decreases the cost of agency conflicts (Henryani & Kusumastuti, 2013). As mentioned earlier that the conflict which happens between owners and managers is the reason behind agency cost which caused several arguments related to ownership structure. Investors, who have less ownership interests, or what is called by dispersed ownership, lead to agency conflicts in companies because shareholders have little incentives to take care of the strategic decisions of the management. Since they own a small percentage of shares in the company, shareholders don't feel that they own or have control over the corporation (Fazlzadeh et al., 2011). Furthermore, dispersed investors don't have the qualified information and knowledge to make effective decisions (Lee, 2008). However, investors who own large percentage of shares in the company, or who are also known as concentrated ownership reduce agency problems because they have strong incentives and monitoring power over management decisions (Fazlzadeh et al., 2011); thus, reducing the intentions of earnings manipulation.

2.3.3 Board of Directors and Earnings Management Practices

Prior studies supported the idea that the independence and effectiveness of board of directors can more likely decrease earnings management practices (Klein, 2002). Furthermore, studies that were conducted in the United Kingdom and United States from 1991 to 1993, through using a sample of 1,271 entities in the U.K. and 687 entities in the U.S. found that directors independence play a key role in limiting earnings management practices (Peasnell, Pope, & Young, 2005). On the other hand, some existing studies found that there is no relation between the independence and usefulness of board of directors and earnings management (Niu, 2006). According to Xie, Davvidson, and DaDalt (2003), there is a negative association between the directors' independence and earnings management practices by examining a sample of 110 entities in the U.S. Besides, a study that was done on Canadian corporations found that the board's level of independence is not related to the level of unusual accruals (Niu, 2006).

2.3.4 Audit Committee and Earnings Management Practices

In their study, Baxter and Cotter (2009), concentrated on the arrangement and attributes of audit committee and its influence on enhancing earnings quality in Australian organizations before applying mandatory prerequisites to the committees in the year 2003. They found that audit committee decreases earnings management practices, but doesn't decrease the errors resulting from estimation of accruals. Additionally, the study found that the financial experience of the audit committee members has a significance on affecting the earnings management practices. Other features of audit committee didn't have significance on earnings management practices. Further studies also found different factors that impact earnings management. For example, one study found that implementation and support of

the guidelines of corporate governance in the organization lead to enhancement in the practices of earnings management (Teitel & Machuga, 2010). Another study found that public entities are more traditional in their financial reporting than private firms, and their management use of normal accruals is lower (Givoly, Hyn, & Katz, 2010). Thus, earnings management practices in public firms are healthier than that in private ones and this is because public firms wants to avoid agency costs and lawsuit risks (Hamdan, Mushtaha, & Al-Sartawi, 2013).

According to a study done by Hamdan and Abu Ijeila (2010), audit committees in Jordanian industrial firms have no association in limiting earnings management practices (Hamdan et al., 2013). However, the study of Teitel and Machuga's in 2010, revealed that applying the rules of best corporate governance practices and external audit improves the practices of earnings management.

2.3.5 Corporate Social Responsibility and Earnings Management Practices

In the absence of corporate social responsibility and the concentration on private benefits, Prior, Surroca, and Tribo (2008) argue that managers have a higher tendency to get involved in earnings management practices. Sometimes getting involved in earnings management practices creates a probability of losing shareholders which is important for the continuity of the firm (Prior et al., 2008). Therefore, managers get threatened from different stakeholders influencing the organization's real value which results in putting the organization's reputation under risk and managers might lose their job (Fomburn, Gardberg, & Barnett, 2000). Consequently, managers have a motivation to engage corporate social responsibility as a tactical way to recompense stakeholders and affect the way they view the actual future of the organization, divert the attention from performing

any accounting based or real earnings management practices. Thus, contributing in CSR activities is determined more by opportunistic actions than ethical vitals (Alsaadi, Jaafar, & Ebrahim, 2013).

In addition, according to Scholtens and Kang (2013), when CSR practices in Asian countries are engaged, there is a less tendency to perform earnings management practices. Also, CSR behaviors have positive effects on protecting investors. Therefore, in Asian countries earnings management practices are moderated by engaging in CSR activities which are accustomed by the legal structure.

2.4 Hypotheses

H1: A higher transparency in the financial statements leads to lower earnings management practices.

H2: An effective ownership structure leads to lower earnings management practices.

H3: A higher degree of independence and effectiveness of the board of directors leads to lower earnings management practices.

H4: A more effective audit committee leads to lower chances of engaging in earnings management practices.

H5: A higher level of corporate social responsibility leads to lower chances of engaging in earnings management practices.

Chapter III

METHODOLOGY

In this chapter, the methodology followed to conduct this study is presented. Each phase of the standard approach of design analysis, measurement techniques, sample, data collection, and statistical methods is discussed.

3.1 Design Analysis

Several methods can be used to measure earnings management practices. One of these methods is the "Modified Jones Model" (Islam, Ali, & Ahmad, 2011). Previous studies considered Modified Jones model an effective technique while others found it ineffective. Those who considered it effective found that it is mostly beneficial in developing economies. The main idea of this model is to split accruals into non-discretionary and discretionary accruals. The change in receivables leads to a change in sales, and this is where Standard Jones model is converted to Modified Jones model (Islam et al., 2011).

The above technique isn't used in this research instead a survey data collection was conducted. Besides, the data was analyzed in accordance with a research goal which aims to test the correlation between corporate governance and earnings management practices with an intention to find the most effective way to decrease these practices.

All variables measured in the research were constructed in accordance with the suggested hypotheses. The questionnaire includes the needed questions which implies on

the measured variables particularly corporate governance and earnings management practices.

The questionnaire is divided into eight parts. The first part is the demographics section which include age, gender, education, year of working experience, and certificates. The second part consists of questions that are related to the transparency of financial data. The third part tests the level of ownership structure. The fourth part examines the structure of board of directors. The fifth part questions the level of corporate social responsibility. The sixth part examines the effectiveness of audit committee. The final two parts include questions about earnings management incentives and tools.

3.2 Measurement Techniques

The demographics section which is the first section starts from question 1 till question 15, see Appendix A. The second section, containing all remaining parts of the questionnaire begins with question 1 and ends at question 64, uses a Likert scale ranging from strongly disagree to strongly agree. Questions 54 through 64 examine earnings management incentives and tools. The corporate governance parts of the questionnaire are taken from El-Kassar et al. (2014). The part related to earnings management is self-developed based on several questionnaire found in the literature (Dima, Ionesscu, and Tudoreanu, 2013; Khalil, 2010; El Mehdi & Seboui, 2011).

3.3 Sample

The targeted population are MBA, EMBA, LLM, and graduates of the Lebanese American University working in different Lebanese corporations. The distributed surveys

were 110 in which 76 of them were collected, of which 70 of the 76 were found beneficial. The participants answered the questions freely and with high confidentiality after being thoroughly informed of the aim behind the research.

3.4 Data Collection

Correlation based methods were used to examine the level of corporate governance practices and its connection with earnings management practices. Data collection was done through questionnaires that were distributed among different employees. The data was collected according to convenience due to time limitation. In order to examine the hypotheses, scores for each corporate governance components were created: transparency of financial statements, ownership structure, board of directors, audit committee, and corporate social responsibility. Scores for earnings management incentives and tools were made as well. These scores are denoted by the following:

TRSS: Transparency of Financial Data Score.

