

**MEDIATING ROLE OF APPLYING GOVERNANCE ON THE RELATIONSHIP  
BETWEEN EARNINGS MANAGEMENT IN JORDANIAN BANKS AND FINANCIAL  
STABILITY**

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**Abstract**

The purpose of this study is to investigate how the application of governance principles influences the relationship between economic financial stability and earnings management in Jordanian banks. One of the methods for finishing administrative reform procedures is governance, which is the source or reference that a business or unit is governed by. The Hashemite Kingdom of Jordan has twenty banks. The economy will benefit from these institutions' administrative and financial supervision. Accordingly, it is crucial to comprehend the impact that the governance frameworks used in banks have on Jordan's financial stability, as one of the Central Bank of Jordan's responsibilities is to oversee banks that operate there. This will be demonstrated by the Central Bank's role in overseeing the governance frameworks used in Jordanian banks and encouraging investors to pay attention to these frameworks' implementation because of its influence on the transparency of financial reports, which aids in their decision-making. The study's issue arises from the Central Bank of Jordan's responsibility to preserve Jordan's financial stability. Since banks play a major role in defining Jordan's financial stability, researchers' job is to look at how the implementation of governance frameworks in Jordanian banks operating there affects Jordan's financial stability. Additionally, the agency theory, which explains that each party aims to maximize its own benefit, expresses the problem of the relationship between management in operating Jordanian banks and investors holding shares in operating Jordanian banks in terms of achieving the interests of both parties. The study intends to investigate how well banks can use governance principles to reduce the risks associated with earnings management and how this affects the Kingdom's financial stability. This will evaluate how well Jordanian banks implement governance principles and their capacity to improve financial stability for the country's economy. The findings of the study show that the governance principles used in Jordanian banks need to be reformulated. Key words: financial stability, earnings management, governance, and Jordanian banks.

**Keywords:** Governance, Earnings Management, Financial Stability, Jordanian Banks, Agency Theory.

## 1. INTRODUCTION

Public joint-stock firms, such as banks, need to emphasize the modern notion of governance. One of the methods for finishing administrative reform procedures is governance, which is the term used to describe the foundation or source of a company's or entity's governance. The global economic crises that have devastated the economies of nations and functioning corporations have raised interest in the idea of governance. This has raised interest in putting into practice a set of guidelines that could help reduce administrative corruption and enhance the caliber of financial reporting (Abdul Qader Hirsh and Abdul Qader Dawis, 2023; Naji Khashaba and Amira Saleh, 2020). Financial decisions are made with honesty and openness thanks to the structures and regulations established by governance. Additionally, it draws investment, safeguards investor rights, and boosts investor trust in financial statements. The performance of businesses and the stability of their financial situation will demonstrate this (Abdul Qader Hirsh and Abdul Qader Dawis, 2023). Regulating the administrative and economic activities of banks through legislative frameworks will affect their performance and financial position because banks are essential to the strengthening of economies because of their large investment volume, crucial role in managing corporate operations, and influence on addressing specific economic issues like inflation, recession, and other economic concepts at the national level. This effect will therefore be felt throughout the economy. The Hashemite Kingdom of Jordan has twenty banks, and the economy will benefit from their financial and administrative regulation. Therefore, it is crucial to comprehend the role that bank governance frameworks play in Jordanian financial stability, as one of the Central Bank of Jordan's responsibilities is to oversee Jordanian banks in order to ensure financial stability in the country. Given its effect on the transparency of financial reports, which aids investors in making informed decisions, this will be reflected in the Central Bank's role in overseeing the governance frameworks used in Jordanian banks and encouraging them to pay attention to their implementation.

## 2. RESEARCH PROBLEM

The requirement for the Central Bank of Jordan to preserve Jordan's financial stability is the root of the research challenge. Since banks play a major role in defining Jordan's financial stability, researchers are entrusted with investigating how putting governance frameworks into place in Jordanian bank operations affects the country's financial stability. Furthermore, as stated by the agency theory, which explains that each party aims to maximize its own benefit, the issue of the relationship between management in running Jordanian banks and investors who own shares in operating Jordanian banks arises in terms of achieving the interests of both parties. On the one hand, in order to make decisions that are optimal for the banks, investors want data that accurately depicts the actual state of bank transactions throughout the financial period. The agency argument, on the other hand, states that management aims to maximize its gain, even if doing so compromises the financial statements' fairness and openness. Therefore, the study aims to show how putting

governance frameworks into place might help reduce conflicts of interest between Jordanian bank management and investors.

