

ROYAL FAMILY MEMBERS AND CORPORATE GOVERNANCE CHARACTERISTICS: THE IMPACT ON EARNINGS MANAGEMENT IN UAE

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ABSTRACT

This study examines the association between Royal family members on the board of directors and earnings management in the United Arab Emirates (UAE). Panel data was sourced from the annual and corporate governance reports of companies listed in two leading markets in the UAE: Abu Dhabi Exchange Security (ADX) and Dubai Financial Market (DFM). Final data resulted in 437 observations for the period from 2011 to 2018. The findings of this study concluded that Royal family members on the board of UAE listed companies is negatively associated with earnings management. This study provides evidence of the role played by elite groups (Royal family members) in the UAE in enhancing the role played by the board of directors. The study also found that board meetings and audit committee meetings are positively associated with earnings management, while audit committee expertise and profitability negatively associated with earnings management. However, board size, board independence, audit committee independence, firm size and firm leverage had insignificant association with earnings management. The paper contributes to the existing theory and empirical evidence of how internal governance mechanisms add value to the company by reducing earnings management and enhancing the quality of financial reporting.

Keywords: Royal family members, board of director, audit committee, earnings management, the UAE.

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1. INTRODUCTION

Financial statements are used as a channel to deliver financial information to the users of financial statements. As outsiders, investors regard these statements as a reliable source to evaluate their investment. Nevertheless, several accounting scandals over the last two decades involving manipulation of financial reporting have shaken investor confidence and trust in the quality and reliability of the financial statements. This has resulted in increased scrutiny whereby investors have become increasingly concerned with earnings management and have started demanding earnings quality disclosure to enhance financial reporting quality.

There are many the reasons why managers of companies manage their corporate earnings. Among others, they are motivated to increase their personal benefits, avoid penalties for poor performance, increase performance-based compensation and meet financial analysts' expectations (Bamahros & Wan-Hussin, 2015; Kapkiyai et al., 2020). Although accruals-based earnings management is allowed within the law over time, it has developed into fraudulent and misleading financial reporting incidents (Bamahros & Wan-Hussin, 2015). Fama and Jensen (1983) stated that, agents (managers) are motivated to achieve their interests at the expense of the principals' (shareholders) interests. Accordingly, agency theory suggests that company directors exist in order to represent shareholders' interests and their monitoring role emphasizes decision-making process that avoid issues between management and shareholders. To improve the board's supervision on management, agency theory suggests the existence of a higher proportion of external directors on the board. External directors are independent and more likely to restrict the misbehaviors of management, which could lead to reduce earnings management (Al-Rassas & Kamardin, 2015). The board is responsible for monitoring and controlling the company's operations and activities. It exercises controlling and monitoring roles to protect the shareholders' interests. According to Al-Adeem and Al-Sogair (2019), although managers control most of the company's decisions, the board of directors is still the cornerstone in approving important management decisions.

The UAE has two financial markets comprising the ADX and DFM, that were established in the year 2000. The markets have been in operation for only about two decades and as such, the quality of their financial reporting remain largely undetermined, and reporting requirements are less likely to be as strong as developed markets. Yasin and Nelson (2012) and Almuzaqer (2018) stated that the quality of financial reporting in developing markets is essential since developing markets have a less effective regulatory system compared to the developed markets.

In raising the quality of financial reporting, the UAE has issued a set of laws such as Commercial Companies Law No. 8 of 1984, which was replaced by Commercial Companies Law No. 2 of 2015. Moreover, many laws were issued to regulate the audit profession such as Law No. 22 of 1995 which was replaced by Federal Law No. 12 of 2014. Further, in order to raise the efficiency of the performance of the companies' board of directors and to reduce the incidents of financial reporting manipulation among company managers, the first corporate governance law in UAE i.e. the Code of Corporate Governance was issued in 2007 and has been updated twice, in 2009 and recently in 2016.

Like other Gulf countries, UAE is ruled by Royal families. Royal family members are found to have a great power that can influence others' actions and views. Peterson (2007) stated that the Royal families in Arab countries are among the most powerful elite groups that can influence

economics and politics. These Royal families also serve as directors on many companies' board. According to Alazzani et al. (2019), members of the Royal families have a seat on the boards of directors to reduce misbehaviours among the management. This is because the Royals' presence as board of directors places pressure on the management to perform their work with excellence. This argument is supported by elitism theory which argues that elites have the power to influence behaviours and viewpoints of others. Although Royal family members are influential on board, there are limited studies have included the presence of Royal family members in the UAE. Therefore, it is uncertain whether, in the case of UAE, elitism theory applies, and whether a Royal family member on the board of directors does indeed improve governance, or the reverse.

Accordingly, due to the unique political regime of the UAE, the current study attempt to examine whether the presence of Royal family members on the board of directors affects earnings management in companies listed in the UAE. The study argues that Royal family members serving as board directors work to maximise shareholders' benefits. This study contributes to the financial reporting quality literature by introducing a new evidence regarding Royal family members' influence as board directors on earnings management. It also provides empirical evidence in regards to the determinants of earnings management in the UAE via the presence of royalty as board directors.

In addition, another major contribution of this study is by bringing a political science theory, which is the elitism theory, in explaining the relationship between board of directors and financial reporting quality. This theory argues that the existence of Royal family members on the board enhances the monitoring role to the best of shareholders' interest. Elitism theory also suggests that some individuals, including Royal family members are more powerful than others, thus they could influence the actions and views of others. It would be useful to determine whether elitism theory applies in the context of UAE.

Moreover, policy makers and regulators in the UAE could benefit from the results of this study. If the results suggest that Royal family members and other corporate governance mechanisms affect earnings management, the regulators may enforce listed companies in the UAE markets to best practices of corporate governance mechanisms, leading to a better financial reporting quality.