OWNS: Ownership Structure Data Score.

BDRS: Board of Directors' Data Score.

ADTS: Audit Committee Data Score.

CSRS: Corporate Social Responsibility Data Score.

EMIN: Earnings Management Incentives Data Score.

EMIT: Earnings Management Tools Data Score.

The scores of the corporate governance components are used as the independent variables. The scores of earnings management were used as the dependent variables.

After adjusting the responses of the negatively worded questions, the various scores were created by averaging the responses. Hence, higher scores represent effective corporate governance practices. On the other hand, higher earnings management scores represent increase tendencies of earnings management practices. A copy of the survey distributed is attached presented in Appendix A.

3.5 Statistical Methods

Using the scores constructed for each corporate governance component and the two components of earning management. The statistical analysis to be conducted to study the effect of corporate governance on earnings management practices. Correlations, frequencies, Cronbach's Alpha, and ANOVA are used to examine this effect.

Chapter IV

FINDINGS ANALYSIS and DISCUSSION

Several statistical methods were used to test the hypotheses developed in chapter 2. These included: descriptive statistics, correlative matrix, One-Way ANOVA and regression analysis.

4.1 Descriptive Statistics

In this section, the demographic variables were analyzed using descriptive statistical techniques.

4.1.1 Size of Company

First, the company size measured according to number of employees was considered. The SPSS output resulted in the following distribution.

Table 1: Average Size of Companies with respect to Number of Employees

Size		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-9	10	14.3	14.3	14.3
	10-19	6	8.6	8.6	22.9
	20-50	13	18.6	18.6	41.4
	> 50	41	58.6	58.6	100.0
	Total	70	100.0	100.0	

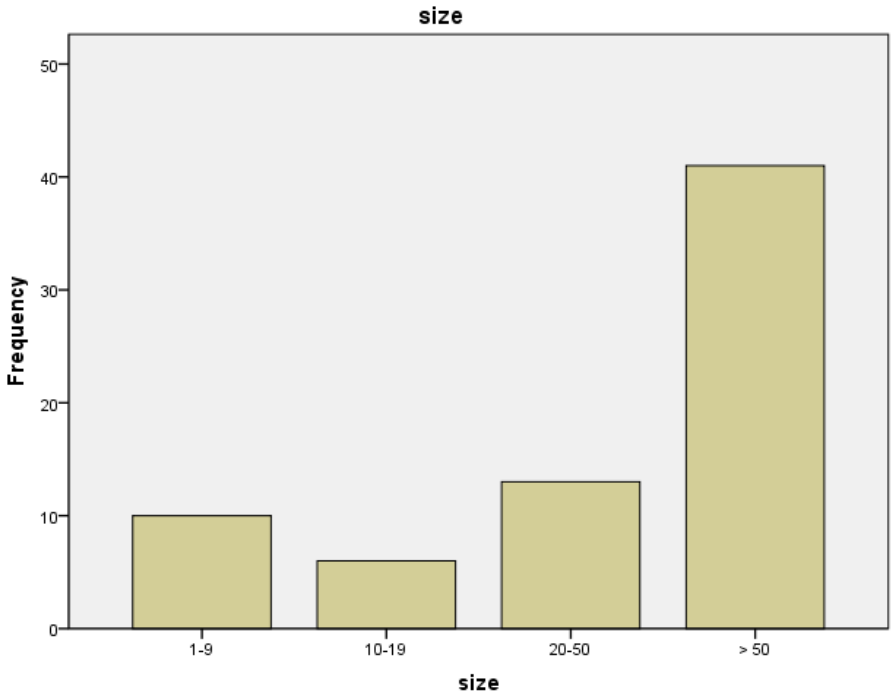

Figure 1: Average Size of Companies with respect to Number of Employees

Note that company size was measured according to the number of employees working in it. Out of the 70 companies that were questioned, ten were of a small size firms in which they have between 1 and 9 employees; they have a frequency distribution of 14.3% of the sample. The middle sized companies that have from 10 to 19 employees were 6 firms representing 8.6% of the sample. In addition, some middle companies that have between 20 and 50 working employees were 13 firms representing 18.6% of the sample. Finally, large firms that have more than 50 employees were 40 in number and representing 58.6% of the sample.

4.1.2 Years of experience

Second, descriptive analysis of the companies' years of experience revealed the following:

Table 2: Average of Years of Experience for the Companies

Years of Experience		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<5 years	16	22.9	22.9	22.9
	5-10 years	21	30.0	30.0	52.9
	>10 years	33	47.1	47.1	100.0
	Total	70	100.0	100.0	

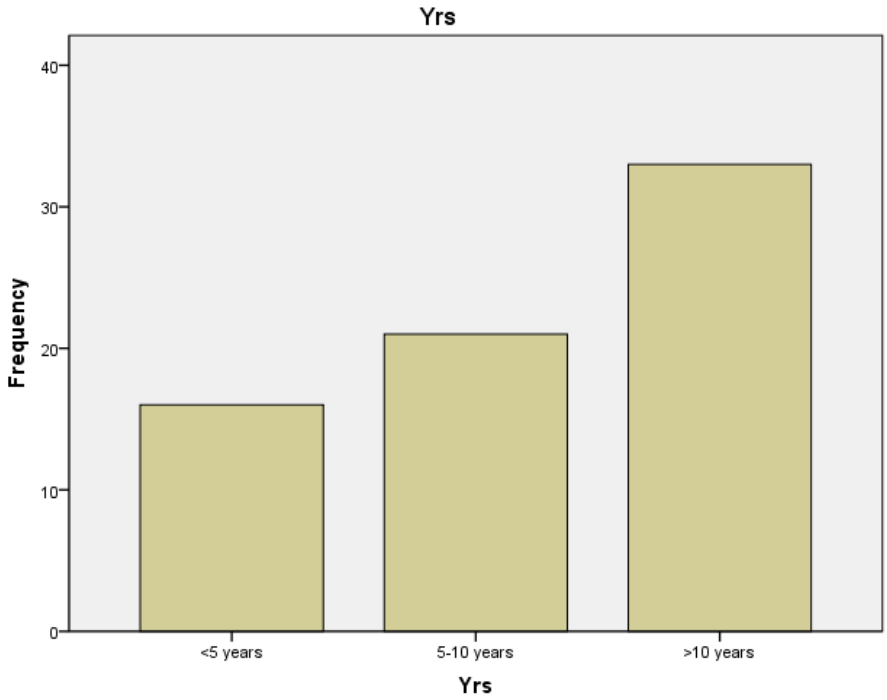

Figure 2: Average of Years of Experience for the Companies

Experience of the company was measured according to the number of years it has been operating. Sixteen companies that have less than 5 years of experience represent 22.9% of the sample. Those that have an experience from 5 to 10 years were 21

respondents representing 30% of the sample. Finally, those that have a large experience, which they have been operating for more than 10 years, were 33 firms representing 47.1% of the sample.

4.1.3 Board of Directors Size

The descriptive statistics for the companies' board size is shown in the following SPSS output distribution.