### **3. RESEARCH OBJECTIVES**

Examining how well banks may use governance principles to reduce earnings management risks and the effect this has on the Kingdom's financial stability is the goal of the study. This will evaluate how well Jordanian banks implement governance principles and their capacity to improve financial stability for the country's economy. The findings of the study show that the governance principles used in Jordanian banks need to be reformulated.

### **4. LITERATURE REVIEW, CONCEPTUAL FRAMEWORK, AND RESEARCH HYPOTHESES**

The effect of applying governance concepts on Jordanian banks has been the subject of numerous research. According to recent research, Jordanian banks' application of governance principles has a beneficial effect on financial performance metrics, particularly return on equity and return on assets, which in turn affects overall financial stability (Suwaiki and Al-Awadi, 2023). To explain the phenomena of financial performance and governance structures, the researchers employed a descriptive methodology. Additionally, they examined the effect of implementing governance structures on Jordanian banks' financial performance using a standard methodology. As the notion of green finance has gained more attention, the World Bank has taken action to address it in its 2023–2028 plan, which was carried out by the Central Bank of Jordan. Since climate risks have an impact on both bank performance and financial stability, they were included in this strategy as one of the risks that Jordanian banks must address by implementing mechanisms within their governance principles (Central Bank of Jordan, 2023). This illustrates how crucial governance processes are to the legislative frameworks of the Kingdom's banks, since they impact bank performance and, in turn, financial stability.

There is a plethora of prior research on the topic of this study that has examined the effect of implementing corporate governance principles on profits management in businesses, whether or not they are banks. The effect of earnings management on financial stability, however, has been the subject of much research. The majority of research has shown that applying governance principles to earnings management has a beneficial effect. On the other hand, the majority of the literature has consistently concluded that there is a negative correlation between economic financial stability and profits management. For instance, a statistically significant correlation between corporate governance practices and earnings management in businesses was shown by García-Meca and Sánchez-Ballesta (2009). Chi-keung and Brossa (2013) made a contribution in the same context by offering a thorough explanation of the most crucial governance strategies for earnings management, including board independence, female board directorship, and the board's and audit committee's financial know-how. He clarified the connection between the decrease of profits management and each governance axis. In a similar vein, Iqbal and Strong (2010) investigated the connection between British corporate governance and earnings management. Companies with a high debt-to-equity ratio and a low percentage of executives are more likely to participate in earnings management, according to a study that looked at the effects of board

structure, ownership structure, advisory structure, and capital structure on earnings management as assessed by non-cash accruals. According to a 2013 study of Latin American nations by González & García-Meca (2013), which was carried out between 2006 and 2009, the majority of firms in Latin American nations are family-owned, in contrast to the US and Canada. The study's findings demonstrated that ownership structure and earnings management do not correlate linearly, and that ownership structure concentration influences these organizations' earnings management strategies. The study found that in order to curb profits management methods, corporate rules and governance standards needed to be strengthened. Another study looked at whether the extent of earnings management is influenced by corporate governance in US corporations. Scholars define governance as an executive-level process that influences company choices and offers confidence and balance within an organization. According to the study's findings, companies with a larger executive base and influence have less earnings management. In more complicated companies, this association is stronger (Cheng, Lee, and Terry Shevlin, 2016).

Based on the aforementioned analysis of the connection between governance and earnings management, we conclude that there is a dearth of contemporary research on this subject, particularly in the years after the COVID-19 pandemic. Additionally, as far as the researcher is aware, no research has been done in Jordan on this subject. Additionally, researchers cannot agree on the governance processes and concepts that have been measured in earlier literature. In light of this, the researchers provide the following hypothesis for testing in order to advance this field both theoretically and practically:

**Null Hypothesis 1: There is no statistically significant correlation between earnings management procedures and the governance principles used by Jordanian banks doing business in the Kingdom.**

