

# **The Influence of Characteristics and Effectiveness of Board of Directors on Earnings Management in Industrial Shareholding Jordanian Companies**

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## **Abstract**

This study examines the effect of board characteristics on earnings management. It also explored the moderating effect of the audit committee on the relationship between board effectiveness and earnings management, which has not been fully investigated so far by other studies on Jordanian firms. In order to achieve the research objectives, the study followed both of descriptive and analytical approach through analyzing the annual reports of a sample of Jordanian listed firms. This study focused on some of board characteristics such as board meetings, independence and CEO duality and its relationship with the earnings managing practices. Modified Jones Model (1995) was used in the current study to measure earnings management. This study covered the industrial firms listed on the Amman Stock Exchange over the period 2015 to 2016; this sector was chosen because it represents 25% of the number of Jordanian listed firms.

Using Multiple Regression analysis to test the research hypotheses, this study documented a significant and negative association between board meeting and earnings management. The study also found that the presence of independent directors on the boards contributes positively in reducing the practice of earnings management and restricts the opportunistic behavior of managers and thus, limits the agency conflicts among managers and shareholders. The CEO duality leads to increase the earnings management in Jordanian firms as pointed out in this study. Through using Hierarchical Regression, the study concluded that the audit committee as moderating variable contributes positively to enhance the effectiveness of the board and supports its monitoring function. The study concluded that the effectiveness of the board of directors should be maintained to serve as a monitoring mechanism to limit the opportunistic behaviors of managers and to mitigate agency conflict.

**Keywords:** Earnings management, Independence, CEO duality, board of director, audit committee and Amman Stock Exchange ASE.