EARNINGS MANAGEMENT, OWNERSHIP STRUCTURE AND THE FIRM VALUE: AN EMPIRICAL ANALYSIS

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ABSTRACT

There are always conflicts of interest between managers (agents) and owners (leaders), but not necessarily the degree of disagreement. This is due to a conflict of interest or a division of responsibility. The purpose of this research is to look at the effects of earnings management and ownership structure on business value. The public firms included for this research were listed on the Amman Stock Exchange between 2015 and 2019. The purposive sampling strategy is used in this research to examine the sample, providing seven businesses as the test sample. In the regression analysis, multiple regression and descriptive statistics were applied. According to the conclusions of this research, earning management, managerial ownership, and institutional ownership have minimal effect on business value. Aside from that, the findings suggest that family ownership has a significant favorable influence on business worth. To maximize the firm's valuation, it is recommended that these firms strictly adhere to the CG mechanism as a requirement. The function of CG as an independent or moderating variable, on the other hand, is still debatable.

Keywords: Earnings management (EM); Firm value (FV); Ownership structure (OS).

INTRODUCTION

Managers have a variety of incentives to control earnings, including bonuses, avoiding debt obligation violations, hitting and exceeding benchmarks, lowering legal or political costs, meeting analyst estimates, and making a company look less costly to investors. Earnings management is commonly used by managers to accomplish their corporate goals (Gao & Gao, 2016). Earnings management practices are classified into two categories: accrued items excess management and true earnings management. Accrued-based earnings management is accomplished by the use of various accounting techniques, while real-world earnings management is accomplished by controlling the company's real-world operations (Nobakht & Acar, 2021). Firms should keep their ideals appealing to customers in order to retain investors. Investors' interest in the stock could erode if the company's valuation falls (ALsarayreh et al., 2011; Oudat & Ali, 2021). Earnings management is a tool that managers may use to manipulate a company's value. Firm valuation is the real value per equity that a firm will gain if it sells the

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asset at market value (Nobakht & Acar, 2021). The value of the management organization that owns a business is the sale value that exceeds the liquidation value (Arar et al., 2018). Tobin's Q ratio may be used to reflect firm value rather than stock price. Tobin's Q ratio is a firm valuation metric that indicates management's asset management success as well as a company's future market value (Ma & Tian, 2009).

The capacity of subsequent earnings is used to assess the company's results. As a result, a company would make an attempt to improve efficiency by obtaining a large sum of profit (Ali & Oudat, 2020). A company with a high level of earnings is more appealing to customers than one with a low level of earnings (Hernawati et al., 2021).

The Jordanian economy, as an emerging market, is distinguished by a limited number of publicly traded firms, poor investor security, and a long history of code law (Abdullatif, 2016; Saleh & Jawabreh, 2020; Saleh et al., 2020). Jordanian businesses have a concentrated ownership structure, and members retain a typical family character (Almarayeh et al., 2020). Jordan is regarded as a developing country that must attract the interest of customers, lenders, traders, and other business partners, and the publication of earnings results by Jordanian firms to the outside world is regarded as a relatively recent duty that brings earnings management into use (Saleh et al., 2018). As a result, managers' interests are focused on adjusting the valuation of firms through earnings management methods in order to control the aspirations of existing and prospective customers, where recent research has demonstrated that management employs earnings management to meet market expectations (Du, 2019). The aim of this study is to investigate the impact of Earnings Management approaches among publicly traded firms on the Amman stock exchange on firm value transition, as well as to explore the effect of ownership structure on Earnings Management and firm value from 2012 to 2017.

The remainder of this research is presented below. Section Two contains a summary of the literature and the formulation of theories, Section Three describes the test design and sample construction, Section Four involves a statistical overview, Section Five includes the findings, debate, and ends the research.

Problem of the Statement

The world economy has been turbulent in the last five years due to stock market swings (Hasan, & Ali, 2019; Hasan et al., 2021), trade war tensions, Brexit, and diplomatic polemics in many countries (Novianti & Kuswanto, 2020). The same is true in the Middle East region, where there are uncertain economic and political situations as a result of war and tensions within the region's nations. Jordanian businesses are experiencing numerous financial difficulties and a reduction in profitability. As a result, Almarayeh et al. (2020) discovered that companies in Jordan partake in earnings accounting activities that are easily visible in their financial statements. According to Alawzi (2013), 53.4 of Jordanian firms conduct earnings management in various ways. Furthermore, prior research indicates that companies choose between earnings control techniques.