Table 3: Average Board Size

BOD Size		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-4	13	18.6	18.8	18.8
	5-10	32	45.7	46.4	65.2
	>10	24	34.3	34.8	100.0
	Total	69	98.6	100.0	
Missing	System	1	1.4		
Total		70	100.0		

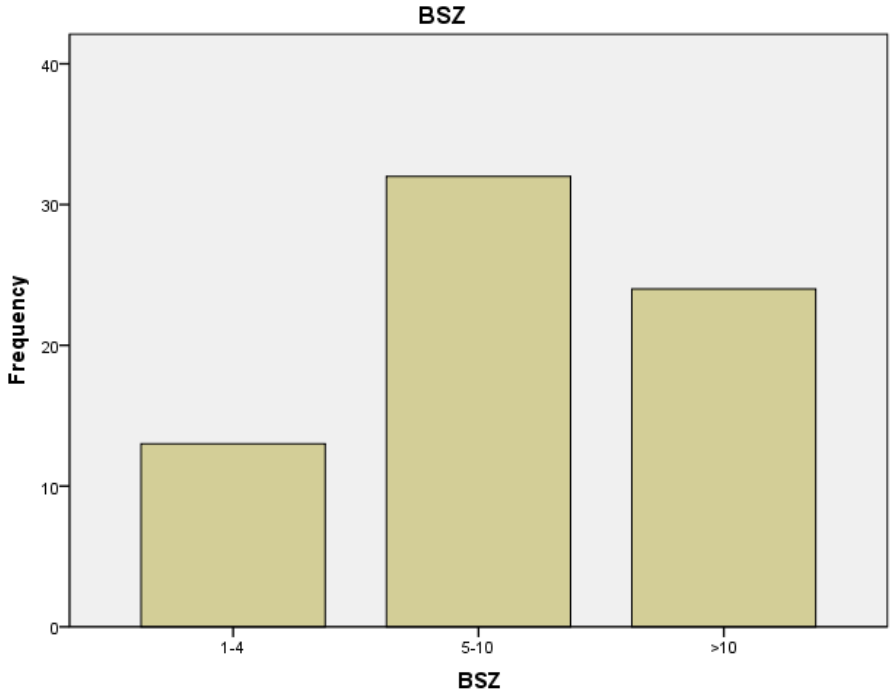

Figure 3: Average Board Size

Firms that have board members from 1 to 4 were 13 and represent an average of 18.6% of the sample. While firms that have a board that consists from 5 to 10 members were 32 and represent 45.7% of the sample. Finally, large companies that have more than 10 members in the board were a total of 24 and represent 34.3% of the sample.

4.1.4 Board of Directors Meetings

The descriptive statistics of the companies' board of directors meetings is elaborated in the following SPSS output.

Table 4: Average Meetings of the Board of Directors

BOD Meetings		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-3	14	20.0	20.9	20.9
	4-6	24	34.3	35.8	56.7
	>6	29	41.4	43.3	100.0
	Total	67	95.7	100.0	
Missing	System	3	4.3		
Total		70	100.0		

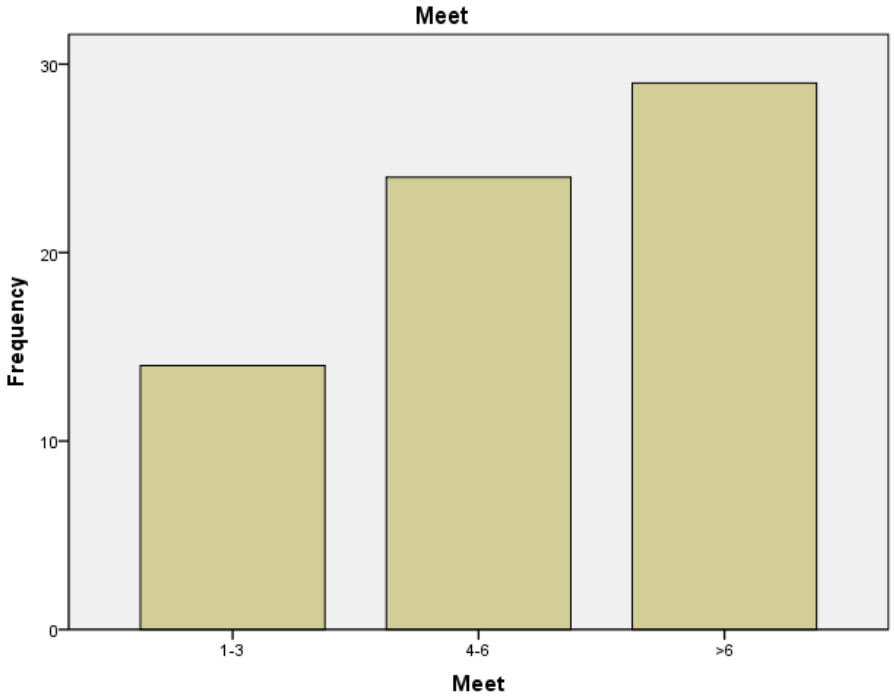

Figure 4: Average Meetings of the Board of Directors

The board of 14 companies, which meet between 1 to 3 times annually, represent 20% of the sample. However, the board that meets between 4 to 6 times annually were 24

firms and represent 34.3%. Lastly, 41.4% of the sample was represented by 29 corporations whose board meets more than 6 times per year.

4.1.5 Sales

The companies' sales was also considered in the descriptive statistics and is presented in the below SPSS results.

Table 5: Average Sales

Sales		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<10,0000	7	10.0	11.7	11.7
	100,000-499,000	17	24.3	28.3	40.0
	500,000-1,000,000	8	11.4	13.3	53.3
	>1,000,000	28	40.0	46.7	100.0
	Total	60	85.7	100.0	
Missing System		10	14.3		
Total		70	100.0		

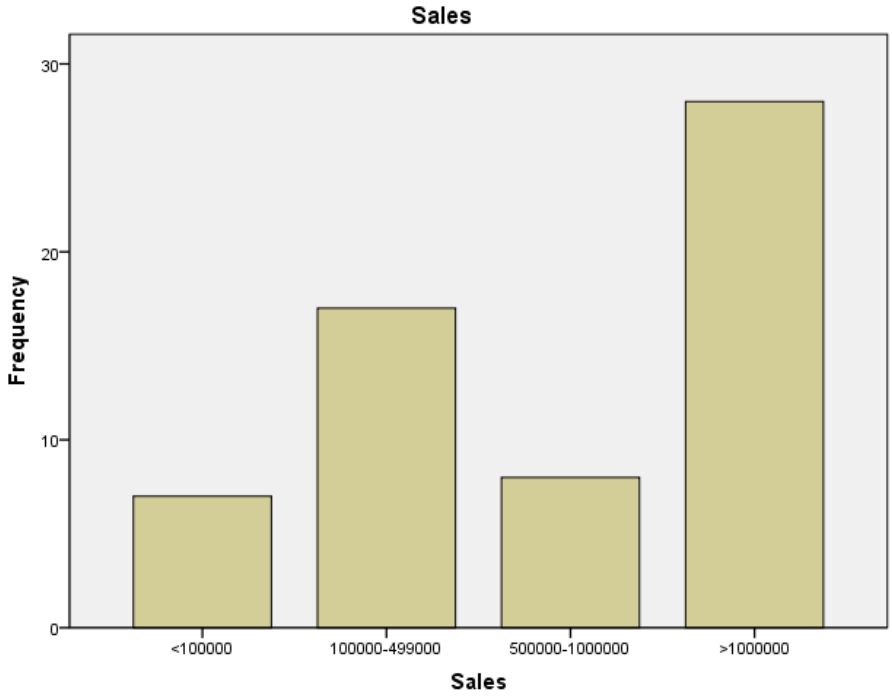

Figure 5: Average Sales

Corporations that have less than $100,000 sales were 7 and represent 10% of the sample. While corporations that have sales between $100,000 - 499,000 represented 17 respondents equivalent to 24.3% of the sample. Firms that have sales between $500,000 - 1,000,000 were 8 companies represented 11.4% of the sample. Companies that have sales more than $1,000,000 were 28 companies represented 40% of the sample.