The study is organised as follows: section two reviews the literature from which it developed the research hypotheses. Section three details the research methodology. Section four presents and discusses the results of the study, followed by the conclusion and implications of the study in section five.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1. Royal Family Members

A diverse board of directors helps the directors to achieve their responsibilities. According to (Baatwah et al., 2015), directors in a homogenous board face difficulty engaging in sophisticated decisions and critical thinking as well as serving as active monitors. Thus, board diversity may assist in providing the directors with an efficient tool to monitor and enhance firm value (Arioglu,

2020). A form of board diversity is through the existence of royal family members on the board, which is considered a part of race diversity.

Clarke (2004) stated that there are circumstances when some individuals (elites) are more powerful than others (non-elites) and exercise more influence on the actions and perspectives of others. Alghamdi (2012) reported that the existence of a number of royals in Saudi Arabia who serve as company directors has allow them to closely monitor the management, which consequently reduces the misbehaviour of managers. Furthermore, utilising a sample of 573 Saudi listed companies, Alzahrani and Che-Ahmad (2015) investigated the relationship between royal family members and firm performance. Their results found that the existence of royals on the board of directors positively affected firm performance. This finding implies that royals play an important role in reducing information asymmetry in Saudi companies. Moreover, Habtoor and Ahmad (2017) examined 307 company-year observations concerning royal family members' existence on the board and their influence on corporate risk disclosure. The findings of the study indicates that the existence of the royals significantly influence the board and closely monitor the management. The study also claims that the royals derive their influence from their relationship with the ruling authorities.

Recently, Alazzani et al. (2019) investigated whether royal family members' presence on the board affects corporate social responsibility (CSR). The study was conducted in several Gulf countries and covered a period from 2010 to 2016. The results showed that CSR disclosure is positively associated with royal family members' existence on the board. This study found that royals feel a sense of responsibility toward the society, which, consequently, reflected in financial reporting disclosures.

The literature discussed above suggested that the presence of royal family members on the board could help improve firm performance, increase corporate risk disclosure, and mitigate the opportunistic behaviours by the management. Based on the elitism theory and the findings from previous studies, the current study argues that royals on the board of UAE listed companies are powerful and they can affect the actions and views of others. They also play essential roles in preventing management's misbehaviours and improving the quality of the decision-making process and subsequently improve financial reporting quality of the company that they serve in. Thus, the following hypothesis is developed:

H1: There is a negative association between royal family members' existence on the board of directors and earnings management.

In addition to the expected impact of Royal family members on earning managements, prior studies have shown that there are other corporate governance factors that may affect earnings management such as board size, board independence, board meetings, audit committee size, audit committee independence, audit committee meetings and audit committee expertise. The following sub-sections provides further explanation.

2.2. Corporate Governance Factors

Board Size

Board size is an important factor in measuring a board's effectiveness. Ghazali (2010) stated that large boards are more likely to provide diversity of skills and expertise which help to monitor the management and enhance the quality of financial reporting. According to Baatwah et al. (2019), a large-sized board is expected to be more effective in monitoring management functions since many directors can provide more proficiency and skills to solve problems. Mersni and Ben Othman (2016) examined data from seven Middle Eastern countries and found that discretionary loan loss provision is negatively associated with board size. Mishra and Kapil (2018) in India and Merendino and Melville (2019) in Italy reported that large boards are positively associated with firm performance. They argued that large-sized boards are better coordinated and can communicate more effectively. Moreover, Zaid et al. (2019) in Palestine found that Corporate Social Responsibility (CSR) is positively related to board size. They claimed that large boards are more active and have adequate resources to express their responsibility toward the society, which is reflected in the CSR report.

Board Independence

Watts et al. (1978) and Beasley (1996) stated that an independent board mitigates managers' opportunistic behaviours and the occurrence of financial statement fraud. Leung et al. (2014), Al-Najjar (2014) and Zattoni et al. (2017) found that board independence is significantly associated with firm performance. The findings in both studies indicate that outside directors could enhance the financial performance of the company. Quttainah et al. (2013), Kapoor and Goel, (2019) and Setiawan et al. (2019) found that board independence and independent commissioners are negatively associated with earnings management. They argued that an independent board and commissioners provide an effective monitoring mechanism to constrain earnings manipulation. Recently, Al Fadli et al. (2020) reported that CSR disclosure is positively associated with an independent board. They argued that an external board member motivates the management to meet stakeholders' needs, which is reflected in the CSR report. Moreover, Abdou et al. (2020) studied the effect of board independence on earnings management. They found that independent board is negatively associated with earnings management. Their finding provides further support to the idea that outside directors are more efficient to monitor the management's behaviours. The Code of Corporate Governance in UAE stipulates that a member is considered an independent member if s/he or any one of his/her first-degree relatives had a position in the company in the last two years.

Based on the above studies, it can be concluded that board independence may lead to restricting the misbehaviors of management, which could lead to reduce earnings management. Moreover, an independent board helps to mitigate agency problems. This, according to Rajeevan and Ajward (2020), explains why shareholders desire to replace executive directors with non-executive directors to improve the monitoring for management.

Board Meetings

Several studies have used number of meetings to measure board activity (Baatwah et al., 2019). Frequent meetings help-directors gain adequate knowledge to make the best decisions for the

company that they serve in (Qadorah & Fadzli, 2018). Xie et al. (2003) and Zhang et al. (2007) argued that frequent board meetings are positively associated with audit work quality and internal control function. Mishra and Kapil (2018) stated that increased frequency of meetings enhances firm performance. They argued that more meetings create opportunities for directors to monitor managers' performance. Similarly, Al Farooque et al. (2020) stated that board meetings positively influence firm performance using Tobin's Q. They argued that more frequent meetings increase the board of directors' monitoring role and then motivate the managers to perform their responsibilities, which results in improved performance. According to the Code of Corporate Governance in UAE, the board should meet at least 4 times a year.