In reality, when a company's financial statements are problematic, analysts are more worried with revenue recognition issues than any other reporting issue (Du, 2019; Oudat & Ali, 2020). As a result, any effort by management to exploit earnings by increasing or lowering them would influence the company's reported financial statements and, as a result, the company's valuation (Oudat et al., 2021). Since then, there has been increasing doubt about the effect of

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earnings improvement tactics on the shift in the company's valuation. This problem has grown over time, and if not resolved quickly, it would have a negative impact on the confidence of users of accounting information in Jordan. The key thing revealed by the literature review is that there is inconsistency in the results.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Earnings Management and Firm Value

Management of earnings is viewed as a standard for many businesses, and most managers perceive it as a forerunner to corporate value (Ali et al., 2021; Ali & Oudat, 2021). Previous study shows that the impact of income management on the value of the company is unknown, since the kind of income management relies on it. According to Hernawati et al. (2021), earnings management using an accrual approach to the Modified Jones model indicates the availability of earnings management activities without paying attention to positive and negative symbols. There are many interpretations on the understanding of the accumulating impacts between positive and negative symbols. Positive accruals in the budget suggest that management uses techniques to increase its revenues. Meanwhile, negative accruals in the budget show that management uses revenue reduction techniques. Managers are also perceived as opportunistic in using income-increasing strategies. In this study, 111 data points from IDX (Indonesia Stock Exchange) manufacturing companies have been considered. Path analyzes are used to test theories. The results of this research are consistent with the concept of managing growing earnings to transmit future company advantages to stakeholders. Increasing influence on the potential company value of growing profits was observed to be mediated by social protection and management compensation. The proposed shift to income-enhancing owners will be completed in further investigation. He et al. (2021) are additional researchers who study the effects of wage inequity in the senior management team (TMT). The study found that salary disparity inside TMT had a negative influence on effective profit management using data from Chinese listed businesses from 2007 to2018, and that that link enhances corporate value, thereby consolidating the concept of internal governance. In addition, the indirect effect is greater when commodities market competition is high. With accounting and trade value indices, the results remain true.

The effects of accrual and real profit control on company assessment was investigated by Nobakht and Acar (2021). In order to reach the objective of the research, the financial information of 180 firms registered on the Tehran Börse between 2008 and 2018 were studied. The results from this study indicate the positive and significant influence on company value defined by free cash flows of accrual profits via discretionary accruing and management of real profits through anomalous production costs and operational cash streams. However, the genuine management of income via irregular discretionary spending and a firm evaluation was not related to free cash flow. However, the impact on the company assessment derived from economic value added was significant and negative of the influence of the accumulated earnings management via discretionary accruals and real earnings management due to anomalous production and operational cash flows. Moreover, actual income management through irregular discretionary spending has had a favorable and significant influence on the assessment of the company assessed by economic added value.

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The effect of accumulated income management and the real income management on business value was experimentally explored by Darmawan et al. (2019). The analytical tool was utilized for multiple linear regression analyses. The production businesses listed on the Stock Exchange from Indonesia in the period 2013 to 2017 have been utilized for test samples. The test findings showed that the accrual income control is not very effective for the value of the company as indicated by the discretionary accruals. Real profit control has been shown to have a detrimental effect on the value of the business.

Ayub and Abbas (2019) This study studies the conduct of profit management for Pakistani non-financial corporations over a period of 15 years between 2003 and 2017, and finds a positive association between aspects of actual and accrual income management and business evaluation characteristics. When the poll was subdivided into four categories, financially distracted businesses were challenged and not distressed businesses were competitive. For Pakistani enterprises, the effect of accrual earnings accounts was bigger than that of actual profits.

The relationship between the share price and the income management is investigated by using the Jones Modified Model (1995) to compute the Earnings Management system, Arar et al. (2018). The results of this investigation indicated the irrelevant association between income management and stock price of Jordanian service companies.

The finding of a higher value for the company is considered as one of the key objectives of management in which the corporate value is an indicator for corporate financial performance (Oudat et al., 2021) and the decisions of management are of importance for the value of the company, explaining the behavior arising from the relationship of management and shareholders (Salameh et al., 2020).

