

RESEARCH

# Motives and Techniques of Earnings Management in Jordanian Companies and their Implications for Corporate Sustainability: Towards Integrating Artificial Intelligence in Financial Transparency

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## ABSTRACT

**PURPOSE:** The aim of the study is to identify the accounting rationale applied therein. It also investigates how managers' motivations relate to the specific method used for earnings management and considers their wider implications for corporate sustainability and ethical financial reporting.

**DESIGN/METHODOLOGY/APPROACH:** The paper applies a descriptive analytical methodology to achieve the study objectives by collecting a structured questionnaire from a targeted sample of 74 highly experienced auditors.

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**FINDINGS:** The findings indicated a significant relationship between most of the managerial motives and earnings management practices in Jordanian firms. Also, knowledge of sustainability and the adoption of corporate governance practices can reduce the weight of opportunism.

**ORIGINALITY/VALUE OF THE PAPER:** The paper contributes to the literature on earnings management by relating it to corporate sustainability and financial ethics. It also considers the potential for artificial intelligence to contribute to stronger ethical oversight.

**RESEARCH LIMITATIONS/IMPLICATIONS:** Mixed methods or AI-driven audit analytics are recommended for future research to study the sustainability effects of earnings manipulation in different industries.

**PRACTICAL IMPLICATIONS:** Through the encouragement of a more sustainability-based accounting ethic and by adopting digital transparency tools, organisations can play an important role in re-establishing stakeholder trust and nurturing long-term economic and social resilience.

**KEYWORDS:** *Earnings Management; Sustainability; Artificial Intelligence; Earning Management Motives; Earnings Management Techniques; Jordanian Companies.*

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## INTRODUCTION

The concept of earnings management refers to the managerial manipulation, within the bounds of permissible accounting standards, of financial results to favour itself or certain related parties.

Earnings management continues to be a major problem influencing the quality and reliability of financial reports in emerging markets. In Jordan, the emphasis on achieving short-term performance measures, gaining access to funds, and meeting investor expectations continues to influence managers to use accounting discretion, which obfuscates the actual economic performance of the entity. The emergence of such discretionary reporting practices erodes corporate governance mechanisms and could put firms at risk of becoming unsustainable, especially as corporations face more stringent requirements when it comes to ESG (Environmental, Social, and Governance) reporting. Previous studies have proved that earnings management not only weakens transparency and erodes stakeholder trust but also potentially creates long-term risks to financial solvency (Dechow *et al.*, 2010).

Meanwhile, developments in AI provide new possibilities for improving the detection of abnormal financial activity. Audit analytics, anomaly-detection algorithms, and AI-powered natural language processing tools can identify patterns that could have been missed by conventional methods (Brynjolfsson *et al.*, 2017). These technologies hold great promise in contributing to transparency amongst Jordanian firms, promoting social responsibility, enhancing sustainability-based decision-making, and ensuring

financial reports meet current regulatory requirements. As such, the motivations and methods of earnings management (EM), and their relationship to sustainability, when AI is considered, has been increasingly studied.

## Research Problem

While earnings management has received great attention in the accounting literature worldwide, little consideration is given to its consequences for firm sustainability and transparency amongst Jordanian firms. While the literature tends to focus on classic motives, it may overlook what is at stake for long-term organisational sustainability and its other stakeholders.

Furthermore, evolving technological solutions – most notably machine learning and other artificial intelligence (AI) approaches – have not been sufficiently integrated into the local research context, despite being shown to detect manipulation and improve reporting accuracy. As a result, the main research question of this study is: To what extent are the motives and methods of earnings management understood to operate within Jordanian companies, how do they influence sustainability performance, and can AI-based tools serve to strengthen financial transparency?

## Study Hypotheses (H)

**H1:** There are no statistically significant differences between the profit-increasing or profit-decreasing trends of Jordanian companies' executive management motivations for earnings management.

**H2:** There are no statistically significant differences between the profit-increasing or profit-decreasing trends of the methods used by Jordanian companies' executive management to manage earnings.

**H3:** There is no statistically significant correlation between the motivations and methods used for earnings management in Jordanian companies.

## LITERATURE REVIEW

### Earnings Management as an ESG Risk

Earnings management (EM) is commonly defined as purposeful intervention in the financial reporting process via discretion in accounting choices or real operating decisions to influence reported earnings while remaining within Generally Accepted Accounting Principles (GAAP) boundaries (Healy and Wahlen, 1999). Classical streams distinguish between accrual-based earnings management (EM), which

involves manipulating provisions, depreciation, or specific accruals (Burghleh and Al-Okdeh, 2020), and real activities manipulation—altering the timing or volume of production, discretionary expenses, or sales to hit benchmarks (Roychowdhury, 2006). A complementary perspective highlights classification shifting, where firms relocate recurring expenses to “special items” to inflate core earnings (McVay, 2006; Al-Qatanani and Siam, 2021).

