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The effect of earnings management on profitability: Evidence from Palestine

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ABSTRACT

This research examined the influence of earnings management on the profitability of non-financially-listed companies on the Palestine Stock Exchange between 2017 and 2021. The study employed regression analysis to measure the impact of earnings management on profitability using a sample of nonfinancial listed companies, which included (31) listed companies. SPSS, a statistical analysis program, assisted the researcher in concluding a negative relationship between the dependent variable earnings per share and independent variables earnings management measured by discretionary accruals using the Jones model 1995 and free cash flow at the 1% level. However, there is a statistically significant positive correlation between dividends per share and the profitability of corporations listed on PEX at the 1% level. Lastly, the outcome shows no statistically significant association between the profitability of corporations listed on the PEX and the control variables. The findings, particularly the negative relationship between earnings per share and earnings management and the positive correlation between dividends per share and profitability, contribute new perspectives to the existing body of knowledge on financial performance in emerging markets.

Contribution/ Originality: This study is one of the rare ones that examines the relationship between earnings management, in addition to free cash flow, and profitability measured by earnings per share for Palestinian companies listed on the Palestine Stock Exchange, with the exception of financial companies. The results of the study help explain this phenomenon in emerging markets, especially by adding new independent variables.

1. INTRODUCTION

Earnings management has long been a significant and specialized area of finance research (Dechow, Sloan, & Sweeney, 1995). A lot of study into earnings management (EM) and its measurement. According to previous research, accruals are the best metric for EM (Healy & Wahlen, 1999). Since the turn of 2000, several high-profile accounting scandals affecting numerous notable firms (e.g., Enron Health South, WorldCom, and Lehman Brothers) have happened worldwide. Investors and other stakeholders lost faith in financial reporting's credibility due to the incidents (Davis, Schoorman, & Donaldson, 1997). Consequently, shareholders question the trustworthiness and dependability of financial reporting. Stakeholders prioritize financial statements of the exceptional quality because it minimizes information asymmetry, as noted by Jensen (1986). Moreover, high-quality financial reporting instills greater confidence in a firm among stakeholders, enabling them to make informed and strategic business choices. Additionally, it projects a favorable image of the organization to its consumers (Waweru & Riro, 2013). According

to Watts and Zimmerman (1978) greater financial reporting improves transparency and facilitates the formation of dependable contracts. EM reduces stockholders' trust and confidence in a business because of its lack of honesty in financial reporting (Al-Absy, Ismail, Chandren, & Al-Dubai, 2020).

Corporations that want to make significant profits strive to improve their performance. Furthermore, a firm with high earnings attracts more investors than a company with low profits does. Additionally, a financial report's earnings may affect a company's decision-making (Al-Absy et al., 2020). However, stockholders and analysts use these numbers to evaluate the profitability of a business and its investment potential. Thus, the organization will report great earnings to show that the business is doing well (Purwanti & Natser, 2016).

Managers organize transactions, modify financial reports, and exercise discretion and judgement regarding specific items included in financial reports, recognized as EM, to meet pre-established management goals. This is done with the intention of influencing contractual outcomes that rely on accounting data contained in documents or providing false information to stakeholders regarding the business unit's financial performance (Luu Thu, 2023). A wide range of factors have shaped and expanded the phenomenon of EM, encouraging the creation of new methods for its application and enabling its wider adoption. One of the most significant of these elements and causes was the conflicting interests of management and owners, which led management to reveal information that prioritized serving its own interests before turning to earnings management (Le & Nguyen, 2023).

Directors commonly use EM to control financial statement results (Muljono & Suk, 2018). They accomplish this by utilizing gaps in law and lenient accounting regulations (Bui & Le, 2021). Schipper (1989) clarifies that, despite the absence of a generally agreed-upon definition, managing earnings states purposefully apply accounting regulations to reported income or earnings. However, according to Riahi-Belkaoui (2004) managers use EM to further their own interests while impeding external financial reporting.