4.1.6 Annual Sales over the Last 5 Years

The statistical description of the annual sales of the corporations over the last 5 years is shown in the SPSS output below.

Table 6: Average Annual Sales over the Last 5 Years

Difference in Sales		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	decreased significantly	3	4.3	5.0	5.0
	decreased slightly	4	5.7	6.7	11.7
	no change	13	18.6	21.7	33.3
	increased slightly	20	28.6	33.3	66.7
	increased significantly	20	28.6	33.3	100.0
	Total	60	85.7	100.0	
Missing	System	10	14.3		
Total		70	100.0		

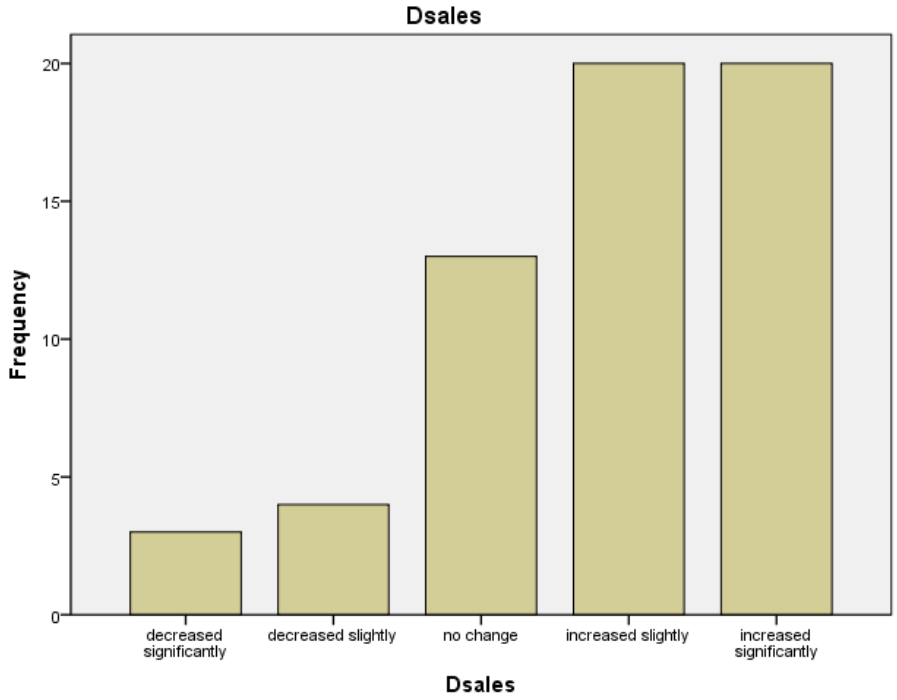

Figure 6: Average Annual Sales over the Last 5 Years

Corporations that experienced a significant decrease in sales in the last five years were 3 and represented 4.3% of the sample. However, 4 corporations experienced a slight decrease in sales over the past 5 years represented 5.7% of the sample. Companies representing 18.6% of the sample were 13, which experienced no change in sales over the last 5 years. Twenty firms experienced a slight increase in sales over the past 5 years represented 28.6% of the sample. Similarly, 20 companies experienced a significant increase in sales over the past 5 years represented 28.6% of the sample.

4.1.7 Debt

The descriptive statistics for the companies' debt is shown in the following SPSS output distribution.

Table 7: Average Debt

Debt		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1-25%	24	34.3	39.3	39.3
	26-50%	30	42.9	49.2	88.5
	>50%	7	10.0	11.5	100.0
	Total	61	87.1	100.0	
Missing	System	9	12.9		
Total		70	100.0		

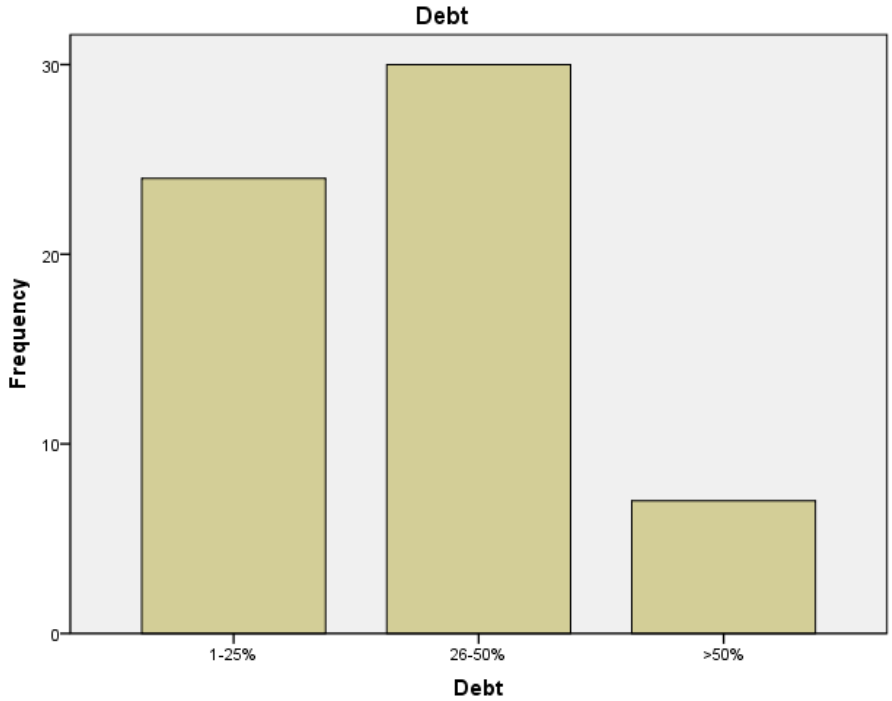

Figure 7: Average Debt

Corporations that have a debt between 1 and 25% of total assets, represents 34.3% of the sample, which is equivalent to 24 firms. Companies having a debt between 26 and 50% represent 42.9% of the sample, and this is equivalent to 30 firms. Those that have a debt greater than 50% were 7 respondents and represent 10% of the sample.

4.2 Reliability Analysis

The first step of the data analysis is to conduct liability analysis on each component of corporate governance as well as the earnings management components. The Cronbach's Alpha (α) values were attained.

The reliability analysis for the all the components of corporate governance resulted in the following output:

Table 8: Cronbach's Alpha of CG and EM Components

Factors	N	Valid	Item	Cronbach's Alpha
TRS	70	100%	9	0.932
OWN	70	100%	9	0.872
BRD	70	100%	19	0.954
ADT	70	100%	9	0.928
CSR	70	100%	7	0.903
EMI	70	100%	7	0.713
EMT	70	100%	4	0.661

` The above table shows the 70 collected surveys were 100% valid. Each factor consisted of a different number of items ranging from 4 to 19 questions.