The movement in companies' appraisal on the financial markets depends on the varied economic circumstances in transactions on capital markets (Hasan & Ali, 2019). The management controls the value of the firm by increasing current revenues and minimizing losses and hazards. Accounting accrual procedures are one of the major drivers of company value changes with research for accountancy of accrual techniques on company value rates, Susanto (2017) identified a major impact. Based on income accounting, corporations in developed markets frequently choose to account for income since in the short run, this is the easiest and least expensive. The following hypothesis for study has thus been developed, which examines the influence on business value of the earnings management model: A research by Subanidja et al. (2016) investigated income management key business value measures using a sample of 46 companies and income management by a discretionary accruals authority, using the revised Jones model for quantifying income management. The currency value of the exempt, profit management has a positive influence on the company value. While the link between the Jordanian firm pricing and earnings management operations was not important (cash flow from sales operation, business profits adjust, accounts receivable change).

H1: There is an insignificant relationship between Earning management & firm value

Ownership Structure and Earnings Management

In the words of Dong et al. (2020), the newest research gives no evidence of the management influence of the ownership structure on real income management (REM). By

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employing a number of China-listed businesses that are scheduled to manage revenues from 2003 through 2014, Dong seeks to tackle this issue. The research found that more sensitive to REMs are Chinese enterprises with stronger shareholders, and that firms with public ownership and influence are less likely to engage in REMs. The data also reveals that the REM-accumulative income management link is widespread and sequential in China.

The moderating influence of corporate governance on the link between earnings and business appraisal has been explored by Suriawinata and Correia (2019). This paper reveals the negative and significant moderating effect that corporate administration has on the relationship between income control and corporate evaluation. The results were computed by the percentage of independent directors and by a survey of 177 Indonesian listed non-financial companies in 2015. This discovery might lead to something about the opportunistic part of profit control in the company that is then offset by the stock market at a lower price, which includes independent management.

With a moderating element of profits regulation, Putri and Maksum (2020) reviewed their effects on corporate value and on the efficiency, financial leverage and corporate size of institutional inspections, elected commissioners and audit commissions Data were acquired from the ISSI financial accounts of the manufacturing enterprises from 2014 to 2018. It has a substantial influence on the GCG's company value (institutional ownership, elected committees, audit committee), profitability, financial control, etc., as the findings show. The value of a firm has not been changed by institutional ownership. Audit committees adversely harm the value of a company. The sound assessment had a favorable impact on independent commissioners, profitability, financial leverage and size of the firm. The outcome, financial capacity and size of a company cannot, as a moderator element of income management, be linked with the GCG (institutional ownership, elected commissioners, audit committee). Asshiddiq (2016) examined the influence on corporate valuation of the income management and if corporate governance is a moderator to the influence on company value of earnings management. The sample utilized in this research includes property and property firms listed on the stock market of Indonesia from 2012 to 2014. The study findings suggest that profit, organisation's size and the board of management, institutional leadership, owning, and jointly control income will simultaneously or somewhat influence the company's advantage. Partly moderate are the management team, the management and the financial ownership. The results also reveal that the size of the firm has a significant positive influence on the firm's worth. Boards of directors have a large detrimental influence on their business value, as do management, and shareholder ownership. There is no significant influence on the company value of other variable.

H2: There is an insignificant relationship between Managerial ownership & firm value.

H3: There is an insignificant relationship between Institutional Ownership & firm value.

H4: There is an insignificant relationship between Family Ownership & firm value.

RESEARCH METHODOLOGY

Method of Data Analysis

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In this research the data analysis would use content analyzes and quantitative methodologies to clarify the approaches to earnings management and their influence on the shift in business value in the Amman stock exchange Annual Reports. The study will also include description of the data, an examination of correlations for calculating the association degree between different variables, and an examination of multiple regressions. Software versions of SPSS 22.0 may be used to evaluate all theories as a data gathering tool.

Research Design

The panel database regression technique has been used to examine data collected from 2015 to 2019 in order to identify the impact of revenue management techniques and their consequences on the shift of corporate evaluation amongst Jordanian enterprises. The sample consisted of 7 firms with comprehensive data for the chosen time period from Amman Stock Exchange (ASE). However, owing to the variety of its financial systems (e.g. high levels of regulation) and omission from earlier studies, banking and financial institutions were eliminated from study.

