Abstract

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An Empirical Investigation of Earnings Management in the MENA Region

This thesis investigates the firm-specific and country-level determinants of accruals-based earnings management and real activities-based earnings management of firms in the MENA region. In addition, this thesis examines whether earnings management techniques are used as substitutes complements, and whether earnings management is efficient opportunistic. A pooled cross-sectional regression is used to test a sample of 802 non-financial firms listed on the stock exchanges of Bahrain, Egypt, Jordan, Kuwait, Morocco, Oman, Qatar, Saudi Arabia, Tunisia, and the United Arab Emirates over the period 1996-2014. Regarding the determinants of accruals-based earnings management, the results show that GDP growth, the country-level index variables, leverage, profitability, the operating cycle, Altman’s Z-Score, and earnings management flexibility are positively associated with discretionary accruals while firm size, growth opportunities, the dividend payout ratio, and asset tangibility are negatively associated with discretionary accruals. Further, industry membership is found to impact upon discretionary accruals. Regarding real earnings management, the results provide evidence that financial development is associated with lower levels of real earnings management, and provide strong evidence that GDP growth, IFRS adoption, firm size, and earnings management flexibility positively impact upon the overall degree of real earnings management. Further, there is weak evidence that free cash flows are positively associated with the degree of real earnings management. The results also provide strong evidence that the country-level index variables, leverage, profitability, asset tangibility, the operating cycle, and Altman’s Z-Score negatively impact upon the overall degree of real earnings management. There is weak evidence that higher dividend payout ratios are associated with lower levels of real earnings management, and weak evidence that higher growth opportunities are negatively associated with the degree of real earnings management. Further, industry membership is found to significantly impact upon the overall degree of real earnings management behaviour of firms in the MENA region. The results also provide strong evidence that firms use accruals-based and real activities-based earnings management techniques as complements rather than as substitutes. Regarding the efficient versus opportunistic earnings management model, the results provide evidence that earnings management in the MENA region tends toward being opportunistic rather than efficient.