Based on the above studies, it is evident that board that hold more meetings during the year is considered more active and have greater ability to resolve agency problems. Moreover, the ability of management to practice earnings management is diminished as active board is leading towards more effective monitoring.

Audit Committee Size

A large board size enhances audit committee effectiveness. According to Nelson and Shukeri (2011), a large audit committee effectively addresses financial issues, which could minimise agency problems in a timely manner. Mohd Saleh et al. (2007), Mohamad-Nor et al. (2010) and Madi et al. (2014) provided evidence that a large audit committee is more likely to reduce the company's ability to restate financial statements, increase voluntary corporate disclosure and enhance the quality of the board's oversight. Moreover, Inaam and Khamoussi (2016) found that a large audit committee restricts managers' opportunistic behaviours. Balasundaram (2018) addressed that intellectual capital disclosure is positively associated with a large audit committee. All of these findings support the agency theory which proposes a larger audit committee is better able to monitor management activities and could subsequently reduce the management's ability to manipulate company earnings. The UAE's Code of Corporate Governance stipulates that an audit committee shall consist of at least three members, in which at least two of them should be independent members including the chief of the audit committee.

Audit Committee Independence

Fama and Jensen (1983) stated that existence of independent directors could enhance an audit committee's monitoring role which could reduce agency problems. Klein (2002) and Ayedh (2013) further stated that independent directors help in restricting managers' ability to engage with earnings management practices. Alzeban and Sawan (2015) and Kallamu and Saat (2015) found evidence that an independent audit committee enhances the implementation of the internal audit function and offers effective monitoring on the financial reporting process, thus enhancing audit quality. Oradi and Izadi (2020) found that audit committee independence minimises the firm's ability to restate financial statement. Furthermore, Nelwan and Tansuria (2019) argued that an independent audit committee is an effective tool to constrain managers' misbehaviour. As mentioned earlier, the Code of Corporate Governance in UAE-stipulates that the audit committee shall consist of at least three members, and at least two of them should be independent members.

Audit Committee Meetings

Since an audit committee activity is not easy to measure, many studies used the number of meetings as a proxy of audit committee activity (Abbott et al., 2004; Almuzaiqer, 2018). Stewart and Munro (2007) reported that frequent audit committee meetings could help in minimising audit risks and improve total audit quality. Abbott et al. (2012), Mohd Saleh et al. (2007) and Inaam and Khamoussi (2016) stated that companies that held more than two meetings a year are less likely to engage in fraudulent activities. Zábajníková (2016) and Deslandes et al. (2020) reported that an audit committee's number of meetings is positively associated with firm performance. Kapkiyai et al. (2020) reported that a high level of audit committee meetings indicates a high level of activeness against managers' misconduct. According to the Corporate Governance code of UAE, an audit committee should meet at least 4 times a year.

Based on the above studies, it is evident that audit committees that hold more meetings during the year are considered more active and have greater ability to resolve agency problems. Also, as active committee is leading towards more effective monitoring, the management's ability to practice earnings management is reduced.

Audit Committee Expertise

Among an audit committee's responsibilities is to review financial reports and the audit process. According to the Blue Ribbon Committee (1999), audit committee members should have adequate financial or accounting knowledge to discharge their responsibilities. Davidson et al. (2004) stated that US companies with an expert audit committee have a positive association with stock price. They claimed that financial markets reward companies with expert audit committee. Carcello et al. (2002), Abbott et al. (2004), Ika and Ghazali (2012) and Alzeban and Sawan (2015) claimed that expert members make an audit committee more effective. They argued that financial experts could decrease internal control problems and enhance financial reporting quality. Inaam and Khamoussi (2016) reported that discretionary accruals are reduced in firms that have qualified members on their audit committees. Moreover, Deslandes et al. (2020) found that tax aggressiveness of the company is constrained when the audit committee has at least one financial or accounting expert. In a recent study, Kapkiyai et al. (2020) stated that an expert audit committee increases the audit committees' effectiveness and is an effective mechanism to constrain earnings management. The Code of Corporate Governance in UAE stipulates that an audit committee should consist of at least three members, and one of them should be a financial or an accounting expert.

Most of the literature supports the idea that having financial expertise would improve the effectiveness of the audit committee. The findings from these studies suggest that having such an expert member would enhance internal control and reduce management misbehavior.

3. RESEARCH DESIGN AND METHODOLOGY

Sample and Data

Secondary data is the main source used for collecting data. Data for the period from 2011 to 2018 is collected using the panel method. Data for this study are calculated from annual reports and corporate governance reports of companies listed on ADX and DFM. Data related to earnings management and control variables are collected from annual reports whereas data related to Royal family members, board of directors characteristics and audit committee characteristics are collected from corporate governance reports.

There are three types of analytical models to analysis panel data. These models are pooled model, fixed effects model and random effects model (Baatwah et al., 2015; Gujarati & Porter, 2009). To choose between these models, there are two tests that need to be conducted. The first test is Breusch and Pagan Lagrange Multiplier test. This test help to choose between pooled model or fixed or random methods. Breusch and Pagan Lagrange Multiplier test refer that $P < 0.05$ which means that pooled model is not appropriate (Baatwah et al., 2015). Accordingly, the second test, Hausman test, should be applied. Hausman test is used to investigate whether random effects or fixed effects model should be applied. The result of this test showed that $P > 0.05$ which indicates that random model is more appropriate than fixed effects model for the study. Thus, the panel data of the current study is tested by random effects model. STATA software was used in this study as it appropriate for panel data regression.

All the data are obtained from ADX and DFM websites. The study sample and the summary of the distribution of listed companies are presented in Table 1.