Measurement Variables

Dependent variable

A dependent variable is one which is described or impacted in the form of the independent variable (Indriantoro & Supomo, 2009). The company valuation in this research is the dependent variable. Tobin's Q is a measure to determine the value of a company. According to Tobin's Q represents the existing assessment and expectations for profitability (2009). The value of the company may be estimated using the Tobin Q formula according to Vinola Herawati (2008:

$$Q = \frac{EMV + D}{EBV + D}$$

Where, Q = Value for firm; EMV = Value of equity market; EBW = Value for Equity Book; D = The total indebtedness book value.

Individual variables

Any variable that may explain or impact another variable or variables accused of causing the dependent variable is an independent variable (Indriantoro and Supomo, 2009). The income management variable of this research is an autonomous variable, supported by a discretionary accrual utilizing the Jones model modified (2008) by Herawati (2008):
a) Complete Accrual

$$AD = AD — FC$$

Description: NI = Company of net income in t; CF= operating company's cash flow I on period t

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TABLE 1
SUMMARY OF VARIABLES

No.	Variable Name	Measure
1	Firm Value	Tobin's Q =
2	Earnings Management	Total number of board director
3	Managerial ownership (MO)	Total of the proportion of Managerial share holdings
4	Institutional Ownership (IO)	Total of the proportion of Institutional share holdings
5	Family Ownership	Total of the proportion of family share holdings

Models of Regression

In order to research the relationship between earning management, ownership structure and firm valuation, and to test study hypotheses, the following regression model was created:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

Where,

Y: Firm Value; α: Constants; β1 – β4: Regression Coefficient; X1: Earnings Management; X2: Managerial ownership; X3: Institutional Ownership (IO); X4: Family Ownership; e: Error

Conceptual Framework

The conceptual framework shows the relationship between the variables (Table 1) to be considered in this study, as shown below (Figure 1):

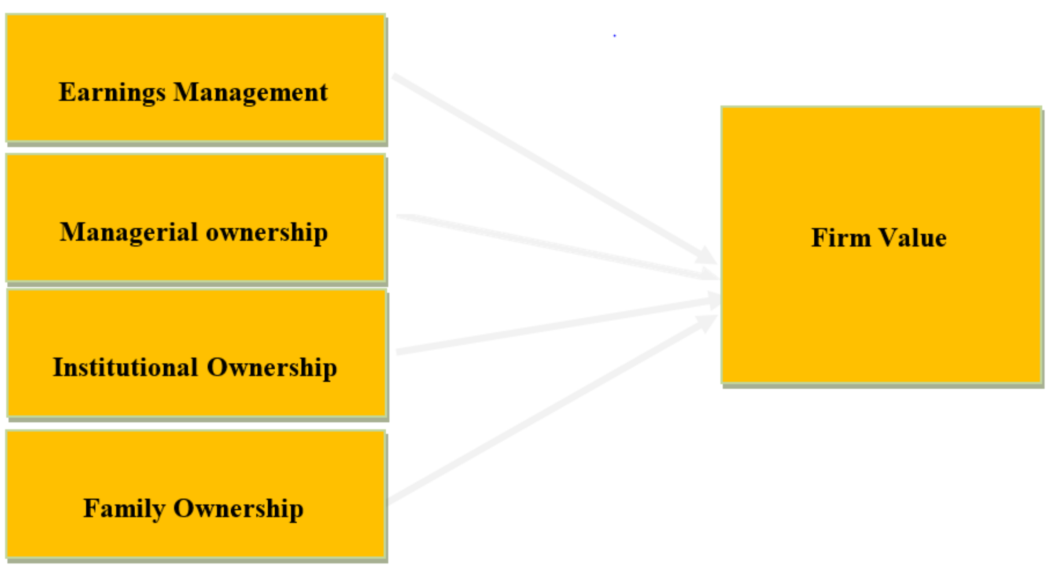

FIGURE 1

RESEARCH FRAMEWORK OF THE STUDY

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RESULTS ANALYSIS AND DISCUSSION

This review utilized to analyze data using the SPSS 22 for Windows multiple regression analysis paradigm. The study of the data consisted of descriptive statistical analysis, the classical assumption test and the hypothesis test. The classic assumption tests are all instances of normality, multi-linearity, heteroscedasticity and self-relation. The hypothesis tests provided include multiple regression analyzes and determination coefficients.