All components of corporate governance and earnings management were checked for reliability. A summary of the computer output is presented in table 8. Most of the results show that all components had a Cronbach's Alpha values well the minimum threshold of 0.7. Moreover, the two components of earnings management resulted of acceptable results of 0.713 and 0.661. This indicates a high reliability of the survey instruments so we can proceed with further statistical analysis.

Since most of the values are more than 0.7, we can deduce that all questions were reliable and additional investigations can be done.

4.3 Correlation Analysis

The correlation analysis was designed to find the strength of the association between corporate governance score and earnings management practices.

Correlation analysis reveals the following results given in Table 9.

Table 9: Correlation Matrix

	TRSS	*OWNS*	*BRDS*	*CSRS*	*ADTS*	*CG*	*EMIN*	*EMTN*
TRSS	1.000							
OWNS	.442	1.000						
BRDS	.616	.497	1.000					
CSRS	.548	.332	.697	1.000				
ADTS	.671	.526	.609	.595	1.000			
CG	.717	.671	.921	.803	.818	1.000		
EMIN	-.372	-.122	-.376	-.410	-.320	-.394	1.000	
EMTN	-.263	-.153	-.218	-.309	-.184	-.263	.103	1.000

70	sample size
± .235	critical value .05 (two tail)
± .306	critical value .01 (two-tail)

The correlation matrix reveals that there is a strong negative correlation between earnings management incentives score and each corporate governance score. The correlation coefficients vary from -0.122 to -0.410. Moreover, the results reveal that all correlation coefficients are significant, except for the one corresponding to the ownership structure. These support hypotheses H1, H3, H4 and H5. Also, the effects on earnings management incentives listed in increasing order are: audit committee, transparency of financial statements, board of directors, and finally the most effective corporate social responsibility (-0.410). From this, a good practice to reduce earning management incentives is to enhance corporate governance practices in terms of

The above table reveals that corporate social responsibility have the highest influence on reducing earnings management incentives with a -0.410 score. The board of directors with a score of -0.376 also has a high influence on reducing earning management incentives. The transparency of financial data occupies the third place in reducing earnings management practices with a -0.372 score. The least influencing factor of corporate governance on earnings management practices is ownership structure with a score of -0.122.

Obviously, companies which are high on CSR practices value the well-being of the society. This indicates, that companies are being more ethical, professional, and consistent with the laws and legislations. Thus, this leads to the thought that people working for these companies will not be practicing unfavorable activities of earnings management because they are involved in the welfare of the society. Moreover, engaging CSR is not only being ethical, but also improving the firm's reputation. This contributes to the idea that the corporation is a proactive one which in turn will diminish any kind of negative image. Furthermore, being socially responsible encourages employees to be ethical and act as a

role model for others which will deter them from doing any unfavorable practices of earnings management. These results are consistent with a prior study done by El-Kassar et al., (2015) indicating that high practices of CSR improves the performance of corporate governance as well as it raises the level of ethnicity and ethics among employees. Similarly, Prior et al., (2008) indicated that with the absence of CSR, there is a high tendency for engaging earnings management practices.

Moreover, it can be concluded from the above correlation analysis results that a higher degree of board of directors' independence and effectiveness would also lead to lowering the earnings management practices, but to a lesser extent than that of CSR. This is because the independent board members, who are outsiders, may have easier access to all information and data where they can take actions and decisions without any pressure from shareholders. The same result was conducted by the study of Peasnell et al., (2005) stating that independence plays a key role in limiting earnings management practices. Equally as important a higher transparency in terms of financial statements resulted in lowering earnings management practices. Transparency means clarity and honesty. Clarifying and reporting all financial activities occurring within the firm and with other parties, makes it hard to carry out any unfavorable practice of earnings management. This result confirms the study of Hunton et al. in 2016 signifying that high levels of transparency will easily expose earnings management practices. Finally, the effectiveness of the audit committee has an influence on reducing earnings management incentives. Slightly it is at a lower rate than the board independence and effectiveness and the degree of transparency in the financial statements. It is well known that the audit committee oversees the work of internal auditors and helps external auditors to a huge extent. This leads to the belief that audit committee watches over financial and non-financial activities.

It also controls all the actions of internal auditors which makes it hard to engage in any unfavorable act of earnings management. This is why audit committee heavily influence the incentives of earnings management rather than the tools. Also, the study done by Baxter and Cotter (2009) confirm that effectiveness of audit committee decreases the practices of earnings management. However, the effectiveness of ownership structure doesn't influence earnings management practices because owners aren't involved in the operations of the company. This contradicts the results of a study done by Aygun et al., (2014) which revealed that there is a great significance between the ownership structure and earnings management practices detection.

Based on this, companies that are seeking to limit or prevent any earnings management practices should aim to have a higher degree of independence and effectiveness of the board of directors, have a higher transparency in the presentation of financial reporting, and intend to have a more effective audit committee. All these can be achieved within the firm. Besides, the importance of corporate governance in terms of CSR should be closely applied in order to prevent earnings management practices. Nevertheless, this will require promotion of ethical behavior to hire managers and employees who value CSR, and heavily engage in CSR activities both internally and externally. Internally, it could be done by directing CSR practices to employees and other stakeholders. Externally, the company should direct its CSR efforts to society, government, and customers. Unless this practice of CSR was conducted at all levels, lowering earnings management practices may not be achieved.

4.4 ANOVA

In the following, Analysis of Variance (ANOVA) tests are conducted to determine whether significant differences in corporate governance and earning management practices across the various categories of the demographic variables Size of the Company, Board Size, Years of Experience, Sales, Difference in Sales, and Debt.

4.4.1 Size and Earnings Management Incentives

The following is the output of the ANOVA test of Earnings Management Incentives across the various categories of company size.

Table 10: Comparison of Means between the Size of the Company and EM Incentives

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
1-9	10	3.524	.7409	.2343	1.7	4.1
10-19	6	4.027	.2755	.1125	3.8	4.6
20-50	13	3.790	.5714	.1585	3.0	4.7
> 50	41	3.581	.5388	.0841	2.4	4.7
Total	70	3.650	.5687	.0680	1.7	4.7

Table 11: One-way ANOVA for the Size of the Company and EM Incentives

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.466	3	.489	1.546	.211
Within Groups	20.851	66	.316		
Total	22.317	69			

Applying a One Way ANOVA, at a level of significance of 0.05, the effect of the company's size on earnings management incentives is tested. It was found that the 10 companies that have 1 to 9 employees have an average earnings management incentive of

3.52. The average earnings management incentive increased to 4.02 as the company size increased to 10-19 employees. However, average earnings management incentive decreased to 3.79 as the size of the company increased to reach 50 employees after which earnings management incentive continued decreasing to reach 3.58 with a number greater than 50 employees. In general, the size of the company does not have an effective significance on earnings management incentive. In this case, small and large companies do not have high earnings management incentive relative to middle sized companies.

4.4.2 Years of Experience and Earnings Management Incentives

The following is the output of the ANOVA test of Earnings Management Incentives across the various categories of the companies' years of experience.

