EARNINGS MANAGEMENT AND ITS RELATIONSHIP WITH STOCK RETURNS: AN EMPIRICAL STUDY ON A SAMPLE OF QATARI LISTED INDUSTRIAL COMPANIES

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ABSTRACT

This study investigates the relationship between earning management practices and the returns on shares, in view of the fact that accountants can change the figures in financial statements through earning management practices. The research identifies the extent of this phenomenon among Qatari industrial listed companies and the relationship with the shares’ returns of these companies. It does so by using the modified Jones model for the calculation of total accruals, and discretionary and non-discretionary accruals, using financial data from a sample of seven Qatari industrial companies over a period of nine years from 2009 to 2017. By using a panel data method to test the relationship between earning management practices and returns of shares, the study reaches several conclusions, the most important of which is that industrial companies listed on the Qatar Stock Exchange do not exercise earning management practices in general, and there is no relationship between the extent of earning management practices and the returns on the shares.

Keywords: Earning Management, Return on Shares, Panel Data, Qatar.

INTRODUCTION

Profits are the main objective of commercial companies, because these are the basis for sustainability and growth. Accounting and financial studies have shown that profit is affected by and affects many factors and variables. The idea of active earnings management of profits is one of the contemporary intellectual developments in the study of modern corporate management. The practice and its study reflect the rapidly changing external and internal modern business environment and the ability to survive, grow and compete in the light of the constant changes.

Profit, from the perspective of investors and shareholders, is seen through the returns on shares, as measured by earnings per share, that can be achieved at the end of each accounting period. However, the strength of earnings per share is not only used by investors to assess a company's activities for the previous period but also the outlook for its profits. Therefore, the investor looks at the earnings per share as an indicator of both the recent profits of the company and particularly future profitability.

This creates a tension between the objectives of corporate management and the objectives of the investors. Regularly, corporate managers prefer to retain profits in order to expand and to face future challenges, while investors want the highest possible dividend in order to achieve good returns from their investment. It should be noted that companies are not forced to distribute dividends. However, it has become customary to distribute most of the profits, although ideally, companies must direct funds to expand their business rather than distributing them to shareholders.
This study contributes to the literature by producing evidence by which to ascertain the extent that investors understand the practices of companies in relation to earnings management. This understanding is reflected in investors’ decisions, which, in turn impacts the return on shares. Furthermore, the research contributes to the literature by using a case study based in an emerging market, Qatar, an economy that is characterized by continuous growth and significant investment opportunities; most studies in this field have been conducted in the developed markets. In addition, the use of industrial companies is beneficial to studying the impact of earnings management practices because these companies face fierce competition meaning they are more likely than other companies to use this practice.

In this context, this research measures the potential relationships between earnings management and the returns on shares of industrial listed companies on the Qatar Stock Exchange. This study is divided into five parts. The second part is a literature review which clarifies the theoretical background of earnings management, while the third part is devoted to the methodology of the study. The fourth part analyses the results, while the conclusions occupy the last part.

**LITERATURE REVIEW**

According to the cognitive concept of agency theory, there is a conflict of interest between agents and clients as each attempt to maximize their benefits. Therefore, this conflict must be resolved by limiting the improper practices of managers as agents in companies and achieving maximum compatibility of interests between them and clients, such as investors, by addressing the problem of information asymmetry (Tamimi and Saedi, 2014). The practice of corporate management with the aim of maximizing their utility at the expense of shareholders’ interests is referred to as earnings management. Corporate management can resort to several practices to positively influence the net profit figures shown in the company accounts. Although the management gains from this practice, it is at the expense of other stakeholders.

Therefore, the issue of profit or earnings management can be viewed from two different perspectives. The first is the importance of adhering to the accepted accounting principles. Any practice or application otherwise is deemed to be a violation and circumvention of these principles which introduces fraud or manipulation aimed at misleading users. However, manipulation is reflected negatively in the long term; for example, those who oppose the idea of earning management cite the bankruptcy of major companies such as Enron Corporation and the accounting firm Arthur Andersen because of earning management practices. In contrast, supporters of earnings management believe that it is a practice by which accountants and corporate management enhance the income and financial position in a manner that does not breach accounting principles and standards. In this case, accountants and management merely choose the best method and application of accounting practice (Almaryani et al., 2016).