Although many scholars have tried to explain why some firms are more moneymaking than others, and many investigations have surveyed and discovered numerous factors that can impact firm performance, corporate profitability remains an actual, substantial, and never-ending phenomenon that attracts the care of numerous practitioners (Rizani, Syam, & Lisandri, 2022). Within the framework of globalization, market liberalization, and increased competition, it is crucial to examine the relevant and significant elements in explaining business success (Ningsih, 2017). Thus, profitability is widely used as an indicator for evaluating business performance. Therefore, any company must increase its profit rate to appease investors, obtain fresh financing, and continue operating (Susanto & Widyaswati, 2019).

Profitable organizations are better able to fulfill their financiers' demands and remain viable. As moral conduct and charitable giving are frequently advantageous byproducts of business success, they can also benefit attendees (Ullah & Islam, 2018). Therefore, the director's greatest awareness is to regularly evaluate the effectiveness and performance of a firm using profitability ratios. However, researching profitability allows one to evaluate the critical components that lead to profit, providing invaluable information for developing strategies and highlighting the profitability of businesses (Kant, 2018).

The Palestinian State authorized the creation of the Palestine Stock Exchange (PEX) in 1995. PEX is a private company whose main objective is to increase investment in Palestine and provide an excellent, clean, and compelling trading environment (Badwan & Atta, 2020). According to Abuamsha (2021) listed enterprises, PEX serves as the primary vehicle for attracting international investments and safeguarding domestic savings. These actions significantly contribute to the development of the Palestinian economy by channeling funds into profitable ventures, reducing unemployment, and improving living standards. Israeli government restrictions on Palestinian trade govern the Palestinian economy (Samhouri et al., 2018). Israeli defense closures and movement restrictions, such as checkpoints, dramatically increase transaction costs, restrict market accessibility, impact a company's worth, and determine its profit (Muhtaseb & Eleyan, 2021).

This paper, following a thorough review of previously published works, has identified an important research gap. It has been observed that there needs to be more uniformity in the outcomes of papers that have investigated the correlation between EM and its influence on profitability in both developed and developing nations. Therefore, this paper seeks to fill this gap by being one of the pioneering research endeavors to learn about this subject in an emerging market. This study's principal aim is to examine the effect of EM on a corporation's profitability, concentrating on the subsequent research question: What is the influence of EM, free cash flow (FCF), and dividends per share (DPS) on the profitability of non-financial firms listed on the PEX from 2017 to 2021?

The significance of this paper is derived from the interpretation of the EM, (FCF), (DPS), of the earning per share (EPS), as demonstrated by the explanatory and statistical power of the model. In addition, the importance of the individual relationships of the independent variables was demonstrated, the most important of which was EM, which had a negative relationship with EPS, indicating that managers exploit companies for their interests and that there are positive relationships between DPS and EPS. Hence, the expected contribution of this research lies in the objectives it will achieve, which are to clarify the relationship between EM, DPS, and FCF on the EPS from 2017 till 2021, which contributes to adding to the literature, especially in emerging countries. The results of this research are beneficial to other stakeholders, shareholders of companies, local and international investors, specialists in this field, and the government. It is probable that the outcomes of this paper will help individual and institutional stockholders evaluate future investments in companies based on EM by making decisions regarding earnings management-based companies.

Following this introduction, the paper is organized as follows: Section 2 contains a concise overview of the literature, which serves as the foundation for developing the paper hypotheses. The next section, Section 3, gives an impression of the paper methodology, outlines the sources used for data collection, and clearly describes the variables under study. Section 4 provides the empirical findings and subsequent debates. The paper finishes in Section 5 and achieves the study by noting its limitations and providing recommendations for additional research.

2. LITERATURE REVIEW

2.1. Theories

2.1.1. The Signaling Theory

Signals are the steps that companies take to let investors know how management feels about the firm's future. Firms publish essential information for investors and business people, detailing the past, present, and future circumstances that determine a company's viability and market influence. Brigham and Houston (2013) a financial communication method that has its foundation in earnings management, the signal theory has the potential to confuse investors while maintaining the value of data from disclosed outcomes. However, other academics contend that EM may be an endeavor to mislead stakeholders, thus lowering the value of information from disclosed findings because of a possible conflict with its purpose of earnings management (Sayari, Mraihi, Finet, & Omri, 2013).