Table 12: Comparison of Means between Years of Experience and EM Incentives

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
<5 years	16	3.701	.5231	.1308	2.6	4.7
5-10 years	21	3.442	.6587	.1437	1.7	4.6
>10 years	33	3.757	.5063	.0881	2.4	4.7
Total	70	3.650	.5687	.0680	1.7	4.7

Table 13: One-way ANOVA for Years of Experience and EM Incentives

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.332	2	.666	2.126	.127
Within Groups	20.985	67	.313		
Total	22.317	69			

Entities that have been operating for less than 5 years, have an average earnings management incentive of 3.70. Those that have been operating for 5 to 10 years have an average earnings management incentive of 3.44. The average earnings management

incentive increases to 2.75 for companies that have been operating for more than 10 years. There is no overall significance (0.127) between years of experience and earnings management incentives.

4.4.3 Board of Directors Size and Earnings Management Incentives

The following is the output of the ANOVA test of Earnings Management Incentives across the various categories of companies' board size.

Table 14: Comparison of Means between the BOD Size and EM Incentives

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
1-4	13	3.350	.6769	.1877	1.7	4.0
5-10	32	3.785	.4656	.0823	2.4	4.7
>10	24	3.618	.5976	.1220	2.6	4.7
Total	69	3.645	.5715	.0688	1.7	4.7

Table 15: One-way ANOVA for the BOD Size and EM Incentives

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.780	2	.890	2.875	.064
Within Groups	20.433	66	.310		
Total	22.213	68			

Companies that have 1-4 board members have an average earnings management incentive of 3.35. This average increased to reach 3.78 as a number of board member increased to reach to reach 10. As the board members increase to become greater than 10 members, the average earnings management incentives decreased to become 3.61. The overall number of board members has nothing to do with earnings management incentives with a significance less than 0.05.

4.4.4 Sales and Earnings Management Incentives

The following is the output of the ANOVA test of Earnings Management Incentives across the various categories of companies' sales.

Table 16: Comparison of Means between Sales and EM Incentives

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
<100000	7	3.389	.8601	.3251	1.7	4.2
100000-499000	17	3.825	.4323	.1048	3.1	4.6
500000-1000000	8	3.556	.4104	.1451	3.0	4.0
>1000000	28	3.584	.5321	.1006	2.4	4.7
Total	60	3.626	.5431	.0701	1.7	4.7

Table 17: One-way ANOVA for Sales and EM Incentives

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.152	3	.384	1.323	.276
Within Groups	16.252	56	.290		
Total	17.404	59			

Entities that have sales less than $ 1,000,000 have an average earnings management incentive of 3.38. However, entities that have sales between $1,000,000 and 499,000 have an average earnings management incentive of 3.82. Similarly, companies that have sales between $500,000 and 1,000,000 have an average earnings management incentive of 3.55. Average earnings management incentive increased to 3.58 for the companies that have annual sales greater than $1,000,000. It is conducted that in general there is no significance between the annual sales of the company and its earnings management incentive with a significance less than 0.05.

4.4.5 Difference in Sales and Earnings Management Incentives

The following is the output of the ANOVA test of Earnings Management Incentives across the various categories of companies' difference in sales over the past 5 years.

Table 18: Comparison of Means between Difference in Sales and EM Incentives

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
Decreased	7	3.342	.9860	.3727	1.7	4.6
no change	13	3.697	.5776	.1602	2.4	4.5
increased slightly	20	3.660	.5136	.1148	2.6	4.7
increased significantly	20	3.674	.3196	.0715	3.0	4.4
Total	60	3.635	.5443	.0703	1.7	4.7

Table 19: One-way ANOVA for the Difference in Sales and EM Incentives

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.692	3	.231	.769	.516
Within Groups	16.790	56	.300		
Total	17.482	59			

Firms that have experienced a significant decrease and a slight decrease in sales have an average earnings management incentive of 3.04. This average increased slightly to 3.69 for those companies that did not experience any change in sales. Companies that experienced a slight increase in its sales have an average earnings management incentive of 3.66. Finally, companies that experienced a significant increase in sales, have an average earnings management incentive of 3.67. This means that there is no general relation between change in sales and earnings management incentive with a significance of less than 0.05 (0.43).

4.4.6 Debt and Earnings Management Incentive

The following is the output of the ANOVA test of Earnings Management Incentives across the various categories of companies' debt as a percent of total assests.

Table 20: Comparison of Means between Debt and EM Incentives

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
1-25%	24	3.727	.5573	.1138	2.6	4.7
26-50%	30	3.648	.4634	.0846	2.6	4.6
>50%	7	3.544	.8959	.3386	1.7	4.5
Total	63	3.651	.5677	.0715	1.7	4.7

Table 21: One-way ANOVA for Debt and EM Incentives

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.716	3	.239	.731	.537
Within Groups	19.266	59	.327		
Total	19.982	62			

Companies that have debt, as a percentage of total assets, between 1 and 25% have an average of earnings management incentive of 3.72. As the percentage of debt decreased slightly between 26 to 50%, average earnings management incentive decreased to reach 3.64. Finally, as Debt rises above 50%, average earnings management incentive slight decreases till 3.54. It can be concluded that there is no significant relationship between debt and earnings management incentive at the 5% confidence level.

4.4.7 Size and Earnings Management Tools

The following is the output of the ANOVA test of Earnings Management Tools across the various categories of company size with respect to number of employees.

Table 22: Comparison of Means between Size of the Company and EM Tools

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
1-9	10	2.775	.7308	.2311	1.8	4.5
10-19	6	3.000	1.0368	.4233	1.8	4.5
20-50	13	2.615	.8577	.2379	1.3	4.3
> 50	41	2.896	.9168	.1432	1.0	5.0
Total	70	2.836	.8815	.1054	1.0	5.0

Table 23: One-way ANOVA for Size of the Company and EM Tools

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	.981	3	.327	.410	.746
Within Groups	52.630	66	.797		
Total	53.611	69			

Significance is at 0.05. By using one way ANOVA to test the effect of the company's size on earnings management tools, it was found that the 10 companies that have 1 to 9 employees have an average earnings management tools of 2.77. The average earnings management tools increased to 3 as the company size increased by 10-19 employees. However, average earnings management tools decreased to 2.61 as the size of the company increased to reach 50 employees after which earnings management tools increased to reach 2.89 with a number greater than 50 employees. In general, the size of the company does not have a significant effect on earnings management tools (0.746).

4.4.8 Years of Experience and Earnings Management Tools

The following is the output of the ANOVA test of Earnings Management Tools across the various categories of companies' years of experience.

Table 24: Comparison of Means between Years of Experience and EM Tools

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
<5 years	16	2.906	.5764	.1441	1.8	4.3
5-10 years	21	3.048	1.1501	.2510	1.0	5.0
>10 years	33	2.667	.7947	.1383	1.3	4.8
Total	70	2.836	.8815	.1054	1.0	5.0

Table 25: One-way ANOVA for Years of Experience and EM Tools

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.966	2	.983	1.275	.286
Within Groups	51.645	67	.771		
Total	53.611	69			

Entities that have been operating for less than 5 years, have an average earnings management tools of 2.9. Those that have been operating for 5 to 10 years have an average earnings management tools of 3.04. The average earnings management tools decreased to 2.66 for companies that have been operating for more than 10 years. Overall, there is no significance (0.28) between years of experience and earnings management tools.

4.4.9 Board of Directors Size and Earnings Management Tools

The following is the output of the ANOVA test of Earnings Management Tools across the various categories of companies' board size.