Table 1: Summary of Listed Companies in UAE Markets

Sector	Years								Total	%
	2011	2012	2013	2014	2015	2016	2017	2018		
Banks	24	24	24	24	24	25	25	24	194	20. %
Insurance	28	28	28	29	29	30	31	33	236	24. %
Investment and financial services	9	9	10	10	10	11	11	19	89	8.3 %
Real Estate and Construction	12	12	12	13	14	14	14	13	104	10.8 %
Industrials	15	15	16	16	16	16	18	14	126	13.3 %
Consumer staples and discretionary	9	9	9	11	11	11	12	11	83	8.5 %
Services	17	17	17	18	18	18	18	21	144	14.6 %
Private joint stock companies (PRJSC)	0	0	0	0	1	1	2	2	6	0.3 %
TOTAL	114	114	116	121	123	126	131	137	982	100 %
Excluded Observations										
Financial Companies	(61)	(61)	(62)	(63)	(63)	(66)	(67)	(76)	(519)	(53 %)
Uncompleted Observations	(1)	(1)	(2)	(5)	(2)	(2)	(7)	(6)	(26)	(2 %)
Final Sample	52	52	52	53	58	58	57	55	437	45 %

Table 1 shows that the initial observations of the study are 982 firm-year observations. Firms from the financial sector comprising 519 firm-year observations are excluded from the sample since they are subjected to specific regulations. A further 26 observations are excluded from the sample due to missing data. Therefore, the final sample is 437 observations for the period from 2011-2018. The distribution of the sample is shown in Table 2.

Table 2: Summary of Sample Distribution

Sector	Years						Total	%		
	2011	2012	2013	2014	2015	2016			2017	2018
Real Estate and Construction	9	9	9	10	13	13	13	12	88	20.1%
Industrials	15	15	15	15	15	14	13	13	115	26.3%
Consumer staples and discretionary	9	9	9	9	11	11	11	11	80	18.3%
Services	19	19	19	19	19	20	20	19	154	35.2%
Final Sample	52	52	52	53	58	58	57	55	437	100%

Measurement of Variables

The current study used earnings management to measure the quality of financial reporting. Several studies applied this proxy (e.g. Bamahros & Wan-Hussin, 2015; Elghuweel et al., 2017; and Bouaziz et al., 2020). According to the previous literature, earnings management are classified into two types. First is accrual based earnings management and second is real earnings management (Alhadab et al., 2020). Discretionary accruals (DA) is the one used as a proxy of earnings management in this study. Kothari et al.'s (2005) model was applied to detect the discretionary accruals.

The following equations are used to estimate discretionary accruals using Kothari et al. (2005) model:

$$TAC_{ij} / TA_{ij-t} = \beta_0 (1 / TA_{ij-t}) + \beta_1 (\Delta REV_{ij} - \Delta REC_{ij} / TA_{ij-t}) + \beta_2 (PPE_{ij} / TA_{ij-t}) + \beta_3 (ROA) + \varepsilon_{ij} \tag{1}$$

Where

TAC_{ij} = Total accruals calculated by net income minus cash flows from operation

TA_{ij-t} = Prior total assets

ΔREV_{ij} = Change in sales or revenue

ΔREC_{ij} = Change in accounts receivables

PPE_{ij} = Gross property, plant and equipment

tij = i represents company, t represents peer group and j represents year

ROA_{ij} = Return on assets

ε_{ij} = Error term (residual).

According to Ayedh (2013), the cash flow approach performs better than the balance sheet approach in calculating total accrual. Thus, total accrual is computed as the difference between earnings before extraordinary items and operating cash flow for firm *i* in year *j*.

$$TAC_{itj} = NT_{itj} - CFO_{itj} \quad (2)$$

Where:

NT_{itj} = Earnings before extraordinary items

CFO_{itj} = Operating cash flow

The regression residual, ϵ_{itj} , is used as a measure of discretionary accruals. It measures the part of accruals that does not estimate actual cash flow (Kent et al., 2010). This study used the absolute value of discretionary accrual to measure the magnitude of earnings management. This is because, according to Rahman and Mohamed Ali (2006) and Al-Rassas and Kamardin (2015), the absolute value of discretionary accruals is a good indicator for the combined effect of positive and negative earnings management.

4. MODEL SPECIFICATIONS

To test the relationship between royal family members and earnings management, multivariate regression analysis are used based on the following equation:

$$DA = \beta_0 + \beta_1 ROYAL + \beta_2 BDSIZE + \beta_3 BDIND + \beta_4 BDMEE + \beta_5 ACSIZE + \beta_6 ACIND + \beta_7 ACMEE + \beta_8 ACEXP + \beta_9 SIZE + \beta_{10} PROF + \beta_{11} LEVE + \epsilon \quad (3)$$

Where DA refers to discretionary accruals, RFM represents Royal family members, BODSIZ indicates board size, BDIND signifies board independence, BDMEE represents board meetings, ACSIZE refers to audit committee size, ACIND signifies committee expertise, SIZE represents firm size, PROF refers to firm profitability, LEVE indicates firm leverage and ϵ refers to error term. The variables included in the model are summarised in Table 3.

Table 3: Summary of Variables Included in Empirical Model

Variables	Acronym	Measurement
Discretionary accruals	DA	The absolute value of discretionary accruals measured by Kothari et al. Model (2005)
Royal family members	RFM	1 if at least one of Royal family members sits on the board of directors, otherwise 0.
Board size	BODSIZ	The number of directors in the board
Board independence	BDIND	The proportion of independent directors on the Board.
Board Meeting	BDMEE	The number of meeting hold by the board in the year
Audit committee size	ACSIZE	The number of members in audit committee
Audit committee independence	ACIND	The proportion of independent members in the committee.
Audit Committee Meeting		The number of meeting hold by the audit committee in the year
Audit Committee Expert		The number of accounting experts on audit committee
Firm size	SIZE	Total assets in its natural log.
Firm profitability	PROF	ROA (The net income before interest and tax to the total assets).
Firm leverage	LEVE	The ratio of total liabilities to total assets.