Because of this incompatibility, there is no specific definition of earnings management. Healy and Wahlen (1999) argue earnings management occurs where management use their personal judgments in the preparation of financial statements and financial reporting in order to mislead other stakeholders about the performance of the company. In addition, SEC (1999) believes that the earning management practices are different methods of deception used in order to modify the image of financial performance. These practices are a non-application of generally accepted accounting principles. In contrast, Mulford and Comiskey (2002) view earnings management as a useful manipulation of accounting results, particularly company profits.
achieve specific goals and objectives. However, Ronen and Yaari (2008) take a more nuanced view arguing that there are three types of profit management (white, grey, and black) and that the third type is involved in manipulation and fraud in the preparation of financial reports.

The use of earnings management has several causes. Almaryani et al. (2016) identify three motivations. They argue that it could be an opportunistic motivation for the purposes of achieving the self-interest of management or driven by efficiency concerns to show the company can achieve a balance between return and risk. In addition, it may be used by the management for other reasons such as managing profits to reduce taxable income (Almaryani et al., 2016). In addition, Kieso et al. (2011) argue that earnings management can be used as a method for income smoothing.

Earnings management has three main strategies. The first focuses on increasing profits in the current period at the expense of previous or future periods. The second is achieved through the reduction of profits in the current period to the benefit of the previous or future periods. The third is to smooth income and try to reduce deviations (Tamimi and Saedi, 2014). These strategies can be applied through different methods. One method is to rearrange elements through so-called “cleaning up” of financial statements and temporary reserves. Another method is to change applicable accounting policies.

In addition, the practice of earning management is influenced by a number of factors, including company size, liabilities, profitability and growth (Alareeni, 2018). In relation to company size, we find that there are differences in views. For instance, Jensén and Meckling (1976) mention that, according to Agency Theory, larger companies can afford greater agency which means that there are more earnings management practices. This is confirmed by Degeorge et al. (1999) who find that bigger companies manipulate earnings to avoid losses. In contrast, Meek et al. (2007) mention that large companies have a greater commitment to corporate governance requirements than do small companies which reduces earnings management practices.

Some researchers point out that the volume of debt has a positive influence on earnings management practice. A higher level of debt will encourage the company to use greater levels of earnings management in order to reduce the effect of this debt on the company’s profitability (Press and Weintrop, 1990; Mohrman, 1996). In contrast, other researchers argue that there is a negative relationship between debt and earnings management because of the limited capacity of managers to manipulate earnings as a result of the debt (Shirzad and Haghighi, 2015).

In addition, many researchers posit that there is a relationship between profitability or loss and earnings management. For instance, Burgstahler and Dichev (1997) find that managers use earnings management in order to change a loss into a profit. Furthermore, some managers resort to earnings management practices when the expected gains are lower than the expected level of profit or lower than previous years (Carslaw, 1988; Thomas, 1989). In addition, the rate of growth also can have an effect on earnings management; the higher the rate of growth the less need to manage earnings and vice versa (Alareeni, 2018).

Many models based on accounting principles have been developed that can be used to detect earning management practices. These models, which include De Anglo (1986) and Jones (1991), are based on mathematical equations to calculate total accruals, and discretionary and non-discretionary accruals.

Most studies on earnings management focus on determining the extent to which firms practice the method and then linking the extent to other factors (Almaryani et al., 2016). Thus, Abu-Jaila and Hamdan (2009) explored the extent to which the management of Jordanian joint
stock companies listed on the Amman Stock Exchange used earnings management for the period 2001 to 2006. They found that companies were practicing earnings management in varying degrees. This is similar to Alashqar (2010) and Shahin (2011) who analysed the Palestinian companies and banks. Aluazi (2013) analysed the earning management of industrial companies listed on the Amman Stock Exchange for the period 2009 to 2011. The results show that more than one-half of the sample companies were conducting earnings management to varying degrees.