2.1.2. The Agency Theory

According to Jensen and Meckling (1976) agency theory explains the interactions between management and shareholders. The foundation of agency theory lies in the conflicts of the interest that arise between management and stockholders. Asymmetry in information between administration and stockholders is the root cause of conflict. When more asymmetric information is available, the management acts opportunistically to further their interests. To satisfy the interests of bonuses, political costs, and debt, opportunistic EM is used (Kirmani & Rao, 2000). Owing to this disparity, agents are more likely to provide the principal with misleading information, especially when it comes to the agent's performance (Pernamasari, Purwaningsih, Tanjung, & Rahayu, 2020).

2.1.3. Stakeholder Theory

Stakeholder theory underscores the significance of both workers and shareholders. Stakeholder theory highlights the importance of suppliers, business partners, contractors, and their relationships with management. Harrison and Freeman (1999) are credited with the development of stakeholder theory. This idea diverges from the agency theory, which highlights the presence of a connection between shareholders and managers, with managers playing a primary role in enhancing shareholder value. According to this theory, the acts of managers seem to have a greater impact on those engaged in the organization's operations rather than significantly hurting shareholders. This theory emphasizes the accountability of managers to stakeholders from various perspectives.

3. EARNINGS PER SHARE

The EPS financial ratio measures shareholder profitability per share. It may be broken down into other forms, such as profitability ratios. Because EPS are the most important company indicators, EPS profitability ratios fall into these two categories. Companies provide earnings per share only for ordinary shares because net income is the most significant number (Kieso, Weygandt, Warfield, Wiecek, & McConomy, 2019) EPS is a measure that shows the exact amount of money shareholders, or investors make per share. A high EPS value motivates shareholders, because they are more willing to purchase when the profit per share is high.

4. EARNINGS MANAGEMENT

The EM is a traditional accounting topic. Existing studies concentrate on managing earnings on an accrual basis. In recent years, researchers have focused on real activities EM (Siekelova, Androniceanu, Durana, & Michalikova, 2020). Investigating EM behavior can expand the current body of studies on EM activities. This enhances earnings data quality and promotes orderly and healthy expansion of the securities market (Hernawati, Ghozali, Yuyetta, & Prastiwi, 2021).

Financial market regulatory authorities view earnings management as one of the most critical issues that need to be addressed, resolved, or minimized because it contributes to resource mismanagement, financial market instability, and financial losses for investors and other stakeholders in companies (Wijaya, Pirzada, & Fanady, 2020).

Generally, leaders use EM to achieve their goals. Additionally, accrued things surplus management and real EM doings comprise the categories of EM (Rizani et al., 2022). EM is achieved using a variety of strategies, whereas real EM activities are performed by modifying the enterprise's actual activities (Hernawati et al., 2021). Any EM strategy will influence the business's activities, thereby increasing the company's value. Fraud management exerts a significant influence (Le & Nguyen, 2023). Several circumstances have resulted in the formation and spread of the EM phenomenon, fostering the development of new techniques for its application and facilitating wider dissemination (Muljono & Suk, 2018). The most significant of these elements and causes was the conflict of interest among administration and holders, which forced management to reveal that it mainly served its own interests and, as a result, resorted to EM (Siekelova et al., 2020).

Choice of accounting rules made by an economic unit to achieve specific management goals is known as EM. This occurs when directors falsify financial reports and their structure to deceive shareholders about the financial results of the economic unit. They also use their discretion and judgment regarding specific items that appear in financial reports (Bui & Le, 2021). Deliberate management practices, such as measuring and reporting earnings to reflect management's objectives and interests, fall into two categories: either boosting profits at the expense of current or upcoming periods, or the opposite (Huang, Liang, Chang, & Hsu, 2021).

The term EM also refers to any action taken by management to manipulate net income, as reported in financial statements, without generating actual economic gains, as this could have long-term negative effects. Instead, management seeks self-benefits to impact users' perceptions of accounting data by manipulating their incomes

(Rizani et al., 2022). Drawing from the aforementioned, it can be characterized as the utilization of accounting protocols and the adaptability offered by accounting standards to address economic occurrences, with the aim of influencing the operational efficiency of economic entities to attain administrative benefits or engage in new agreements.