Many scholars have looked at how governance implementation affects economic and financial stability in the same context as examining governance frameworks. From a conceptual standpoint, firms can lower risks by improving internal control and decision-making through the logical application of governance concepts. Reducing corporate or at least financial sector risks in a nation will unavoidably boost economic confidence, stabilize interest rates and currencies, and draw in investments, all of which contribute to the nation's financial and economic stability. As far as the researcher is aware, there has not been prior research done on this relationship in Arab nations. However, as we will see later, this relationship has been thoroughly studied in international studies. The connection between financial and economic stability and governance has been the subject of numerous studies. The application of corporate governance and attaining financial and economic stability are positively correlated, according to all researchers. In order to determine how Sharia governance requirements might be a helpful tool to enhance financial stability in the Islamic investment industry, for instance, (Hirsh and Douwes, 2024) looked at the Kuwaiti experience. The study, which focused on studying the particular features of Sharia governance in the context of Islamic investments, was based on a thorough review of the literature on Sharia governance concepts and their impact on financial stability. According to the study's findings, Sharia governance is critical for strengthening financial stability in the Islamic investment sector by

achieving a number of objectives, most notably encouraging investment in initiatives that promote economic growth. Another study by Shawqi, Hossam, Youssef, Al-Zubair, and Boulmerj (2021) found that because corporate governance is one of the cornerstones of economic stability and development, interest in it has grown with the goal of improving the performance and efficiency of banking operations and combating corruption. The report stressed the need for disclosure and transparency in these systems and legislation. The researchers looked at how the application of governance principles affects Gulf banks' financial performance between 2010 and 2018. The study's most important finding was the presence of a statistically significant relationship between the financial performance of the Gulf banks under consideration and governance features.

(Qaim and Ellahi, 2024) investigated how corporate governance and regulations influence financial sustainability in a rising market such as Pakistan, using earnings management as a mediator. The manufacturing industry of Pakistan was chosen as the research population. According to the findings, corporate governance has a stronger influence on financial sustainability than the second independent variable, policy. Furthermore, there is a definite link between earnings management and a company's financial health. Earnings management, acting as a mediator, has a negative impact on the link between corporate governance and financial sustainability. Siekelova (2021) conducts an important study in this area and is directly related to the subject of study. This study sought to investigate earnings management using a model with the greatest explanatory power and to confirm ideas about the presence of a statistically significant association between economic financial stability and earnings management methods for a sample of enterprises. Based on the findings of the explanatory power study, a modified Jones model was developed to predict earnings management in a sample of V4 enterprises, which have total assets greater than €2,000,000 and operating revenues greater than €100,000. In addition, Pearson's correlation coefficient was used to evaluate hypotheses about the statistically significant association between earnings management approaches and financial stability. The article provides an outline of earnings management in the V4 countries. It also discussed the effect of financial stability on the extent and direction of earnings management methods. In the same perspective, a study (Almasri, B'; Sunoco, D, and Al-Sid, M, 2024) found that Jordanian banks' earnings management strategies influence the relationship between bank advantage and economic financial stability. The study looked at variables from 2008 to 2018, i.e., after the global economic crisis of 2008, and how they affected the study variables. The researchers identified a statistically significant negative link between bank leverage and financial stability. This link is influenced by Jordanian banks' earnings management methods. Previous research has found that implementing governance concepts and methods increases economic and financial performance. Except for Siekelova (2021), no previous research has demonstrated a link between earnings management and financial stability. The findings revealed that financial stability influences the degree and duration of earnings management measures, but the study did not find a strong link between the two. To the researcher's knowledge, there have been few studies that have looked into the relationship between earnings management and financial stability, particularly in the Arab world, primarily Jordan. None of these studies found this link. Jordanian banks are subject to the Central Bank of Jordan's monitoring and

supervision, thus they must comply with regulatory and supervisory standards for reporting and publishing financial statements. Based on this, the agency theory explains the interaction between Jordanian banks in the Kingdom and their supervisory bodies, particularly the Central Bank of Jordan. Banks try to maximize benefits for its shareholders and senior management. Conversely, these parties' interests may collide with the Central Bank of Jordan's presentation and disclosure standards for financial statements. As a result, agency theory emerges to represent this link, which requires empirical explanation. Furthermore, because the relationship between earnings management practices and economic financial stability is not yet well understood, academics feel that one of the most significant tools for defining and explaining this relationship is governance. Previous research has found that they reduce earnings management techniques; however, other research has shown that they help to improve economic financial stability. As a result, this study investigates the moderating and controlling effects of the relationship between earnings management and economic financial stability in Jordan. Thus, the researchers propose the following hypothesis:

**Null Hypothesis 2: Governance in Jordanian banks plays no moderating influence in the relationship between earnings management and Jordan's economic and financial stability.**

## **5. METHODOLOGY**

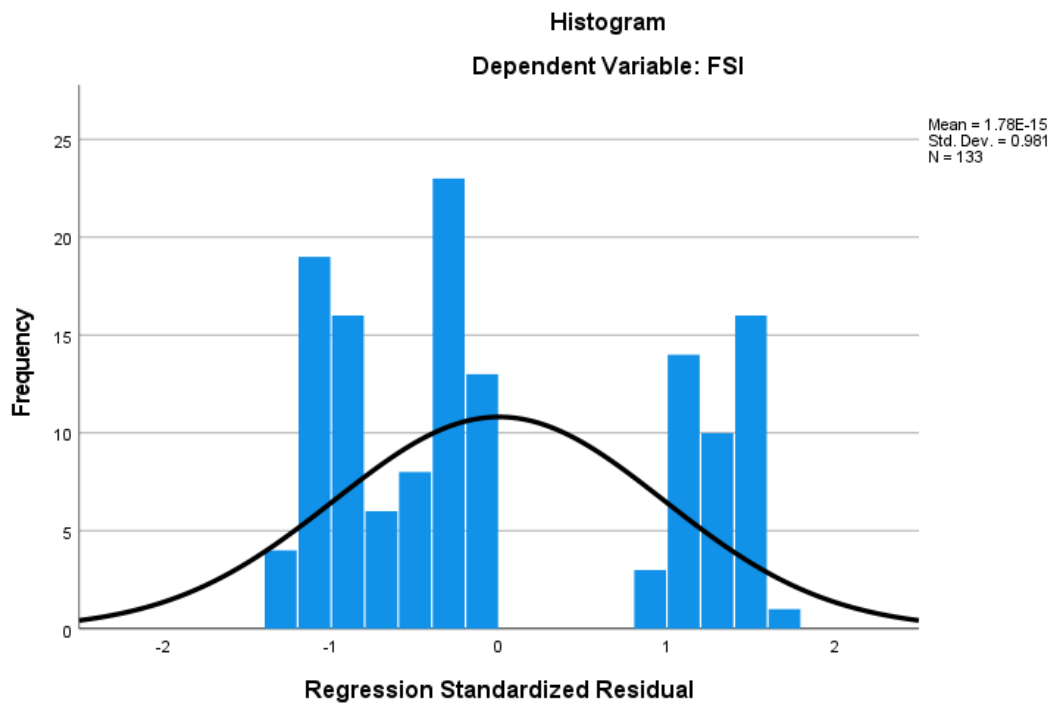
The study used an experimental design to examine the study hypotheses. The research population covers Jordanian banks that were functioning and licensed between 2018 and 2023. The Pearson correlation coefficient test was performed to examine numerous correlations between variables, and the study sample was subjected to statistical metrics such as mean, standard deviation, and normal distribution. To evaluate the hypotheses, multiple linear regression was employed. This period was chosen because it corresponded with the COVID-19 epidemic and its economic consequences, which gives a plausible explanation for the connections between variables during crisis periods as opposed to other times. The modified Jones model was employed as an appropriate measure of earnings management (Siekelova, 2021), and the Financial Stability Index (FSI) for the banking sector was used to reflect financial stability. The index value is produced using a set of indicators collated and calculated by the Central Bank of Jordan and published in the Central Bank's Financial Stability Report (2023). Previous studies were also used to measure governance, and they included a set of variables, including: board of directors being managed by women, the presence of an audit committee, the structure of the board of directors in terms of diversity and the presence of individuals and institutional representatives, the breadth of work and influence of executive directors, the presence of an effective governance framework, and equal treatment of all shareholders. Furthermore, the concept and principles of corporate governance in Jordan are present in many laws, including the Securities Law No. (67) and the Jordanian Companies Law (Amended) No. (30) of 2018, and before it, the Temporary Law No. (74) of 2002, which stipulates that a public shareholding company shall be committed to implementing the instructions of the governance rules issued by the Minister on the recommendation of the Controller, and that the financial, accounting. Its interaction with executive management and committees must be created

in accordance with the governance norms outlined in the Companies Law (Cheng, Lee, and Terry Shevlin, 2016; Iqbal and Strong, 2010; Chi-keung and Brossa, 2013; Al-Tarawneh, 2022). The questionnaire will be used to collect data on the extent to which governance principles are applied in banks operating and regulated in Jordan during the study period.