Spyros (2004) conducted a study to explain why the practice of earnings management was used in Greek companies. The findings indicate that large companies have shown that profits are inflated by external financing, while small firms were reducing profits in order to cut taxes. However, when Norman and Kamran (2005) tested discretionary accruals in Malaysian companies experiencing financial crisis, they found that companies that suffer from financial crises exercise little earnings management. In another study that failed to find any statistically significant indications of earnings management, Amina (2013) measured the extent of its practice in seven listed companies on the Algerian Stock Exchange over the period 2007 to 2009.

Other researchers have taken a comparative approach to the practice of earnings management. Mohammed (2012) compared industrial and service companies listed on the Amman Stock Exchange and found that the practice of earnings management in industrial companies was higher than in service companies. Swieten (2011) examined the differences between 144 large companies in their earning management practices in different countries. The study found that there were no significant differences between these companies in their earning management practices.

In terms of linking earning management practices with other factors, Abu-Jaila and Hamdan (2009) finds that the relationship between earnings management and corporate governance is inverted. Thus, the higher the corporate governance rating for the company, the more it reduces earnings management. Mohamed (2012) concludes that there is no relationship between the practice of earnings management and dividend policy, profitability, size and the nature of financing of the company.

As long as earning management practices are reflected in the financial reports, then the practice will influence the share prices (Almaryani et al., 2016) and thus the return on shares for those companies. Alashqar (2010); Sayari et al. (2013); Almariani et al. (2016) have analysed the relationship between the practice of companies to manage profits and the return on shares. Al-Ashkar (2010) did not find any clear relationship. In contrast, Sayari et al. (2013) argue that earning management practices in large companies have been eroded but returns on shares have increased while the practice did not appear in small companies. Finally, Almaryani et al. (2016) found a negative relationship that was not statistically significant.

Against this background, this research addresses two questions. The first deals with whether or not there are practices of earnings management in Qatari industrial listed companies. The second addresses the extent of investors’ understanding of the practice of earnings management by testing the relationship between these practices and returns on shares. The two questions can be clarified by the following null hypotheses:

\textbf{H1:} Qatari industrial listed companies do not practice earnings management in their financial reports.

\textbf{H2:} There is no significant statistical relationship between earnings management and returns on shares of industrial listed companies in Qatar.
METHODOLOGY

Population and Sample

Most studies have been conducted on companies in the markets of developed countries. However, the emerging Qatari market is experiencing rising growth and strong investment opportunities and in which the authorities apply the latest practices in the business world. Therefore, Qatari listed industrial companies were chosen because these organisations have similarities in the preparation of their financial reports. In other words, the data does not require specialized processing, as in the case of banks and insurance companies. In addition, industrial companies face fierce competition and are therefore more likely than other types of companies to resort to earnings management practices.

The Qatar Stock Exchange lists nine industrial companies. The researcher attempted to obtain the largest possible sample over as long a period as possible in order to strengthen the results. The sample conditions were to provide data for nine years from 2009. The number of industrial companies that had this information was seven, which constitutes 77.78% of the population.

Model of the Study

Earnings management model

Dechow et al. (1995) evaluated the models used to measure the non-discretionary accruals to detect earning management practices, to see how well these models were able to detect earnings management and to identify the model most capable of detecting them. The modified Jones model was found to be the best in this area. This finding was supported by later studies, such as Alashqar (2010); Shaheen (2011); Alluzi (2013).

The model and its variables can used to calculate the earnings management. For the purpose of calculating the extent to which the Qatari industrial listed companies practice earnings management, the modified Jones model was used according to the following steps:

Measurement of total accruals represented by the difference between operating net profit and cash flow from operating operations through the following equation:

$$\text{TACC}_{i,t} = \text{ONI}_{i,t} - \text{OCF}_{i,t}$$

Where,

- $\text{TACC}_{i,t}$: Total accruals for the company $i$ for the period $t$.
- $\text{ONI}_{i,t}$: Operating net profit for the company $i$ for the period $t$.
- $\text{OCF}_{i,t}$: Operating cash from for the company $i$ for the period $t$.