When an insider with a stake in the information complies it and sends it to an external source, they create information asymmetry because they rely on it to achieve their objectives. Insiders and outsiders have different levels of understanding of how information is processed, including the accounting techniques used in financial reporting (Huang et al., 2021). Managers frequently select accounting strategies that optimize their own gains, even when those strategies do not benefit the owners, because they typically have sufficient latitude to do so (Wijaya et al., 2020). According to the above information, the agency Problems arise when there is a departure between holders and organization, which encourages directors to act opportunistically by using EM techniques to accumulate riches by exploiting the money of owners (Ningsih, 2017).

Discretionary accruals (DA): accounting modifications decided upon by the administration as opposed to being founded on factual occurrences. Moreover, these accruals may have an important influence on a business's financial statements. (Jamadar, Ong, Abdullah, & Kamarudin, 2022) suggest using accruals to control income. By using this strategy, the corporation may distribute its earnings over some time, thus avoiding significant changes within a single fiscal year (Jia, Shao, Sun, & Zhao, 2020). Additionally, a business that accelerates revenue recognition acknowledges revenue earlier than otherwise, which can lead to an artificially temporary rise in earnings. Furthermore, the term "deferral of expenses" describes a business practice whereby an expense is delayed before being recognized and can be utilized to artificially reduce expenses in the near future (Al-Shattarat, 2021).

5. EMPIRICAL REVIEW AND HYPOTHESES' DEVELOPMENTS

5.1. Earnings Management and Earning Per Share

Profitability is a measure that companies use to assess how well and efficiently they use their resources. This illustrates the connection between company profits and the investments that made them possible. It acts as a barometer for the establishment or organization's ability to make money off all of its business ventures (Burja, 2011). It symbolizes the quality of management, the corporation's competitive position, and the degree of success or failure (Lestari & Armayah, 2016). Companies should first maximize their profits. The fact that companies have the ultimate responsibility to ensure the assistance of their stakeholders, which requires them to maximize profitability, reinforces this perspectives. This perspective is important because it serves as the basis for many academic and popular theories on how businesses function (Agbeja, Adelakun, & Akinyemi, 2015). Generally speaking, "profit maximization" is not the same. However, it is vital to achieve this goal. Where a "profit" is what he refers to as the difference between what a business pays customers for what it produces and what the business contributes for inputs. Furthermore, donors, whether in the form of debt or stock, essentially purchase a claim on the profits that the organization may occasionally generate (Kripa, 2016). One of a company's main goals is to achieve earnings, because doing so ensures the company's survival and continuity, as well as the goals of its investors. The two actions that achieve this are the decision to purchase and choice of financing (Gharaibeh & Khaled, 2020).

Empirical research on earnings management's impact on business performance is insufficient. Empirical studies seeking to find a positive or negative association often strive to prove a direct relationship among EM tactics and EPS (Boachie & Mensah, 2022; Kahloul, Grira, & Hlel, 2023; Lim & Mali, 2023). Li, Liu, and Wang (2024) study demonstrated that EM had a negative influence on the value firm. The study conducted by Boachie and Mensah (2022) displayed a clear and significant positive power of DA on the performance of businesses; this investigation validates the forecasts made by agency theory. Chakroun, Ben Amar, and Ben Amar (2022) have shown that EM has a negative influence on financial performance. According to Khuong, Ha, and Thu (2019), which examines the effect of EM on the portability of companies listed on the Vietnamese stock exchange, EM positively affects