## 6. STUDY RESULTS

### Descriptive Statistical Analysis

The Financial Stability Index (FSI) assesses the financial stability of a nation's financial system. The mean index was 50.96, while the standard deviation was 4.49. This suggests that the average FSI score in Jordan is around 51, with a moderate range of values. Earnings Management (EM) had an average of 278.21 and a standard deviation of 449.79. The substantial standard deviation of EM values suggests significant variance in earnings management techniques among Jordanian banks. The mean firm size was 7.12, with a standard deviation of 1.01. This shows that the sizes of the companies in the sample are reasonably close to the mean. The return on assets (RO) averaged 44.12 with a standard deviation of 22.48, indicating a reasonable dispersion in ROA. The average ratio of equity to total assets was 64.11, with a standard deviation of 36.78. This also shows a wide range in the equity-to-total-assets ratio of Jordanian banks, indicating that banks' dependence on equity to fund assets varies. Financial leverage averaged 62.81 percent, with a standard deviation of 37.12. This also suggests a shift in bank management's attitude to financing, including bonds and other debt and equity instruments.



**Figure 1: Histogram.**

### Correlation Analysis

The correlation analysis revealed a significant negative association between emerging enterprises and size ( $r = -.766$ ,  $p < .001$ ). This implies that larger organizations have lower degrees of earnings

management (or vice versa). Larger banks inherently have lower levels of earnings management due to their central role in the financial sector and the attention of regulatory authorities, as well as stricter controls and governance, making it more difficult for them to manipulate and cheat. Furthermore, the significant correlation between the two variables could suggest the presence of multicollinearity. In terms of the other variables, all correlations between the independent variables (EM, SIZE, RO, A, and LEV) and the dependent variable (FSI) are very weak (near zero) and statistically inconsequential ( $p > .05$ ). This shows that none of these variables have a strong linear relationship with financial stability. It is also worth noting that the data show statistically significant connections between earnings management and the equity-to-asset ratio ( $r = .252$ ,  $p = .002$ ), as well as between the equity-to-asset ratio and financial leverage ( $r = .198$ ,  $p = .011$ ).

**Table 1: Correlation.**

		Correlations					
		FSI	EM	SIZE	RO	A	LEV
Pearson Correlation	FSI	1.000	-.014	.026	.077	-.008	-.068
	EM	-.014	1.000	-.766	.003	.252	-.088
	SIZE	.026	-.766	1.000	.105	-.299	.057
	RO	.077	.003	.105	1.000	.165	-.166
	A	-.008	.252	-.299	.165	1.000	.198
	LEV	-.068	-.088	.057	-.166	.198	1.000
Sig. (1-tailed)	FSI	.	.439	.385	.189	.463	.219
	EM	.439	.	.000	.488	.002	.158
	SIZE	.385	.000	.	.115	.000	.258
	RO	.189	.488	.115	.	.029	.028
	A	.463	.002	.000	.029	.	.011
	LEV	.219	.158	.258	.028	.011	.
N	FSI	133	133	133	133	133	133
	EM	133	133	133	133	133	133
	SIZE	133	133	133	133	133	133
	RO	133	133	133	133	133	133
	A	133	133	133	133	133	133
	LEV	133	133	133	133	133	133

**Regression Analysis for the First Model**

The model is quite weak, with an R-squared value of only 1%, indicating that the independent variables explain only 1% of the variance in FSI. Furthermore, the adjusted R-squared value is negative (-.029), indicating a very bad model. Despite the high F-value, the analysis of variance test indicates that the model is not statistically significant ( $F = .245$ ,  $p = .942$ ). This is illustrated by the fact that developing a model based on all of these variables, which can be managed using profits management as an independent variable, cannot explain changes in Jordan's financial stability index. The variables in the model (EM, SIZE, RO, A, LEV) do not have a statistically