In this model, a number of control variables are included because most prior literature finds these variables have an effect on earnings management (Nelwan & Tansuria, 2019; Alhadab et al., 2020; Mnif & Cherif, 2020). These control variables include firm size, firm profitability and firm leverage. Control variables enhance the confidence of the study analysis and the model will be less likely to be bias in estimating the earnings management models (Baatwah et al., 2015).

Regarding firm size (SIZE), it has been argued that it could affect earnings management. El Guindy and Basuony (2018) found a negative relationship between firm size and earnings management. Moreover, in Tunisia, Mnif and Cherif (2020) revealed that earnings management is negatively associated with firm size. They argued that large firms are monitored by the government, which reduces the misbehaviour of the management. This result is consistent with Khan et al. (2019) in UAE who found that company size is negatively associated with earnings management. This result supports the idea that big company avid to practice earnings management because they receive a big attention from the government and analysts.

Firm profitability is another factor that could affect earnings management. Profitability is usually used to evaluate a firm's capability to generate earnings. Barua et al. (2010) found that companies with high performance is related to higher quality of earnings. Moreover, Rahman et al. (2016) reported that earnings management is negatively associated with firm profitability. However, Supardi and Asmara (2019) found no relationship between firm profitability and earnings management. This study suggests that firm profitability is negatively related to earnings management in UAE.

Firm leverage was also found to have influenced on earnings management. Alzoubi (2016) found that earnings management is positively associated with firm leverage. Moreover, in the case of Egypt, Yasser and Soliman (2018) found that managers of leveraged companies were involved in earnings management practices. These findings are explained by the idea that the increase of leverage may motivate the management to engage in earnings management practices to alleviate the negative impact of debt on the financial statements. However, Mnif and Cherif (2020) found no association between firm leverage and earnings management. Following prior studies, the current study suggests that earnings management in UAE is negatively associated with firm leverage.

5. RESULTS AND DISCUSSION

Descriptive statistics

The descriptive statistics of the continuous variables of the study are shown in Table 4.

Table 4 shows the mean of DA is 0.035 with a minimum of 0.001 and a maximum of 0.12. This seems that companies in the UAE are practising earnings management activities less than other countries. For example, Bouaziz et al. (2020) in France and Yasser and Soliman (2018) in Egypt reported that the values of discretionary accruals are 0.067 and 0.0711, respectively.

For board size (BDSIZ), the table shows an average of 7.8 members with a range from 4 to 18 members. Regarding board independence (BDIND), it ranges between 0 and 1 with an average of

71 percent of independent directors. This result indicates that most UAE-listed companies meet the requirements of the Code of Corporate Governance, that one-third of the board of directors of the listed companies to consist of independent directors. For board meeting (BDME), it ranges from 1 to 17 meetings with an average of 6.61 meetings a year. This also indicates that most UAE listed companies meet the Code of Corporate Governance requirements, which requires that the board of directors to meet at least four times a year. Regarding audit committee size (ACSIZE), it ranges between 2 and 6 members with an average of 3.3 members. This result indicates that most companies in the UAE meet the best practice, in which the Code requires that the audit committee in listed companies contain at least three members. For audit committee independence (ADIND), the results ranged from 0.33 to 1, with an average of 0.83. This result is consistent with the requirement of the Code, that is audit committees of UAE listed companies to have at least two-thirds of independent members. Regarding audit committee meetings (ADMEE), it recorded an average of 4.76 meetings with a range between 0 and 12 meetings. This is consistent with the requirement of the Code, that requires audit committees to have at least four meetings a year. Finally, audit committee expertise (ACEXP) ranges between 0 and 1 with an average of 0.34 expert. This indicates an average of one-third of the audit committee members has accounting or finance experts. This result is consistent with the Code of Corporate Governance in the UAE, which requires that audit committees should have at least one member with accounting or finance expertise.

Regarding control variables, the table showed that the mean of firms' size is AED11,642,308,128 with a range from AED 39,618,659 to 128,284,105,000 AED. Firms' profitability has a mean of 0.03, with a range between -0.99 and 0.76. Finally, a firm's leverage ranges between 0 and 1.03, with an average of 0.39.

Table 4: Descriptive Statistics About Continuous Variables Employed in the Analyses

	Minimum	Maximum	Mean	Median	Std. Deviation	Skewness	Kurtosis
DA	0.001	0.12	0.035	0.03	0.024	0.122	-0.934
BDSIZ	4	18	7.8	7	2.06	1.067	3.310
BDIND	0	1	0.71	0.71	0.218	-0.273	-0.934
BDME	1	17	6.21	6	1.76	1.244	4.424
ACSIZE	2	6	3.3	3	0.58	0.739	-1.461
ACIND	0.33	1	0.83	1	0.211	-1.048	0.045
ACMBE	0	12	4.76	4	1.70	0.987	1.743
ACEXP	0	1	0.34	0.33	0.25	0.396	-0.192
SIZE	39,618,659	128,284,105,000	11,642,308,128	2510285000	0.74	0.114	0.010
PROF	-0.99	0.76	0.03	0.04	0.062	-1.150	4.013
LEV	0	1.03	0.39	0.38	0.22	0.954	3.401

Statistical Assumptions

Several assumptions such as normality, autocorrelation, multicollinearity and heteroscedasticity should be tested before running the regression analysis test. The values of Skewness and Kurtosis statistics are used to test the normality of the study data. According to Leys et al. (2013), the acceptable range of Kurtosis and Skewness and Kurtosis are ± 10 and ± 3 , respectively. Table 4 presents that the all the variables are normal, and the normality assumptions have not been violated.