Estimation of the parameters of the Models $a1$-$a3$, in which non-discretionary accruals (NDACC$_{i,t}$) is calculated by the following regression equation of the sample group for each year.

$$\frac{\text{TACC}_{i,t}/A_{i,t-1}}{A_{i,t-1}} = a1(1/A_{i,t}) + a2(\Delta \text{REV}_{i,t} - \Delta \text{REC}_{i,t})/A_{i,t-1} + a3 \frac{\text{PPE}_{i,t}}{A_{i,t-1}} + E_{i,t}$$

Where,
TACC\textsubscript{i,t} : Total accruals for the company i for the period t.
▲REV\textsubscript{i,t} : The change in revenue for the company i for the period t.
▲REC\textsubscript{i,t} : The change in receivables for the company i for the period t.
PPE\textsubscript{i,t} : The properties, plants and equipment for the company i for the period t.
A\textsubscript{i,t-1} : Total assets for the company i for the period t-1.
E\textsubscript{i,t} : The random error.

Determination of non-discretionary accruals (NDACC\textsubscript{i,t}) for each company in the sample separately and for each year of study by the following equation:

\[
NDACC_{i,t} = \beta_1(1/A_{i,t-1}) + \beta_2 \ ▲REV_{i,t} - ▲REC_{i,t}/A_{i,t-1} + \beta_3 (PPE_{i,t}/A_{i,t-1})
\]

Determination of discretionary accruals by subtracting non-optional receivables to reach optional entitlements according to the following equation:

\[
DACC_{i,t} = TACC_{i,t} - NDACC_{i,t}
\]

Where,
DACC\textsubscript{i,t} : Non-discretionary accruals for the company i for the period t.
TACC\textsubscript{i,t} : Total accruals for the company i for the period t.
NDACC\textsubscript{i,t} : Discretionary accruals for the company i for the period t.

The relationship between earnings management and share return model

The relationship between earning management practices (as calculated in the previous section) and the share returns is calculated through the following regression equation:

\[
SR_{it} = A_1 + B \ (EM_{it}) + u_{it}
\]

Where,
SR\textsubscript{it} : Share return for the period from -1 to +1 day around the announcement date of the financial statements (the difference between the closing price per share on the day following the date of the announcement of the financial report and the closing price of the share for the day preceding the date of the financial statements attributed to the closing price per share for the day preceding the date of the announcement for financial reports).
EM\textsubscript{it} : Earnings management for the company i for the period t

Control variables

In order to reach to the best test of the relationship between earnings management and share returns a number of control variables (company size, liabilities, profitability and growth) are investigated. Following Alareeni (2018), the following measures are used:

1. Company size: uses total asset natural log.
2. Liabilities: uses debt ratio.
3. Profitability: uses earnings per share.

The following regression equation is adopted:
SR_{it}=A_1+B_1 \text{EM}_{it}+B_2 \text{Z}_{it}+B_3 \text{L}_{it}+B_4 \text{P}_{it}+B_5 \text{G}_{it}+u_{it}

Where,

SR_{it}: Share return for the period from -1 to +1 day around the announcement date of the financial statements.

EM_{it}: Earnings management measured by non-discretionary accruals for the company i for the period t.

Z_{it}: Size of company measured by using total asset natural log for the company i for the period t.

L_{it}: Liabilities of company measured by using the debt ratio for the company i for the period t.

P_{it}: Profitability of company measured by using earning per share for the company i for theperiod t.

G_{it}: Growth of company measured by using revenue growth percentage for the company i for the period t.

The Use of Panel Data

Most studies use multiple regressions for either cross section analysis or time series analysis. Cross section analysis can be undertaken in one of two ways. First by using multiple regression across a number of companies for one year, or second by computing the mean for the years under study for each company and then comparing the companies. Meanwhile, the time series analysis is a multiple regression of a time series for one company over a number of years.