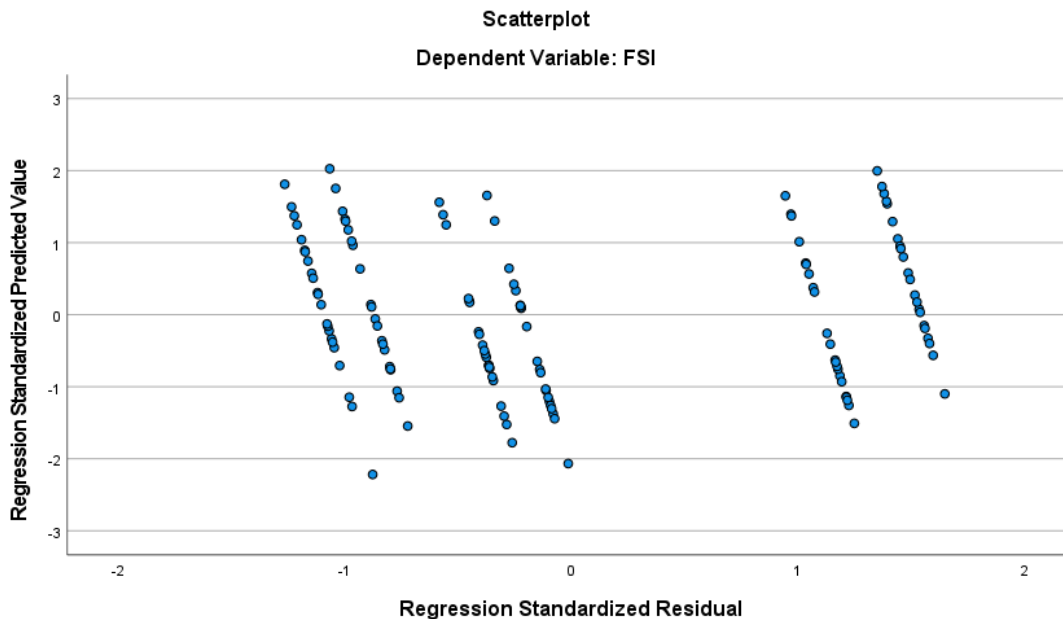
significant effect on FSI (all p-values greater than.05). The results show significant multicollinearity, particularly between EM and SIZE, as shown by high VIF values (2.472 and 2.614, respectively) and condition index (36.937). This implies that the impacts of EM and SIZE are difficult to distinguish. As a result, the second model ignores the size variable. The Durbin-Watson score of 0.131 suggests that the residuals have high positive autocorrelation. This violates a basic assumption of linear regression, rendering the results untrustworthy.

**Table 2: Model Summary**

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.098 <sup>a</sup>	.010	-.029	4.55876	.131

**Table 3: Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.466	5	5.093	.245	.942 <sup>b</sup>
	Residual	2639.346	127	20.782		
	Total	2664.812	132			



**Figure 2: Scatterpolt**

**Regression Analysis for the Second Model**

The R-Squared value (0.012) shows that the model accounts for only 1.2% of the variance in the financial stability index. This is quite low, implying that the included variables play a minor role in the change in financial stability. This suggests that the model, with all of its variables, fails to explain the dependent variable's variations. However, it should be noted that the R-Squared ratio increased only marginally after including the governance variable in the model, which the

researcher believes has a role in the relationship between earnings management and financial stability in Jordan.

**Table 5: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.112 <sup>a</sup>	.012	-.035	4.57005	.012	.265	6	126	.952	.134

**Table 6: Anova**

ANOVA <sup>a</sup>						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.253	6	5.542	.265	.952 <sup>b</sup>
	Residual	2631.559	126	20.885		
	Total	2664.812	132			