Table 26: Comparison of Means between the BOD Size and EM Tools

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
1-4	13	3.000	.6922	.1920	2.3	4.5
5-10	32	2.609	.8979	.1587	1.0	5.0
>10	24	3.094	.8871	.1811	1.3	4.8
Total	69	2.851	.8780	.1057	1.0	5.0

Table 27: One-way ANOVA for the BOD Size and EM Tools

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	3.571	2	1.786	2.413	.097
Within Groups	48.844	66	.740		
Total	52.415	68			

Companies that have 1 -4 board members have an average earnings management tools of 3. This average decreased to reach 2.6 as the number of board members increased to reach 10. As the board members increase to become greater than 10 members, the average tools increase to become 3.09.

4.4.10 Sales and Earnings Management Tools

The following is the output of the ANOVA test of Earnings Management Tools across the various categories of companies' sales.

Table 28: Comparison of Means between Sales and EM Tools

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
<100,000	7	3.429	.9433	.3565	2.3	4.8
100,000-499,000	17	2.382	.9105	.2208	1.0	4.5
500,000-1,000,000	8	2.594	.4807	.1699	2.0	3.5
>1000000	28	3.009	.7978	.1508	1.8	5.0
Total	60	2.825	.8701	.1123	1.0	5.0

Table 29: One-way ANOVA for Sales and EM Tools

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	7.256	3	2.419	3.621	.018
Within Groups	37.406	56	.668		
Total	44.663	59			

Entities that have sales less than $1,000,000 have an average earnings management tools of 3.42. However, entities that have sales between $1,000,000 and $499,000 have an average earnings management tools of 2.38. Similarly, companies that have sales between $500,000 and $1,000,000 have an average earnings management tools of 2.59. Average earnings management incentive increased to 3.00 for the companies that have annual sales greater than $1,000,000. There is a significance between the annual sales of the company and its earnings management tools with a significance less than 0.05. It can be concluded that earnings management tools increase as long as the company's revenue is less than $100,000 and more than $1,000,000. This is because firms that have less sales considered

small ones where they try to avoid taxes through practicing earnings management. Besides, firms that attain high revenues are considered large size companies where the owners are different from the managers. Thus, agency theory will occur, and managers will look for methods and tools to manipulate earnings for their own benefit.

4.4.11 Difference in Sales and Earnings Management Tools

The following is the output of the ANOVA test of Earnings Management Tools across the various categories of companies' difference in sales over the last 5 years.

Table 30: Comparison of Means between the Difference in Sales and EM Tools

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
decreased significantly	3	3.250	1.2990	.7500	2.5	4.8
decreased slightly	4	3.625	1.1815	.5907	2.0	4.5
no change	13	2.865	1.1530	.3198	1.3	5.0
increased slightly	20	2.563	.8424	.1884	1.0	4.3
increased significantly	20	2.763	.5224	.1168	1.8	4.3
Total	60	2.800	.8899	.1149	1.0	5.0

Table 31: One-way ANOVA for the Difference of Sales and EM Tools

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	4.542	4	1.135	1.480	.221
Within Groups	42.183	55	.767		
Total	46.725	59			

Firms that have experienced a significant decrease in sales have average earnings management tools of 3.25. However, those that experienced a slight decrease in sales have average earnings management tools of 3.62. This average decreased slightly to 2.86 for those companies that did not experience any change in sales .Companies that experienced a

slight increase in its sales have an average earnings management tools of 2.56. Finally, companies that experienced a significant increase in sales, have an average earnings management tools e of 2.76. This means that there is no overall relation between change in sales and earnings management tools with a significance of less than 0.05 (0.22).

4.4.12 Debt and Earnings Management Tools

The following is the output of the ANOVA test of Earnings Management Tools across the various categories of companies' debt as a percentage of total assets.

Table 32: Comparison of Means between Debt and EM Tools

	N	Mean	Std. Deviation	Std. Error	Minimum	Maximum
1-25%	24	2.823	.9281	.1894	1.0	4.8
26-50%	30	2.742	.7086	.1294	1.3	4.8
>50%	7	2.821	1.1965	.4522	1.3	4.5
Total	63	2.841	.8972	.1130	1.0	5.0

Table 33: One-way ANOVA for Debt and EM Tools

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	6.672	3	2.224	3.034	.036
Within Groups	43.241	59	.733		
Total	49.913	62			

Companies that have debt, as a percentage of total assets, between 1 and 25% have an average of earnings management tools of 2.82. As the percentage of debt decreased slightly between 26 to 50%, average earnings management tools decrease to reach 2.74. Finally, as debt increases above 50%, average earnings management tools slight decreases

till 2.82. It can be concluded that there is significant relationship between debt and earnings management tools with a significance of less than 0.05(0.036).

As a summary, the results of the ANOVA test reveal significant differences exist in earnings management for really large companies that have more than 50 employees and very small firms that have less than 10 employees. In addition, firms having small board size from 1 to 4 are more likely to have less earnings management practices. On the other hand, medium size companies with a larger board size, from 5-10 members, tend to witness more earnings management practices.

Chapter V

CONCLUSION

This chapter of the study includes: summary, conclusion and recommendations, and future research.

5.1 Summary

This study was done to find how each component of corporate governance influences earnings management practices. Every chapter in the study was designed to analyze the topic researched. For this study to be completed, data was collected from different employees in order to examine the effect of transparency of financial statements, ownership structure, board of directors, audit committee, and corporate social responsibility on earnings management practices.

Chapter I, represented an overview of corporate governance in general, and its importance in the organization's mechanism. It also included a general idea about earnings management practices. Then, a purpose of the study was presented by stating the augmented concern about corporate governance and earnings management. In addition, Chapter II included the literature review which stated prior studies' findings and deduced the hypotheses that were tested. Different results of several examiners were presented which discussed the components of corporate governance and their influence on earnings management practices. The methodology which was chapter III in this study, stated the dependent and independent variables and also explained the measurement techniques, sample, data collection, and statistical methods. Chapter IV, stated the results and analysis,

used several tests to examine the hypotheses. Correlation matrix analysis was first used to show a significance between corporate governance components and earnings management practices mainly CSR, board of directors, transparency of financial reports, and audit committee. However, ownership structure showed no significance on earnings management practices. Then, a descriptive analysis was done on some factors that might influence earnings management practices like the size of the firm, size of the board of directors, sales, etc… Finally, a comparison of means was done using One-Way ANOVA which explored the relation between the above factors and earnings management tools and incentives.

5.2 Conclusion and Recommendations

Nowadays, the main issue that organizations are aiming for is sustaining a good corporate governance. This is mainly done by focusing on the job of each corporate governance component. The main purpose of this study is to indicate the effectiveness of transparency of financial statements, ownership structure, board of directors, audit committee, and corporate social responsibility on earnings management practices. Finding the influence of these components help firms to manage corporate governance properly and control earnings management practices. According to the results, firms must invest more in their social work which will give relief for stakeholders and distract managers from engaging earnings management practices. Also, corporations must highly improve the transparency of its financial statements as well as the independence and effectiveness of board of directors which will help in taking decisions freely for the favor of shareholders and limiting any unfavorable practices of earnings management.

As mentioned earlier, the CSR should be closely implemented by firms in order to limit the practices of earnings management and improve the performance of corporate governance. This will be done firstly by promoting the ethical behavior within the firm's stakeholders. Thus, it is recommended to set up a code of ethics and encourage stakeholders to abide by it, implement plans that support the ethical and moral culture of the firm, reward employees who act ethically and fire those who do not, then, implement CSR externally by helping the society to be make a better place for living.