company performance. Research done by Mostafa (2020) on enterprises listed on the Karachi Stock Exchange in Pakistan found a positive influence on EM and EPS. Gill, Biger, Mand, and Mathur (2013) studied the EM and portability of industrial corporations in India, and the findings displayed that EM has a negative influence on EPS. Al-Salahat (2018) which examined the effects of EM practice on portability in Jordanian public shareholding companies, demonstrated the influence of EM on these businesses' portability. The paper Mangala and Singla (2022) shows that Indian banks actively manage profits and that EM has an adverse influence on the EPS. The paper of Anjum, Saif, Malik, and Hassan (2012) show the negative and significant impact of EM on a partnership's profitability in Pakistan. The study by Bhutto, Shaique, Kanwal, and Matlani (2021) demonstrates a negative correlation between EM and EPS. Moreover, it has been shown that the combined influence of EM on EPS is largely negative. The ensuing investigation by Al-Natsheh and Al-Okdeh (2020) implies that there is a statistically significant influence on profitability in industrial corporations listed on the Amman Stock Exchange ASE. In addition, a study by Abdel-Rahman and Hashem (2016) stated that banks scheduled on the Khartoum Stock Exchange practiced EM at a rate of (80%) during the study period and that this had a direct impact on profitability indicators and EPS. However, the findings of the paper (Ayisi, Wenfang, Adu-Gyamfi, Sampene, & Charles, 2021) showed that there is a positive connotation between EM portability. There is a clear shortage of research based on the information provided that have investigated the correlation between EM and the financial viability of enterprises, particularly in less developed nations, as we have shown in this part of the paper. Therefore, we posit the subsequent directional hypotheses on the consequences of EM on the profitability of corporations as stated in the PEX:

H_{01}: There is no statistically significant impact of the discretionary accruals EM on EPS of corporations listed on the PEX for the periods 2017 and 2021.

5.2. Earnings Per Share and Dividends Per Share

The aggregate sum of dividends allocated to every outstanding share of a business is known as DPS (Alias, Rahim, Nor, & Yaacob, 2012). Investors can use the DPS to determine their income from a business based on their shares. Although there are other ways to compensate, dividends are often distributed as cash to owners (Sunaryo, 2020). According to Garba (2014) DPS represents the distribution of profit to each shareholder based on their total number of shares. Conversely, dividends per share, as defined by Arsal (2021) are the profits of the company distributed to each shareholder in an amount corresponding to the total amount of stock held. Furthermore, it is asserted (Rono, 2020) that DPS, or DPS, is the total of all cash profits distributed relative to the outstanding shares.

Managers make important decisions, including dividends. As DPS has one of the main issues that meaningfully impacts shareholders and the financing of the organization, the vital outcomes of most research are that there is a positive connotation between DPS and EPS, which is an important result because companies that distribute DPS are expected to achieve better results in terms of profitability (Sharawi, 2023). This result is supported by many studies (Abdullah, Isiksal, & Rasul, 2023; Amollo, 2016; Aprilyani, Widyarti, & Hamida, 2021; Bezawada & Tati, 2017; Fajaria & Isnalita, 2018; Hanafi, Halid, & Othman, 2023; Hansda, Sinha, & Bandopadhyay, 2020; Kusumawati & Harijono, 2021; Liviani & Rachman, 2021; Mahirun, Jannati, Kushermanto, & Prasetiani, 2023; Monoarfa, 2018). Furthermore, some research has shown that the DPS has no or adverse influence on an enterprise's performance (Miller & Modigliani, 1961).

H_{02}: There is no statistically significant impact of the dividend per share DPS on EPS of corporations listed on the PEX for the periods 2017 and 2021.

5.3. Free Cash Flow and Earnings Per Share

Cash flow is essential to every individual and organization. The CF report is among the four primary financial statements contained within an organization's annual report. Financial statements can compute numerous CF

metrics (Dewi, Sari, Budiasih, & Suprasto, 2019). They introduced the term FCF, a new concept in the field of cash flow, initially referring to agency conflicts. (FCF) is the sum of all cash flows that, after deducting the cost of capital, are more than the sum needed to finance projects with positive net present (Jensen, 1986).

The concept of FCF intuitively appeals to both analysts and laypeople. Managers may interpret FCF as money they spend, distribute to shareholders, or both. However, because Jensen (1986) described FCF as containing particular components, it leaves room for predictors, investigators, and supervisors to apply their judgment and prejudices when determining a company's FCF. The analyst's choice of the cost of capital and "all projects that have positive net present value" could influence the FCF computation (Kousenidis, 2006). Therefore, FCF is more appropriate for intra-business investigation and decision-making than inter-business comparison without a standard metric agreed upon by researchers and specialists (Lai, Latiff, Keong, & Qun, 2020).