The Panel Data method combines the two methods without using means; the term ‘cross section analysis of time series’ is used (Gujarati, 2003; Hsiao, 2003; Baltagi, 2008 ) to refer to where there are several cases (section analysis) for a number of time periods (time series). This approach combines the advantages of each method as using the Data Panel method allows the use of the data without resorting to means. This reduces the disparities in the data which impacts positively on the results.

RESULTS

Before testing the hypotheses, it is necessary to review the statistical results of the study variables, earnings management (measured by non-discretionary accruals) and share return (Table 1).

<table>
<thead>
<tr>
<th>Year</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Max.</th>
<th>Min.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>0.04301</td>
<td>0.05009</td>
<td>0.05008</td>
<td>-0.1049</td>
</tr>
<tr>
<td>2010</td>
<td>0.09766</td>
<td>0.05671</td>
<td>-0.0043</td>
<td>-0.1599</td>
</tr>
<tr>
<td>2011</td>
<td>0.43543</td>
<td>0.04294</td>
<td>-0.367</td>
<td>-0.4875</td>
</tr>
<tr>
<td>2012</td>
<td>-0.1972</td>
<td>0.06214</td>
<td>0.30282</td>
<td>0.13965</td>
</tr>
<tr>
<td>2013</td>
<td>0.24055</td>
<td>0.07814</td>
<td>-0.0851</td>
<td>-0.3163</td>
</tr>
<tr>
<td>2014</td>
<td>-0.1075</td>
<td>0.0693</td>
<td>0.20089</td>
<td>0.01227</td>
</tr>
<tr>
<td>2015</td>
<td>-0.1849</td>
<td>0.06003</td>
<td>0.28768</td>
<td>0.09552</td>
</tr>
<tr>
<td>2016</td>
<td>-0.0553</td>
<td>0.04635</td>
<td>0.13009</td>
<td>0.00886</td>
</tr>
<tr>
<td>2017</td>
<td>0.04815</td>
<td>0.04884</td>
<td>0.04424</td>
<td>-0.1012</td>
</tr>
</tbody>
</table>
Table 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Share Return</th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Max.</th>
<th>Min.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>0.13033</td>
<td>0.00849</td>
<td>0.18835</td>
<td>0.30612</td>
<td>-0.2096</td>
</tr>
<tr>
<td>2010</td>
<td>0.13033</td>
<td>0.27161</td>
<td>0.4875</td>
<td>0.2096</td>
<td>-0.3551</td>
</tr>
<tr>
<td>2011</td>
<td>-0.0792</td>
<td>0.14379</td>
<td>0.09404</td>
<td>-0.2996</td>
<td>-0.2096</td>
</tr>
<tr>
<td>2012</td>
<td>0.05515</td>
<td>0.44733</td>
<td>0.95695</td>
<td>-0.5158</td>
<td>-0.5158</td>
</tr>
<tr>
<td>2013</td>
<td>0.30025</td>
<td>0.40741</td>
<td>0.95695</td>
<td>-0.5158</td>
<td>-0.5158</td>
</tr>
<tr>
<td>2014</td>
<td>0.11777</td>
<td>0.25524</td>
<td>0.63468</td>
<td>-0.2096</td>
<td>-0.2096</td>
</tr>
<tr>
<td>2015</td>
<td>-0.162</td>
<td>0.20343</td>
<td>0.15413</td>
<td>-0.4696</td>
<td>-0.4696</td>
</tr>
<tr>
<td>2016</td>
<td>0.02804</td>
<td>0.28879</td>
<td>0.55172</td>
<td>-0.3961</td>
<td>-0.3961</td>
</tr>
<tr>
<td>2017</td>
<td>-0.2636</td>
<td>0.14186</td>
<td>-0.018</td>
<td>-0.4309</td>
<td>-0.4309</td>
</tr>
<tr>
<td>Average</td>
<td>0.01503</td>
<td>0.30613</td>
<td>0.95695</td>
<td>-0.5158</td>
<td>-0.5158</td>
</tr>
</tbody>
</table>

First hypothesis: Earnings management measurement

The first null hypothesis stated that Qatari industrial listed companies do not practice earnings management in their financial reports. To test this hypothesis, the discretionary accruals were computed to the total assets under the modified Jones model. The results of the descriptive statistics for the optional entitlements were as shown in Table 1.