Descriptive Statistics of Variables

Table 2 shows the depending and independent variable, starting with a firm value, indicating that firm value has an average output of at least 7.01 and a maximum value of 7.72. Table 2 shows the dependent variable. Second, for independent variables, the table shows the relevant regression findings. The total earning management of Jordan was 0.3799, with a minimum of -0.70 and a maximum of 0.99. Instead, management possessions vary from 1.07 to 3.49, with an average of 2.1412 and a standard difference of 1.018, which normally means that they are moderate. The measure fluctuates from 0.05 to 0.70, with an average of 0.5194. Variable Family ownership, with a standard deviation of 0.92172, is average of 1.897, a minimum of 1.05 and the median of 3.04.

TABLE 2
DESCRIPTIVE STATISTICS

Variables	Number of Observations	Minimum	Maximum	Mean	Std. Deviation
Firm Value	35	7.01	7.72	7.3034	0.22289
Earning Management	34	-0.70	0.99	0.3799	0.50164
Managerial ownership	35	1.07	3.49	2.1412	1.01828
Institutional Ownership	35	0.05	1.70	.5194	0.54508
Family Ownership	35	1.05	3.04	1.8971	0.92172

Source: Author’s calculation

The Result of Multicollinearity Test

The multicollinearity function is used to examine if the independent variables in a regression model have a perfect or near perfect connection. Multicollinearity may be found by noting that when there is a value of the Variance Inflation Factor (VIF) lower than 10 and tolerance higher than 0.1, multi-colinearity is considered to be free. The Table 3 below illustrates the VIF values and the resistance against different factors of investigation.

TABLE 3
COLLINEARITY STATISTICS

Model	Tolerance	VIF
Earning Management	0.750	1.334
Managerial ownership	0.077	12.909

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Institutional Ownership	0.514	1.946
Family Ownership	0.187	5.361

Based on the data in the Table 3, it is possible to infer that this study contains multicollinearity issues. Managerial ownership has a variance inflation factor (VIF) of 12.909, Earning Management has a VIF of 1.334, Institutional Ownership has a VIF of 1.946, and Family Ownership has a VIF of 5.361. Because of the association between the independent variables that occurs as a result of the relationship between the independent variables, multicollinearity in the regression model should be overlooked (Herawati, 2008).

Pearson Correlation Testing

The Pearson correlation test examined the interconnections between variables and determined if there was a possibility of correlation issues. Table 4 displays Pearson's correlation coefficients for the variables in the sample. According to the Gillan analysis, the correlation coefficients are less than 0.08 (Gillan & Starks, 2003). It is not a cause for alarm until the association between the sample variables approaches 0.08. As a consequence, measuring regression coefficients is a breeze for Variable correlation.

TABLE 4
PEARSON CORRELATION MATRIX

Variables	Firm Value	Earning Management	Managerial ownership	Institutional Ownership	Family Ownership
Firm Value	1				
Earning Management	-0.251	1			
Managerial ownership	0.741**	-0.412*	1		
Institutional Ownership	-0.522**	0.363*	-0.659**	1	
Family Ownership	0.807**	-0.329	0.857**	-0.685**	1

Regression Analysis

Table 5 indicates that for the research sample, the independent combined variable relationship with (earning management and ownership structure) in firms listed on the Amman stock exchange is statistically important, with a decision coefficient test R2 of about.813 and a modified R2 of about 0.615, showing that these independent variables are statistically significant when combined. It explains about 0.81 percent of the difference in firm value in Jordan.

TABLE 5
MODEL SUMMARY

Std. Error of the Estimate	Adjusted R Square	R Square	R	Model
0.13934	0.615	0.661	0.812a	1

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Simultaneous Significant Test (F-Test)

The F test in hypothesis testing is used to determine if the total independent variables have a meaningful impact on the dependent variable. The following findings were derived concurrently from the test results (Table 6):

TABLE 6
CC

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	1.099	4	0.275	14.155	0.000b
Residual	0.563	29	0.019		
Total	1.662	33			

Regression Results

Table 7 gives the results of the model describing the expected change in Jordanian business valuation over the years 2015 to 2019 for firms where (earning management, ownership structure) was considered.

TABLE 7
REGRESSION RESULTS

Variables	Coefficients	*t* value	Sig. P value
Earning Management	-0.038	-0.303	0.764
Managerial ownership	-0.384	-0.988	0.331
Institutional Ownership	0.068	0.453	0.654
Family Ownership	1.205	3.078	0.005

Table 7, the management of earnings is significant. 764 level over the meaningful 0.05 standard. The resultant retrogradation coefficient for earnings management is -.038, suggesting a gloomy company evaluation trend. The value of the enterprise decreases by -.038 and vice versa if earnings management improvements grow by one point. This illustrates the slight negative effect of income accounting on corporate valuations.