Flow (FCF) and agency theory demonstrate that FCF has an adverse effect on business profitability (Khidmat & Rehman, 2014). Managers have a higher probability to invest in initiatives with a low chance of success and negative net present value (NPV) when there is a significant FCF. This in turn leads to a reduction in firm performance. Companies with substantial FCF have a greater capacity to improve their revenues. These findings indicate that the presence of FCF has positive effects on a company's overall success. This corresponds with prior empirical evidence, including conclusions from previous studies (Ali, Ormal, & Ahmad, 2018; Ambreen & Aftab, 2016; Kamran, Zhao, & Ambreen, 2017; Khushi, Din, & Sulaiman, 2020; Yusuf, Yousaf, & Saeed, 2018). The study by Muzakki and Gandakusuma (2023) indicates that free-FCF does not have a substantial influence on profitability.

H_{05}: There is no statistically significant impact of the free cash flow FCF on EPS of corporations listed on the PEX for the periods 2017 and 2021.

6. THE METHODOLOGY

6.1. Data Sources

The financial statements of corporations listed on the PEX provided the data for this study. The sum of corporations listed on the PEX is 48, including all sectors (web.pex.ps., 2022). This study focuses on non-financial companies, which consist of 33 listed companies. Two companies did not participate in the research. because of incomplete annual financial reports; the final sample after the exclusion was 31 listed non-financial companies for 2017-2021 with 155 observations.

6.2. Measuring Research Variables

Table 1 presents the measurement of the variables used in this study.

Table 1. Study variables.

Acronyms	Variables	Description	Measurement	Citation
EPS	Dependent	Earnings per share	Profit margin divided by the quantity of shares in circulation.	Al-Salahat (2018)
EM	Independent	Discretionary accruals	Modified Jones model	Dechow et al. (1995)
FCF	Independent	Free cash flow	"Sales – (Operating costs + Taxes) – Required investments in operating capital"	Maswadeh (2018)
DPS	Independent	Dividend per share	"Total cash distributions divided by the number of shares".	Sharawi (2023)
IT	Independent	Industry type	Type of industry to which the firm belongs.	Abu Raya (2022)
FS	Independent	Firm size	Log of firm's total assets.	Maswadeh (2018)
LEV	Independent	Leverage	Total debts to total assets.	Abu Raya (2022)

6.2.1. Independent Variable

Previous research has documented many methods for measuring EM. These metrics can be categorized into two types. Real EM and accrual-based EM are the two main categories of EM. The first category centers on discretionary accruals (DA). Several models, including the modified Jones model (Dechow, Sloan, & Sweeney, 1996) yielded DAs. Kasznik (1999) and performance-adjusted discretionary accruals (Kothari, Leone, & Wasley, 2005; Raman & Shahrur, 2008). Thus, the paper used the adapted Jones model, which provides the residual values that quantify the error measurement (EM). You can express the equation for this model as follows:

$$\left(\frac{\text{TACit}}{Ait-1}\right) = \alpha 1\left(\frac{1}{Ai,t-1}\right) + \beta 1\left(\frac{\Delta SALESit-\Delta \text{ARtit}}{Ai,t-1}\right) + \beta 2\left(\frac{PPEit}{Ai,t-1}\right) + \varepsilon \text{it} \qquad (1)$$

Total accruals are referred to as TACit., which are calculated as the discrepancy among the net cash flow from operational operations and the net profit for business i at time t. TAit−1 symbolizes all of the assets of the company i in the year t − 1. The ΔRECit is the change in account receivables divided by the total of assets. PPEit refers to the total value of property, plant, and equipment owned by business i at time t. CFOit−1 represents the cash flow generated by the operational activities of firm i in the previous year, t - 1. εit represents the residual error in the model. It should be noted that the anticipated value of accrual EM is referred to as DA.