**Table 7: Residual Statistics**

Residuals Statistics <sup>a</sup>						
	Statistic	Bias	Std. Error	Bootstrap <sup>b</sup>		
				95% Confidence Interval Lower	Upper	
Predicted Value	Minimum	49.9454				
	Maximum	52.4008				
	Mean	50.9624	.0060	.3890	50.1658	51.7137
	Std. Deviation	.50191	.52074	.28810	.47745	1.57861
	N	133	0	0	133	133
Residual	Minimum	-6.10332				
	Maximum	7.71422				
	Mean	.00000	.00000	.00000	.00000	.00000
	Std. Deviation	4.46498	-.12386	.16642	3.98447	4.63253
	N	133	0	0	133	133
Std. Predicted Value	Minimum	-2.026				
	Maximum	2.866				
	Mean	.000	.000	.000	.000	.000
	Std. Deviation	1.000	.000	.000	1.000	1.000
	N	133	0	0	133	133
Std. Residual	Minimum	-1.336				
	Maximum	1.688				
	Mean	.000	.000	.000	.000	.000
	Std. Deviation	.977	.000	.000	.977	.977
	N	133	0	0	133	133

**Additional Analysis: Model 1**

The R-Square result indicates that the model also explains a little 0.9% of the variance in FSI. This is exceedingly low, indicating that the variables considered are very poor predictors. The modified R-Square verifies the model's inadequacy; it is inferior than no model. For the F variable ( $p = .874$ ), the high p-value confirms that the model is not statistically significant. The ANOVA table confirms the prior model summary results, indicating a lack of statistical significance. After excluding the effects of size and governance from the model, the earnings management coefficient was 0.000, indicating that a one-unit increase in earnings management resulted in an insignificant improvement in the financial stability index. However, the result is not statistically significant ( $p$ -value = 0.847). This implies that there is no link between profits management and financial stability in Jordan. This finding contrasts prior studies from other countries. While statistically negligible, the idea of earnings management is virtually nonexistent among Jordanian banks operating in the Kingdom. While a one-unit increase in RO corresponds to a 0.014-unit rise in the FSI, this is not statistically significant ( $p$ -value = 0.457). A one-unit increase in A results in a minimal change in the FSI, which is not statistically significant ( $p$ -value = 0.97). In terms of financial leverage, a one-unit rise in LEV results in a 0.007-unit fall in FSI, which is not statistically significant ( $p$ -value = 0.537).

**Table 8: Anova**  
ANOVA<sup>a</sup>

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.466	5	5.093	.245	.942 <sup>b</sup>
	Residual	2639.346	127	20.782		
	Total	2664.812	132			

**Additional Analysis: Model 2**

The model explains 1.2% of the variance in financial stability, but it remains very low even after accounting for the governance factor, indicating that the variables included are still not good predictors. The negative corrected R-squared (-.026) suggests that the model is extremely weak. The total model's p-value, as demonstrated by the low F-variance of 0.319, is extremely high, indicating that the model is not statistically significant. The findings for the governance factor demonstrate that a one-unit rise in governance implementation is associated with a 0.033-unit decrease in financial stability, when other factors remain constant. This contradicts the study's hypotheses, as well as earlier investigations. However, this association is not statistically significant ( $p$ -value = 0.537), thus we cannot definitely conclude that governance has a real impact on financial stability. Holding other variables constant, a one-unit rise in return on assets corresponds to a 0.016-unit improvement in financial stability, but this is not statistically significant ( $p$ -value = 0.391). The equity-to-total-assets ratio revealed that a one-unit rise in leverage was associated with a 0.001-unit increase in financial stability, while other variables remained unchanged. However, it was not statistically significant ( $p = 0.925$ ). In terms of financial leverage, the findings revealed that a one-unit rise in leverage was associated with a 0.007-unit loss in financial stability, holding other variables constant. This is consistent with

the study's hypotheses. It was likewise not statistically significant ( $p = 0.545$ ). More crucially, earnings management was related with a one-unit increase in financial stability, while other variables remained unchanged. However, it was not statistically significant ( $p = 0.891$ ). As a result, even after deleting the size variable, the model remained an unsuitable fit, with no statistically significant coefficients. Based on this model, we cannot definitely conclude that any of these variables have a real impact on financial stability.