The number of companies that practice earnings management compared with those that do not practice earnings management is explained in Table 2.

Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Sample</th>
<th>No Earnings Management</th>
<th>Earnings Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>No.</td>
<td>Percentage</td>
<td>No.</td>
<td>Percentage</td>
</tr>
<tr>
<td>2009</td>
<td>7</td>
<td>6</td>
<td>85.71%</td>
</tr>
<tr>
<td>2010</td>
<td>7</td>
<td>7</td>
<td>100.00%</td>
</tr>
<tr>
<td>2011</td>
<td>7</td>
<td>7</td>
<td>100.00%</td>
</tr>
<tr>
<td>2012</td>
<td>7</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>2013</td>
<td>7</td>
<td>7</td>
<td>100.00%</td>
</tr>
<tr>
<td>2014</td>
<td>7</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>2015</td>
<td>7</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>2016</td>
<td>7</td>
<td>0</td>
<td>0.00%</td>
</tr>
<tr>
<td>2017</td>
<td>7</td>
<td>6</td>
<td>85.71%</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
<td>33</td>
<td>52.38%</td>
</tr>
</tbody>
</table>

From Table 1 it is clear that industrial companies listed on the Qatar Stock Market do not practice earnings management because the average of non-discretionary accruals was positive (0.035545893) and standard deviation is low at 0.202609783 indicating no significant differences in the data from the average. Therefore, we find that corporate managers only exercise low levels of earnings management. Even when it was exercised (2012, 2014, 2015, and 2016), it was practised to a limited degree. In the worst year less than 20% of companies practiced earnings management (-0.197168709).

According to Table 2, the instances of industrial companies listed on the Qatar Stock Exchange, which did not practice earnings management is 52.38% (33 events out of 63). Diving
more deeply into the data, we find that the practice earnings management varies by year. Most companies did not practice earnings management in five years (2009, 2010, 2011, 2013, and 2017) but did practice earnings management in the other years (2012, 2014, 2015, and 2016). To analyse this result, we return to the data displayed in Table 1. We find that the earnings management practices in 2012, 2014, 2015, and 2016 are still low. The researcher believes that the practice is due to the desire of the company management to maintain the same levels of previous profits and prevent volatility, in other words they seek to stabilise earnings.

**Second hypothesis: The relationship between earnings management and share return**

The second null hypothesis states that there is no statistically significant relationship between earnings management and the share returns of Qatar industrial listed companies. We measured the correlation between the earnings management and share return to establish whether or not there was a relationship. The Pearson coefficient was used and was calculated at 5.6%. This means that there is a weak relationship between the two variables. In addition, we tested the relationship through the multiple regression equation to determine the existence of a relationship between the independent variable (earnings management) and the control variables (size, liabilities, profitability and growth) with the dependent variable (share return). The value of the calculated t was compared with the index t. If the calculated t is greater than the index t and if the value of \( p > t \) is less than the 5% significance level then it can be concluded that there is a relationship between the independent variable and the dependent variable. This hypothesis was tested through fixed-effect regression using the STATA program, to establish if there is a relationship between the independent variable and the dependent variable, and vice versa (Berenson et al. 2009). Table 3 displays the results of the analysis of the independent and dependent variable at 5% level of significance (95% confidence level).