6.3. The Model

Using multiple regression analysis, the following research model was examined to determine the influence of EM on the EPS of businesses listed on PEX:

$$\text{EPS} = a + \beta 1\text{EMit} + \beta 2\text{FCFit} + \beta 3\text{DPSit} + \beta 4\text{FSit} + \beta 5\text{LEVit} + \beta 6\text{ITit} + e \qquad (2)$$

Where:

EPS = Earnings per share.

a = Regression equation constant.

EM = earnings management

FCF = Free cash flow.

DPS = Dividend per share.

FS = Firm size.

LEV = Leverage.

IT = Industry type.

7. RESULTS

7.1. Descriptive Results

Table 2 shows the statistical characteristics regarding the variables included in this investigation. The sample comprised 155 observations, which were sourced from enterprises located in Palestine. The table illustrates that the mean value of EPS is 0.420894 and the mean value of EM is 11,606,651.04, suggesting that businesses use accruals actions to accomplish their EM. The mean values of the FCF, DPS, LEV, and FS were 0.432, 0.694, 0.751, and 0.684, respectively.

Table 2. Descriptive data.

Symbol	N	Min.	Max.	Mean	Std. deviation
EM	155	-27,109,924	182,742,752	11,606,651.04	31,378,413.884
FCF	155	-0.268	0.586	0.043	0.093
EPS	155	-0.213	7.915	0.420	1.364
DPS	155	0.0000	0.6000	0.069	0.129
LEV	155	0.0123	3.022	0.751	0.621
FS	155	5.890	8.971	7.505	0.684

7.2. Multicollinearity Test

Determining the extent to which the variables in the multiple regression model displayed high correlation or multicollinearity was the objective of the present research. Using the research variable correlation matrix, a Pearson's correlation test was employed to estimate the multiple regression model to ensure that there were no strong correlations among the variables. A correlation rate greater than 80% between two or more variables was considered strong. This could potentially distort the relationship between one of the two variables (Gujarati, 2009). To confirm that there were no correlations of this type, a cross-correlation matrix between the research variables was formed, as presented in Table 3.

Table 3. Multicollinearity test.

Symbol	EM	FCF	DPS	LEV	FS	IT	VIF
EM	1						1.769
FCF	0.049	1					1.107
DPS	0.329**	0.146	1				1.278
LEV	0.186*	-0.086-	-0.192-*	1			1.152
FS	0.617**	0.011	0.270**	0.121	1		1.669
IT	-0.017-	-0.276-**	-0.152-	-0.082-	0.0910	1	1.150

Note: **. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

7.3. The Regression Analysis

The effect of EM on the EPS of corporations listed on PEX, as measured by (EPS), was analyzed using regression, as indicated in Table 4.

Table 4. Findings from the regression.

Symbol	B	T	Sig.
(Constant)	-0.721	-0.800	0.425
EM	-1.447	-5.220	0.000
FCF	-2.214	-3.017	0.003
DPS	9.360	16.411	0.000
LEV	0.133	1.178	0.241
FS	0.055	0.447	0.656
IT	0.1190	1.331	0.1850
R = 0.815 R-Squared = 0.664 Adjusted R2 = 0.650			
F = 48.446 Sig. = 0.000			

7.4. Discussion

According to Table 4, the Adjusted R Square was 0.650, with a statistical significance of (.000), which was less than (1%). The outcomes show that the independent variables play a significant role in explaining the change in the EPS. Furthermore, the components of the study account for 65% of the change in the dependent EPS. This indicates that this study did not explore all factors that could affect the EPS variable. Additionally, the results show a statistically significant negative association between EM and EPS at level 1%, there is also a negative link at the 1% level between FCF and EPS., and a positive correlation between DPS and EPS at level 1%. Conversely, no relationship exists between the control variables LEV, FS, and IT and dependent variable EPS.

7.4.1. EM and EPS

The results of the variable EM show that it has a significant (p =0.00) and negative (β = -1.447) relationship with EPS. Given the P-value is lower than.1%, therefore, we can reject H01: there is no statistically significant impact of the EM on EPS and accept the alternative by there is a significant negative relationship between EM and EPS. Together, these studies' findings: (Khidmat & Rehman, 2014). The outcomes of this paper are not consistent

with those of other studies (Ali et al., 2018; Ambreen & Aftab, 2016; Kamran et al., 2017; Khushi et al., 2020; Muzakki & Gandakusuma, 2023).