Heteroscedasticity is another issued that should be tested before running a regression analysis. The existence of the heteroscedasticity problem distorts and reduces the efficiency of the regression estimation. The Breusch-Pagan / Cook-Weisberg test is used to detect the heteroscedasticity problem. According to Al-Rassas (2015), the data is free from heteroscedasticity if the P-value of the test is > 0.05 . Table 5 shows that the P-value of the DA models is 0. 0064. This indicates that heteroscedasticity issue seems to exist on the DA model.

Table 5: Heteroscedasticity Test

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity			
H0: Constant variance			
TRT	Chi2 (1)=	7.44	Prob > F = 0. 0064

Autocorrelation is another issue that should be tested before running the regression analysis. Gujarati and Porter (2009) argued that the existence of autocorrelation reduces the efficiency of the regression coefficient and causes biased and inconsistent regression estimations. The current study uses the Wooldridge test to identify and detect autocorrelation. According to Al-rassas (2015), the data suffers from autocorrelation if the P-value of the Wooldridge test is < 0.05 . Table 6 presents that the P-value of the DA model is 0.0000. This indicates that the DA model suffers from autocorrelation. Autocorrelation is a common problem that may exist in panel data analysis (Khaoula & Moez, 2019).

Table 6: Autocorrelation Test

Wooldridge test for autocorrelation in panel data			
H0: no first-order autocorrelation			
TRT	F(1, 58) =	28.512	Prob > F = 0.0000

Several methods have been suggested to solve the heteroscedasticity and autocorrelation problem. The robust standard errors method is considered to be the best method (Baatwah et al., 2015; Al-rassas, 2015). Table 7 presents the result of standard errors method analysis. It can be seen from the table that, except for BDMEE, all results of the robust analysis are similar to the results of the main analysis shown in Table 9 with differences only in the level of significance. This indicates that robust standard errors method solved the autocorrelation and heteroscedasticity issues of the DA model.

Table 7: Robust Results of DA Model

Variable	Robust Results			Mean results		
	Coefficients	t-value	p-value	Coefficients	t-value	p-value
RFM	-.0075094	-2.28	0.023**	-.0079728	-1.84	0.066*
BDSIZ	.000399	0.39	0.699	.0002087	0.28	0.783
BDIND	-.0029533	-0.40	0.690	-.0006382	-0.10	0.923
BDMEE	.0014788	1.57	0.118	.001419	2.10	0.035**
ACSIZE	-.0021857	-1.31	0.189	-.0018488	-0.96	0.336
ACIND	-.0072532	-0.87	0.382	-.0091625	-1.40	0.161
ACMEE	.0014108	1.76	0.079*	.0014947	2.14	0.032**
ACEXP	-.0122881	-2.43	0.015**	-.0115111	-2.52	0.012**
SIZE	-.0016549	-0.41	0.679	-.0016549	-0.52	0.600
PROF	-.0487767	-2.72	0.006***	-.0487767	-5.16	0.000***
LEVE	.0011975	0.10	0.920	.0011975	0.17	0.865
N	437			437		
F Value	36.63			62.31		
R Square	0.1213			0.1213		

RFM= Royal Family Members, BDSIZ= Board Size, BDIND= Board Independence, BDMEE= Board number of meetings, ACSIZE= Audit committee size, ACIND= Audit committee independent, ACMEE= Audit committee number of meetings, ACEXP= Audit committee accounting expertise, SIZE= Firm Size, PROF= Firm Profitability, LEVE= Firm Leverage

Notes: * Significant at 0.10 level, ** Significant at 0.05 level, *** Significant at 0.01 level.

Correlation Results

Table 8 presents the correlation between discretionary accrual (DA) and other variables. The table illustrates that royal family members (RFM) on the board are negatively related to discretionary accruals (DA). The table also showed that the highest correlation is between board independence (BDIND) and audit committee independence (ACIND) at 0.439. This means that the multicollinearity problem does not exist as the highest correlation is less than ± 0.9 (Pallant, 2011).

Table 8: Pearson Correlations

	DA	RFM	BDSIZ	BDIND	BDMEE	ACSIZE	ACIND	ACMEE	ACEXP	SIZE	PROF	LEVE
DA	1											
RFM	-0.21	1										
BDSIZ	-0.05*	0.24	1									
BDIND	0.02**	0.08*	0.04**	1								
BDMEE	0.17	-0.17	0.03**	0.26	1							
ACSIZE	0.02**	-0.17	0.37	0.06*	0.09*	1						
ACIND	-0.03**	0.27	0.07*	0.43	-0.07*	0.08*	1					
ACMEE	0.09*	0.06*	0.27	0.15	0.33	0.20	0.11	1				
ACEXP	-0.05	-0.15	-0.07*	-0.12	-0.06	-0.17	0.04**	0.03**	1			
SIZE	-0.03**	0.09*	0.40	0.13	0.33	0.13	0.02**	0.39	-0.10	1		
PROF	-0.26	0.10	0.05*	0.00***	-0.05*	0.08*	0.01**	0.00***	0.00***	0.14	1	
LEVE	0.18	-0.25	0.15	0.13	0.33	-0.03**	0.00***	0.28	0.00***	0.37	-0.22	1

DA= Discretionary Accrual, RFM= Royal Family Member, BDSIZ= Board Size, BDIND= Board Independence, BDMEE= Board Meeting, ACSIZE= Audit committee size, ACIND= Audit committee independent, ACMEE= Audit Committee Meetings, ACEXP= Audit Committee Expertise, SIZE= Firm Size, PROF= Firm Profitability, LEVE= Firm Leverage

Notes: * Significant at 0.10 level, ** Significant at 0.05 level, *** Significant at 0.01.