**Table 9: Anova**

ANOVA<sup>a</sup>

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	33.253	6	5.542	.265	.952 <sup>b</sup>
	Residual	2631.559	126	20.885		
	Total	2664.812	132			

**Summary of Results and Hypothesis Test**

The R-squared coefficient is extremely low, which remains the fundamental concern, as the model explains nearly none of the variance in the FSI. The coefficients are not statistically significant. In line with the low R-squared coefficient, no variable exhibits a statistically meaningful link with the FSI. Furthermore, even by excluding governance, the model remains a poor fit, with no statistically significant coefficients. Based on this model, we cannot definitely conclude that any of the remaining variables have a significant impact on financial stability. Even with some tweaks, the model fails to adequately explain the financial performance index. Overall, the model is a poor match, with no variables explaining Jordanian banks' financial stability. The R-squared coefficient is extremely low, and the model explains none of the variance in the Financial Stability Index (FSI). The coefficients are statistically negligible, and no variable has a statistically meaningful link to the FSI. Even when omitting governance, the model remains a poor match, with no statistically significant coefficients. The low Durbin-Watson value shows autocorrelation, which goes against a basic assumption of linear regression. The current regression model is unsuitable for deriving significant conclusions. Multicollinearity, autocorrelation, and poor model fit should all be corrected before advancing. The model requires refinement, which may include identifying more important predictors and addressing any measurement concerns with earnings management. Other non-firm elements, such as macroeconomic conditions and industry characteristics, may have a bigger impact on the earnings management index. The sample size may not be sufficient to identify the impact of independent variables on the dependent variable. The model specification may be nonlinear. The regression model provides a poor match to the data. The findings indicate that the selected variables are either irrelevant to interpreting the financial stability index or that other critical components are missing from the model. The huge variance in emerging markets should be investigated. Further research is required to determine the underlying drivers of financial stability in this scenario. Before moving on to any further study, the issue of autocorrelation must be addressed.

**Recommendations and Further Studies**

The substantial negative connection between EM and size is a significant concern, thus one of the variables can be deleted, a composite variable formed, or the variables centered. The extremely low R-squared and unimpressive F-test results show that the current model is not a strong predictor of financial stability, and the independent variable selection should be revised or other types of models investigated. The low Durbin-Watson statistic also suggests autocorrelation, which goes against a crucial assumption of linear regression. As a result, the source of this autocorrelation can be further examined. The current regression model is unsuitable for deriving significant conclusions. Multicollinearity, autocorrelation, and poor model fit should all be corrected before advancing. In short, the model requires refinement, which may include identifying more important predictors and resolving potential measurement difficulties with EM. After removing size and governance, the model did not improve. Other non-firm factors, such as macroeconomic conditions and industry characteristics, may have a bigger impact on the EM. The sample size may not be sufficient to identify the impact of independent variables on the dependent variable. Alternatively, the model specifications may be nonlinear. In short, the regression model is not a good fit to the data. It accounts for none of the variance in the Financial Stability Index, and none of the predictor variables are statistically significant. There may also be concerns with autocorrelation and multicollinearity between emerging markets and sizes. The findings indicate that the selected variables are either irrelevant to understanding the Financial Stability Index, or that other essential components are missing from the model. The huge variance in emerging markets should be investigated. Further research is required to determine the underlying drivers of financial stability in this scenario. Before moving on to any further study, the issue of autocorrelation must be addressed.

### **Ethical Approval**

Ethical approval was not sought for this study because it does not include human or animal experiments or data. It includes publicly available information from the financial reporting of banks in Jordan collected from the Amman Stock Exchange.

### **Informed Consent**

The document clearly explains the purpose of a study, its procedures, potential risks and benefits, and allows the participant to make an informed decision about whether to participate.

### **Data Availability**

The collected and analyzed data are available on the Amman Stock Exchange website at [https://www.ase.com.jo/en/history?history\\_category=64](https://www.ase.com.jo/en/history?history_category=64) (accessed on 1 June 2024). Additionally, some of the data collected from the financial reporting disclosures are published on the Amman Stock Exchange website at [https://www.ase.com.jo/en/disclosures?symbol=&category\\_id=1&published%5Bmin%5D=&published%5Bmax%5D=](https://www.ase.com.jo/en/disclosures?symbol=&category_id=1&published%5Bmin%5D=&published%5Bmax%5D=) (accessed on 22 July 2024). Moreover, some of the data are collected from the Jordan Securities Commission website at [https://www.jsc.gov.jo/JSC\\_financial\\_Reports.aspx](https://www.jsc.gov.jo/JSC_financial_Reports.aspx) (accessed on 8 September 2024).

### **Funding Disclosure**

Not Applicable.

### **Conflicts of Interest**

Not Applicable.

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