5.3 Future Research

Additional studies could be done to examine the relationship between corporate governance component and earnings management practices. Each component of the corporate governance whether the transparency of financial statements, the ownership structure, the board of directors, the audit committee, or the corporate social responsibility can be investigated more deeply by preparing questionnaires targeting only one component. Moreover, testing every component thoroughly will help in a sincere investigation of the relation between each component and earnings management practices alone. This is important to improve the effectiveness of corporate governance, and as a result, the corporation's performance.

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Appendix A

Questionnaire

This is a research project and for this project you will be asked to complete a short questionnaire. This questionnaire aims to study the effect of corporate governance components on earnings management practices.
The information you provide will be used to identify any educational needs which can be implemented.
Your answers will not be released to anyone and your identity will remain anonymous. Your name will not be written on the questionnaire or be kept in any other records. All responses you provide for this study will remain confidential. **When the results of the study are reported, you will not be identified by name or any other information that could be used to infer your identity.** Only researchers will have access to view any data collected during this research. Your participation is voluntary and you may withdraw from this research any time you wish or skip any question you don't feel like answering. Your refusal to participate will not result in any penalty or loss of benefits to which you are otherwise entitled to.
The research intends to abide by all commonly acknowledged ethical codes. You agree to participate in this research project by filling the following questionnaire. Thank you for your time.
If you have any questions, you may contact:

Name (PI)	Phone number	Email address
Dr. Walid ElGammal		Walid.elgammal@lau.edu.lb

If you have any questions about your rights as a participant in this study, or you want to talk to someone outside the research, please contact the:
IRB Office,
Lebanese American University
3rd Floor, Dorm A, Byblos Campus
Tel: 00 961 1 786456 ext. (2546)

Part I: Please tick or/ circle the appropriate answer

1) Your organization size: a) 1 - 9 employees c) 10 - 19 employees

   b) 20 - 50 employees d) > 50 employees

2) Your organization's board of directors size:

   a) 1 - 4 members; b) 5 - 10 members; c) > 10 members

3) How many times does the board meet per year?

   a) 1 - 3 times b) 4 - 6 times c) > 6 times

4) CEO compensation:

   a) < $ 50,000 b) $ 50,000 - 99,000 $ c) $ 100,000 - 149,000

   d) $ 150,000 - 250,000 e) > $ 250,000

5) How often do family members who are not members of the legal board attend the meeting?

   a) Always b) Sometimes c) Never

6) Do family members engage and participate in board decisions?

   a) Yes b) No

7) Approximately what are the sales revenues per year?

   a) < $ 100,000 b) $ 100,000 - 499,000 c) 500,000 - 1,000,000 $

   d) > $ 1,000,000

8) Over the past five years the average annual sales revenue has:

   a) Decreased significantly b) Decreased slightly c) No change

   d)Increased slightly e)Increased significantly

9) Combined long term and short term debt is approximately what % of equity?

a) 0 - 25% b) 26 - 50% c) > 50%

10) Qualifications: a) No degree b) Graduate

11) Specialization: a) Accounting and auditing b) Banking science

c) Business Administration d)Another set

12) Years of experience: a) < 5 years b) 5-10 years c) > 10 years

13) Professional certificate: a) CA b) CPA c) CIA d) Another set e) Nothing

14) Age: a) < 30 years b) 30-40 years c) > 40 years

15) Gender: a) Male b) Female

Part II: For each of the questions, please tick the most appropriate answer where SD represents Strongly Disagree, D represents Disagree, N represents Neutral, A represents Agree, and SA represents Strongly Agree. There is an ample level of transparency of financial data in terms of

	SD	**D**	**N**	**A**	**SA**
1) Financial results					
2) Objectives of the company					
3) Accounting evaluations					
4) Related party transactions: elements and nature					
5) Related party transactions: practices and disclosure (under control)					
6) Board's duties and financial communications					
7) Extraordinary transactions regulations					
8) Alternative accounting decisions: impact and analysis					
9) The process for decision making and approval of transactions with related parties					

Part III: For each of the questions, please tick the most appropriate answer. There is an ample level of Ownership structure and control privileges

	SD	D	N	A	SA
10) Structure of ownership					
11) Control organization					
12) Control and equity stake					
13) Control privileges					
14) Existence of meeting agenda					
15) Procedures for holding annual meetings					
16) Shareholders diversity					
17) Actions for Anti-Takeovers					
18) Regulations that cover and guide the corporate control					

Part IV: For each of the questions, please tick the most appropriate answer. There is an ample level of Structure of Board of Directors and Management in terms of

	SD	D	N	A	SA
19) Structure and goals of risk management					
20) Board of directors structure: non-executives versus executive					
21) Information about board members such as qualifications and biographical information					
22) Responsibilities and positions of outside board members					
23) Position held by the executives and the number of outside board members					
24) Checks and balances instruments					
25) Presence of a succession plan					
26) Conflict of interest prevention through committees and governance procedures					
27) Governance committee composition and main task					

28) Board of directors: function and role					
29) Length of contracts for directors					
30) Composition of the remuneration of directors and its determinants					
31) Number of independent board members					
32) Professional activities for training and development					
33) Reimbursement plan for senior managers in special cases such as merger and acquisition					
34) Presence of procedures covering conflicts of interest among board members					
35) Existence of advisors during reporting period					
36) Process for evaluating performance					
37) Management and board members' material interests					

Part V: For each of the questions, please tick the most appropriate answer. There is an ample level of Corporate Social Responsibility in terms of

	SD	**D**	**N**	**A**	**SA**
38) Performance based on social responsibility and environmental awareness					
39) Firm's sustainability as a function of social responsibility guidelines					
40) Regulations to protect the rights of all business stakeholders					
41) Code of Ethics for board members					
42) Ethical code of conduct for all the employees					
43) Awareness of all the employees about corporate governance and their role in implementing it					
44) Strategy to protect employees against whistle blowers					

Part VI: For each of the questions, please tick the most appropriate answer regarding the existence and effectiveness of the following elements (Auditing committee)

	SD	D	N	A	SA
45) Procedures governing collaboration with external auditors					
46) Procedures and responsibilities for appointing internal auditors					
47) Reliability of external auditors and board's confidence					
48) Procedures governing collaboration with internal auditors					
49) Decision making procedure for appointing external auditors					
50) Internal control systems					
51) Period of auditor contracts					
52) Audit partner rotation process					
53) The remuneration of auditors and involvement in other services non-audit work					

Part VII: For each of the questions, please indicate to which extent management desires (incentives)

	SD	D	N	A	SA
54) To improve bonuses					
55) To avoid debt contracts					
56) To avoid political costs resulting from legislations and government interventions					
57) To meet the expectations of financial analysts					
58) To increase the market price of the share at its first and second issuance					
59) To own shares in order to take control over the organization					
60) To influence the extent and volume of transactions with customers and suppliers in the future					

Part VIII: For each of the questions, please indicate to which level profits are managed through (tools)

	SD	**D**	**N**	**A**	**SA**
61) Under/overestimation of accrual accounts of discretionary earnings management					
62) Category conversion through the exceptional items					
63) Category conversion through the discontinued operations					
64) Under/Overrepresentation of real activities					