Multiple Regression Results

Multiple regression results are presented in Table 9. F-statistics are shown to be significantly different from zero. This means that the variation of DA in its mean is explained by independent variables. R^2 value is 0.12 percent, which means that the model could explain 12 percent of the variation of DA.

The findings present that royal family members (RFM) on the board are negatively associated with DA and significant at 10 percent level. This finding implies that firms with at least one royal family member on its board engaged in fewer earnings management practices. This result is consistent with the idea that royal family members have the capacity to monitor the management closely and reduce the misbehaviour of managers. This result supports the findings of Alzahrani and Che-Ahmad (2015) and Alazzani et al. (2019) who found that royal family members play an important role in enhancing firm performance and the disclosure level of corporate social responsibility, respectively.

Board size (BDSIZ) and board independence (BDIND) are found to have an insignificant association with DA. This result indicates that the board size of UAE listed companies does not play significant roles to improve the effectiveness of board of directors which could help in reducing earnings management. This result is inconsistent with Jamaludin et al. (2015) and Johari et al. (2009) who found evidence that board size and board meetings affect discretionary accruals (DA).

Board meetings (BDMEE) has a positive association with DA at 10 percent. This means that more frequent board meetings results in more earnings management practice. This finding supports the idea that boards with more frequent meetings will lose more time in meetings instead of monitoring the management's practices and performance. Also, high ownership concentration may affect the directors' independence which then leads to ineffective board of directors' meetings. Based on this finding, perhaps the UAE regulators should not focus on whether listed companies fulfill the the number of board of directors' meetings to solve their problems. Instead, they should focus of the issues discussed in the meetings and the plan course of actions to be taken to address the issues. This result is in line with Ngamchom (2015) who found that there is a positive association between a board's frequency of meetings and earnings management.

Regarding audit committee size (ACSIZE) and committee independence (ACIND), the results show negatives but insignificant relationships with DA. These results could draw the attention of the regulators and management of the companies not to invest on audit committee size and audit committee independent to improve the quality of audit committee effectiveness. They may invest more in characteristics that can improve the quality of audit committee such as audit committee financial experts. This finding is line with Soliman and Ragab (2013) and Juhmani (2017) who found that audit committee size and audit committee independence are insignificantly associated with earnings management.

In regard to audit committee meetings (ACMEE), it has a significant positive association with DA at 5 percent level. This result is consistent with Al-Rassas and Kamardin (2015), who found that audit committee meetings are positively associated with DA. This result indicates that the increase in audit committee meetings can increase the management's ability to engage in earnings

management practices. This finding is attributed to the idea that the audit committee with more frequent meetings will be less effective as they spend less time focusing on management's practices and performance. In monitoring the governance practices of the listed companies, the regulators in UAE could pay more attention on other characteristics that may improve the effectiveness of audit committee and spent less focus on characteristics that do not enhance the effectiveness of audit committee such as the audit committee meetings.

Finally, the findings showed that audit committee expertise (ACEXP) is significant and negatively associated with DA at the 1 percent level. This means that an audit committee with accounting or finance experts could help to decrease the practices of earnings management. The result is attributed to accounting and finance experts' ability to enhance the efficiency of the audit committee to prevent the manager's misbehaviours. Thus, UAE companies enhance the requirement of audit committee expertise and improve its role to detect management misbehaviour. This result is in line with Juhmani (2017) and Kapkiyai et al. (2020) who found that audit committee expertise is negatively associated with earnings management.

For control variables, profitability (PROF) has a significant negative association with DA at the 1 percent level. It means that firms with higher profitability are more likely to have fewer earnings management. This finding is consistent with Al-Rassas and Kamardin (2015), who found that a firm's profitability is negatively associated with earnings management. The findings reveal that firm size (SIZE) and firm leverage (LEVE) have insignificant associations with earnings management.

Table 9: Multiple Regression for Companies Listed UAE Financial Markets

Variable	Coefficients	t-value	p-value
RFM	-.0079728	-1.84	0.066*
BDSIZ	.0002087	0.28	0.783
BDIND	-.0006382	-0.10	0.923
BDMEE	.001419	2.10	0.035**
ACSIZE	-.0018488	-0.96	0.336
ACIND	-.0091625	-1.40	0.161
ACMEE	.0014947	2.14	0.032**
ACEXP	-.0115111	-2.52	0.012**
SIZE	-.0016549	-0.52	0.600
PROF	-.0487767	-5.16	0.000***
LEVE	.0011975	0.17	0.865
N	437		0.000
F Value	62.31		
R Square	0.1213		

RFM= Royal Family Members , BDSIZ= Board Size, BDIND= Board Independence, BDMEE= Board number of meetings, ACSIZE= Audit committee size, ACIND= Audit committee independent, ACMEE= Audit committee number of meetings, ACEXP= Audit committee accounting expertise, SIZE= Firm Size, PROF= Firm Profitability, LEVE= Firm Leverage

Notes: * Significant at 0.10 level, ** Significant at 0.05 level, *** Significant at 0.01 level.

To ensure the robustness of the results, additional tests are also conducted. The first test is in regard to the measurement of earnings management. The current study used discretionary accruals (DA) as a proxy of earnings management and Kothari et al.'s (2005) model was applied to measure the discretionary accruals (DA). Using the same sample, modified Jones' (Dechow et al., 1995) model

is applied to measure discretionary accruals (DA) to test the robustness of the main results. Table 10 shows that all independent variables are not significant in affecting the DA measured by the modified Jones model. The main results in Table 8 reveal that RFM, BDMEE, ACMEE, ACEXP and PROF significantly influence DA at various levels of significance. These results are consistent with Kothari et al. (2005) and Ayedh (2013) who argued that Kothari et al.'s (2005) model is more robust in detecting discretionary accruals than the modified Jones model.