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Coefficient</th>
<th>t</th>
<th>( p &gt; t )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings Management</td>
<td>0.09194</td>
<td>0.47</td>
<td>0.642</td>
</tr>
<tr>
<td>( R^2 )</td>
<td>10.36%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted R Square</td>
<td>0.025</td>
<td></td>
<td></td>
</tr>
<tr>
<td>( F(5,49) )</td>
<td>1.32</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prob (F-statistic)</td>
<td>2.695</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From the results, the multiple regression equation obtained is:

\[
SR_{it} = A_1 + B_1 (EM_{it}) + B_2 (Z_{it}) + B_3 (L_{it}) + B_4 (P_{it}) + B_5 (G_{it}) + u_{it}
\]

\[
SR_{it} = 1.526451 + 0.0919448(EM_{it}) - 0.1658623 (Z_{it}) - 0.0000806(L_{it}) + 0.0204882(P_{it}) + 0.0888454(G_{it})
\]

From the results displayed in Table 3, it is clear that the calculated t tabular value of the profit management variable is less than the indexed value of t (2.0067) and that the value of \( p > t \) is greater than the significance level of 5%. This means that the null hypothesis, that there is no statistically significant relationship between the earning management and share return in industrial companies in Qatar, is accepted. Thus, the alternative hypothesis that such a relationship exists is rejected.
The results indicate a positive but not statistically significant relationship between earnings management and the share returns of industrial listed companies in Qatar. The researcher believes that this result is logical as a result of the first hypothesis because of the lack of exercise by Qatari industrial companies of earnings management in general. In other words, the investors in the Qatari industrial listed companies are aware that the companies do not exercise earnings management in general, which means the investment decisions that affect the share returns are not linked to the practice of earnings management.

**RESULTS DISCUSSION**

The results concerning the dearth of earnings management practices among industrial companies listed on the Qatar Stock Exchange support Amina’s (2013) conclusion about companies listed on the Algerian Stock Exchange. The researchers believe that the reason that industrial companies in Qatar do not engage in earnings management practices is due to the strong investment environment and growth opportunities available in the Qatari market. This has resulted in Qatari firms achieving good profits without the need to resort to the use of earnings management.

In relation to the relationship between the earnings management and the return of shares, we find that our study agreed with Alashqar (2010); Sayari et al. (2013); Almariani et al. (2016). The researchers believe that this is because of a number of reasons, the most important of which is that the industrial companies listed on the Qatar Stock Market do not practice earnings management to any major degree. However, emerging markets tend to have inefficiencies in the financial markets which mean that stock prices not react strongly to the information available in the financial statements. In addition, however, there are other factors that affect the share price. For example, if one investor holds a high percentage of the shares in a company and is unwilling to sell, then the share price is unlikely to change no matter what information is disclosed in a financial report.

**CONCLUSIONS**

The main objectives of this study are to investigate whether or not industrial companies listed on the Qatar Stock Market practice earnings management (as measured by the modified Jones model, 1995) and the relationship between earnings management practices and the returns on shares.

Through the study of earnings management, a number of conclusions can be reached. The most important is that earnings management is a practice used by corporate management to achieve certain goals and objectives in their favour. These practices are the result of the conflict of interests between agents and clients as each aims to maximize their personal benefit. However, earnings management can be viewed from two competing perspectives. The first is the importance of adhering to accepted accounting principles and the second is that earnings management is a smart practice by accountants and corporate management to improve their income and financial position without violating the principles and accounting standards.

As for the application of earnings management in the industrial listed companies in Qatar, they are found not to exercise earnings management in their financial reports in general. Although a degree of earning management practices were found, these have no significant effect on the users of the financial statements. There is no relationship between earnings management
and the returns of shares for Qatari industrial listed companies. Because investors in the Qatari industrial companies are aware that the companies listed on the stock market do not exercise earnings management in general, this means that their investment decisions are not related to earnings management, which is reflected positively on the share returns of these companies.

The result is limited by the small sample size in comparison with other studies. This is due to lack of depth and breadth in the Qatar Stock Market because of the small size of the market. However, this study showed that the modified Jones model (1995) is one of the most important indicators for measuring earnings management. This has uniquely positioned researchers to adopt other indicators to measure earnings management in future studies, or to choose a sample from other economic sectors or a larger sample of industrial companies and a longer period of time if data are available.

REFERENCES