The management of earnings refers to the effort by the management to change financial records to mislead clients who seek to see the success of the firm or to manipulate the contract outcomes that rely on accounting figures. Nevertheless, the management of earnings may diminish business evaluation, especially in the long term, by increasing or decreasing the benefits of arbitrary accounting procedures by the management. According to the notion of the agency, a relationship between the agency and the management might lead to conflicts of interest. Deal with the idea that interest disputes will be reduced. This finding is similar with the Nobakht and Acar (2021), which showed that Earnings' management and company value are minimal and insignificant.

There is a significant degree of management ownership variable. 331 is over the applicable average standard of 0.05. The coefficient for management is -0.384 and indicates a

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negative connection between management ownership and firm value. This indicates the significant negative influence of the Board of Directors on the value of the firm. This suggests that if there are a 1% increase in the number of directors on the board, the value of company success is down by -0.384. Management ownership is a method to reduce management organizational problems by bringing managers and shareholders into line with their objectives. Therefore, when the management is expected to have significant company shares, the manager will be more likely as a consequence of reciprocity, the management will agree to raise the business's performance by increasing the share price and the business's value. This is similar with the findings of Asshiddiq (2016) which found that management ownership and business value were negatively and negligibly connected.

The degree of institutional ownership is substantially 0.654 above the important standard of 0.05. The council of commissioners' coefficient regression is 0.068, which shows a positive trend for the assessment of their company. This illustrates the significant favorable influence of institutional ownership on corporate performance. The majority owners of the institution which manages companies prefer to act for themselves, even if this involves sacrificing minority shareholders, therefore cutting down the value of the company on a long-term basis. Kamil and Hapsari's (2014) results indicated that state institutional property has a positive and major influence on corporate value contradicts that conclusion.

Family ownership is much higher 0.005 than the 0.05 threshold. The coefficient for family ownership has been reduced to 1205, which shows a good association between family ownership and firm value. This explains the enormous favorable influence of family ownership on company performance. The majority of families engaged in managing companies choose to comply in their own interests, but this means sacrificing owners of minorities, which may in the long term boost the value of the company. This results contradicts the conclusion of Malelak et al. (2020), which states that family ownership affects business value positively and substantially.

CONCLUSIONS

This survey seeks to assess the effects on the value of companies in Jordanian enterprises listed on the Amman stock exchange from 2015 to 2019 of earnings management and ownership structure. Based on test results of three regression models, the following conclusions were reached:

The results of regression are based on Table 7, the management of profits has minimal influence on the valuation of companies as shown by a negative regression of the coefficient, which shows that management reduces the value of the firm. Management ownership has no substantial influence on corporate value, with an adverse coefficient suggesting corporate governance, and in particular management ownership, has a negative influence on corporate value.

According to the T-Test, the effect on firm value is not substantial for institutional ownership with a positive coefficient suggesting corporate governance has a favorable influence on corporate value, particularly institutional holdings. The influence of family ownership on corporate value with a positive coefficient shows that corporate governance, in particular family ownership, has a beneficial influence on corporate value. In Jordan, no analytical analysis has been undertaken so far to examine the approaches to income management and ownership structure that affect changes to firm assessment in a single study, in which this thesis would add

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and fill a void in current literature, particularly with regard to Jordan-listed businesses. Because of the paucity of previous investigations in this area, this research was suggested. On one component of real earning management or accrual earning management approaches employed by publicly listed companies in the Amman stock market most prior projects focuses on the drivers of earnings control. As a consequence, all possible techniques of earnings management, ownership structure and its impact on corporate value transition are considered together in this study.

RECOMMENDATION

This methodology was performed to assess corporate governance systems exclusively for managerial ownership, structural ownership and family agreements. Further study is intended to include corporate governance estimates, such as public ownership. In this research, the gain control mechanism is measured simply using the discretionary accrual. Further research will include contingent profit control calculation techniques, such as the provision of loss loans or the allowance for loss loans. The research took just five years and was thus very short. As a consequence, the impact of corporate governance practices could not be seen. Researchers have suggested the adoption of a lengthier study cycle so that the effects of corporate governance may be felt. The sample firms in this research were rather small. It is envisaged that additional testing would take the form of a larger sample size, for example, of all companies listed on the Stock Exchange.

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