Table 10: Multiple Regression Results by Using Modified Jones' (Dechow et al.1995) Model

Variable	Coefficients	t-value	p-value
RFM	.0017368	0.34	0.736
BDSIZ	-.0001314	-0.13	0.896
BDIND	.002884	0.32	0.745
BDMEE	-.0001885	-0.20	0.842
ACSIZE	.0009047	0.34	0.737
ACIND	-.0126985	-1.43	0.153
ACMEE	.0008852	0.91	0.365
ACEXP	.0033256	0.53	0.598
SIZE	-.0046753	-1.30	0.193
PROF	.0053719	0.40	0.690
LEVE	.0070995	0.76	0.445
N	437		
F Value	5.07		
R Square	0.0298		

RFM= Royal Family Members, BDSIZ= Board Size, BDIND= Board Independence, BDMEE= Board number of meetings, ACSIZE= Audit committee size, ACIND= Audit committee independent, ACMEE= Audit committee number of meetings, ACEXP= Audit committee accounting expertise, SIZE= Firm Size, PROF= Firm Profitability, LEVE= Firm Leverage

Notes: * Significant at 0.10 level, ** Significant at 0.05 level, *** Significant at 0.01 level.

Moreover, the dichotomic approach is used instead of the continuous approach to ensure the robustness of the main results. Table 11 showed that RFM, BDMEE, ACIND, ADMEE, ACEXP, SIZE and PROF significantly influence DA in the robustness test, but Table 8 showed that ACEXP and SIZE do not affect DA. In general, the majority of the results of the robust test are consistent with the main results, thereby supporting them.

Table 11: Additional Multiple Regression Results of DA Model by Using Dichotomic Measures of Independent Variables

Variable	Coefficients	t-value	p-value
RFM	-.00972	-2.27	0.023**
BDSIZ	.0051389	1.64	0.101
BDIND	.0011303	0.42	0.677
BDMEE	.0039229	1.74	0.082*
ACSIZE	-.0025705	-1.00	0.318
ACIND	-.0043146	-1.66	0.098*
ACMEE	.0074085	3.19	0.001***
ACEXP	-.0068392	-2.82	0.005***
SIZE	-.008155	-1.94	0.052*
PROF	-.0074032	-3.46	0.001***
LEVE	-.0010645	-0.39	0.698
N	437		0.000

F Value	50.53
R Square	0.1013

RFM= Royal Family Members, BDSIZ= Board Size, BDIND= Board Independence, BDMEE= Board number of meetings, ACSIZE= Audit committee size, ACIND= Audit committee independent, ACMEE= Audit committee number of meetings, ACEXP= Audit committee accounting expertise, SIZE= Firm Size, PROF= Firm Profitability, LEVE= Firm Leverage

Notes: * Significant at 0.10 level, ** Significant at 0.05 level, *** Significant at 0.01 level.

6. CONCLUSION, PRACTICAL IMPLICATIONS AND FUTURE RESEARCH

The existence of royal family members of the board of listed companies is common in Arab countries. Therefore, the main objective of the study is to test the association between the existence of royal family members and other corporate governance characteristics and earnings management using the UAE setting. The elitism theory states that elites have the power to influence the behaviours and viewpoints of others.

In this study, earnings management is proxied by discretionary accruals using the Kothari et al.' (2005) method. The study utilised 437 firm-years observations for companies listed in ADX and DFM markets for the period from 2011 to 2018. Annual reports were used to collect the data of the study. Eight independent variables are concerned to influence earnings management, namely the existence of royal family members on the board of directors, board size, board independence, board meetings, audit committee size, audit committee independence, audit committee meetings and audit committee expertise. Firm size, firm performance and firm leverage are the three control variables typically used in earning management studies were included in the regression model.

The findings showed that the existence of the royal family members on the board of directors reduces earnings management practices. The results support elitism theory which suggests that Royal family members as an elite group have a power that allows them to closely monitor the management, which consequently reduces the misbehaviour of managers. Moreover, the results presented that board meetings and audit committee meetings were positively associated with earnings management while audit committee expertise found to influence earnings management negatively. The study also found an insignificant results for the relationships between board size, board independence, audit committee size, audit committee independence, firm size and firm leverage with earnings management.

This study is not without limitations. First, the study's data excluded financial companies since they belong to different principles and regulations. Future research may be motivated to investigate the association between royal family members on the board and earnings management with a larger sample including the financial sector. Second, the royal family member is measured in the study using a dummy variable. Future studies may conduct another proxy to investigate the role of royal family members on the board such as the proportion of royal family members on the board. Third, the study used the annual reports as the only source to collect data. Therefore, future studies may be motivated to extend the tools of collecting and analysing data by conducting alternative methods such as surveys and conducting interviews with the board of directors' management and royal family members. Such alternative methods may strengthen the findings of the study. Forth, although earnings management is a broad concept, the current study used discretionary accruals as

a proxy of earnings management following Nelwan and Tansuria (2019) and Kapkiyai et al. (2020). Future studies may apply other proxies as an indicator of earnings management, such as real earnings management. Future studies may further address the effect of royal family members as the CEO on earnings management. Future studies could also replicate this study and ensure its validity by conducting in different countries with different periods and different sample sizes.

Practically, regulators and policymakers in the UAE can benefit from this study's results. Since the results of the study suggest that board and audit committee's mechanisms affect earnings management, the regulators may enforce listed companies in the UAE markets to best practices of corporate governance mechanisms, leading to better financial reporting quality. Furthermore, given the lack of earnings management studies in the UAE, researchers, financial analysts, and the academic community may be interested in the current study results. Moreover, investors rely on fairly presented financial reports in making their investment decisions.

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