7.4.2. DPS and EPS

The results of the variable DPS show that it has a significant (p =0.000) and positive (β = 9.360) relationship with EPS. Given that the p-value is less than 1%, we can reject H01: There is no statistically significant impact of DPD on EPS, and accept the alternative by There is a significant positive connection among DPS and EPS. The outcomes of this study are in agreement with the outcomes of: Amollo (2016); Bezawada and Tati (2017); Monoarfa (2018); Hansda et al. (2020); Aprilyani et al. (2021); Liviani and Rachman (2021); Abdullah et al. (2023); Hanafi et al. (2023) and Mahirun et al. (2023). The outcomes of this paper are not consistent with (Miller & Modigliani, 1961).

7.4.3. FCF AND EPS

The results of the variable F show that it has a significant (p =0.003) and negative (β = -2.214-) relationship with EPS. With a p-value below 1%, therefore, we can reject H01: There is no statistically significant impact of FCF on EPS, and accept the alternative by There is a significant negative connection between FCF and EPS. The outcomes of this study are in agreement with the outcomes: Khushi et al. (2020); Ali et al. (2018); Kamran et al. (2017); Ambreen and Aftab (2016) and Yusuf et al. (2018). This paper's results contradict those of previous research (Muzakki & Gandakusuma, 2023).

8. CONCLUSION

In this research, we aimed to discover how EM affected the EPS of firms listed on the PEX for 2017 and 2021. The paper population included all corporations listed on the PEX, with the exception of two financial firms. The research sample comprised (31) firms listed on the PEX. Additionally, the regression technique was used. EPS provided a 65% description of the size of this effect. It is clear from the outcomes that the EM and FCF of businesses listed on PEX have a negative correlation with earnings at the 1%. The (DPS) and EPS of businesses listed on the PEX have a positive and significant correlation at the (1%) level.

Numerous theoretical and practical implications stem from this paper's findings. The investigation's practical applications are that the significant negative coefficient (-1.447) for EM implies an increase in discretionary accruals is related to lower profitability. Therefore, organizations that manipulate their results through accruals are more likely to disclose lower levels., indicating the need for tighter regulatory scrutiny and better corporate governance practices to curb earnings manipulation. The significant negative coefficient (-2.214) for FCF indicates that higher FCF is related to lesser profitability. This could potentially point to inefficiencies in cash utilization or investment opportunities, implying that firms should improve their free cash flow management to boost profitability. The highly significant positive coefficient (9.360) of DPS indicates that greater DPS are strongly related to greater profitability. Therefore, it may be inferred that corporations that generate significant profits are more inclined to pay larger dividends., which can be an attractive indication to stockholders about a business's financial health and performance. The theoretical implications can be summarized as follows: 1- The negative influence of EM on profitability supports the theory that EM through accruals can distort financial performance and lead to lower profitability. This finding contributes to literature on the adverse effects of EM on profitability. 2- The negative association between FCF and EPS may align with Jensen's hypothesis; this implies that having too much cash flow might result in ineffective investments and agency issues, eventually decreasing profitability. 3- The strong positive relationship between DPS and profitability supports dividend signaling theory, which posits that dividend payments signal a business's strong financial health and future prospects to stockholders. This finding reinforces the idea that dividends are an important tool for conveying information on firm performance.

Limitations of the paper: Although the research of this paper measures the influence of EM on the EPS of pace, several limitations can be highlighted: 1- The data used in this research are relatively small compared to other markets, despite the use of all the necessary analyses for the study. 2- The sample size (31) of companies may affect their generalizability to the global context. 3- The sector may affect the generalization of the study outcomes to the financial company sector in Palestine.

While this study has significant contributions, it is also subject to several limits that provide intriguing possibilities for further research. First, this research focuses attention on the impact of the association between EM and EPS. Consequently, future research could focus on introducing other independent variables to the study, such as sustainability and governance, and some other control variables, such as liquidity ratios. Second, the current sample is limited to studying one country, which is Palestine, and it is possible in the future to conduct the study on several countries in the region.

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