Within an Environmental, Social, and Governance (ESG) framing, earnings management (EM) primarily sits in the Governance (G) pillar because it undermines transparency, investor protection, and board oversight—core governance aspirations of sustainability. Earnings management (EM) weakens the decision-usefulness of financial statements (Dechow *et al.*, 2010; Al-Natsheh and Al-Okdeh, 2020; Siam *et al.*, 2014), impairs market discipline, and may distort resource allocation (Fields *et al.*, 2001; Barth *et al.*, 2001). It is also associated with incentive problems around executive pay and option exercises (Cheng and Warfield, 2005) and with agency frictions during debt covenant pressure, restructurings, and distress (Beneish *et al.*, 2011).

## Motives, Mechanisms, and Sustainability Tensions

**Motives:** The literature consistently documents incentives to (i) meet or beat analysts’ forecasts and market expectations (Bartov *et al.*, 2002), (ii) achieve compensation thresholds or contractible targets (Sun, 2012), (iii) avoid covenant violations or political costs (Jaggi and Lee, 2002), and (iv) manage perceptions around equity offerings, Mergers and Acquisitions or delistings (Cheng *et al.*, 2010; Lim and Chang, 2017). Earnings management (EM) is also reported around Research and Development (R&D) capitalisation and revaluations, and under internal-control weaknesses or tax-related pressures (Gleason *et al.*, 2017; Al-Khleifat *et al.*, 2024).

**Mechanisms:** Accrual-based earnings management (EM) exploits latitude in estimation in allowances, impairments, useful lives, or discretionary accruals (Marquardt and Wiedman, 2004). Real earnings management (EM) trades off future performance for present targets (reducing R&D, Selling, General and Administrative expenses, or overproducing to lower cost per unit), often harming long-run value (Roychowdhury, 2006). Classification shifting can inflate “core earnings” without affecting cash flows (McVay, 2006). Such behaviours can interact with governance quality, board and audit effectiveness, and ownership structures (El Mir and Seboui, 2006).

**Sustainability Tensions:** From an Environmental, Social, and Governance (ESG) perspective, earnings management (EM) conflicts with governance (G) by camouflaging risks and weakening stewardship. Further, it can draw resources away from environmental (E) and social (S) investments because managers might cut back on discretionary expenditures—including training, safety, and environmental programmes—to achieve higher financial targets (Litt *et al.*, 2013). By contrast, a conservative approach and stringent disclosure are associated with more efficient investment and lower opportunistic behaviour, thereby strengthening sustainable capital (Lara *et al.*, 2016).

### AI and Financial Transparency

Artificial intelligence (AI) has been increasingly acknowledged for enabling firms to better detect earnings manipulation and improving the transparency of the financial sector. AI mechanisms in the form of Machine Learning (ML) classifiers and Anomaly Detection (AD) systems have been found to be more effective in detecting outlier accruals (irregular accruals), unusual, or deviating reporting patterns (Bao *et al.*, 2020). Further, natural language processing tools are used to measure managerial tone and identify obfuscation in the financial filings (Li, 2010; Al-Zagheer *et al.*, 2025; Abu-Siam *et al.*, 2025).

According to Brynjolfsson *et al.* (2017), AI greatly improves predictive precision and is better suited to making decisions with greater confidence. Such developments suggest that the future use of AI tools in financial monitoring systems can help Jordanian firms to identify misstatements at an early stage, reduce opportunistic reporting, and enhance public confidence in financial statements.

### Sustainability Implications of Earnings Management

Prior research has also found evidence that earnings manipulation is harmful to corporate sustainability; it distorts financial communications, decreases accountability, and impairs long-term stakeholder relationships. By clouding the perception of uncertainties, distorting investment efficiency, and undermining the credibility of ESG disclosures, earnings management can delay the recognition of risks (Hashem *et al.*, 2025). Eccles *et al.* (2014) proved that principled, well-stewarded firms disclose more transparently and engage in less earnings management.

In a similar vein, García-Sánchez and García-Meca (2017) also show that sustainability governance factors, namely board independence and integrated reporting,

reduce the degree of opportunistic financial behaviour. These results emphasise the need to control earnings management in order to build confidence among stakeholders and guarantee the sustainability of Jordanian companies.

## RESEARCH METHODOLOGY

The research adopted a descriptive methodology to achieve its objectives and test its hypotheses. Data on the study variables were collected through a questionnaire administered to auditors working in the Big Four accounting firms. The collected data were then classified, analysed, and interpreted to test the study's hypotheses and develop conclusions and recommendations.

### Population and Sample of the Study

The study population consists of experienced external auditors who hold professional certifications and work in the world's four largest auditing and professional services firms (Big Four). These audit firms audit most large public shareholding companies as well as numerous private companies. Results are measured using Statistical Package for the Social Sciences (SPSS).

A convenience sample was used, comprising 74 auditors occupying different administrative roles in the selected big four firms. All the distributed questionnaires were returned, coded, and analysed to answer the study's questions and to test its hypotheses.

### Data Collection Sources

Two types of data sources were used:

**Primary Sources:** A structured questionnaire was designed and distributed to external auditors in the Big Four firms in order to collect field data related to the study variables.

**Secondary Sources:** These included previous research, books, scientific studies, journals, articles, reports, and academic theses that were reviewed prior to conducting the study.

## ANALYSIS

### Description of Sample Characteristics

The highest proportion of participants in our sample hold a bachelor's degree (82.4%), which corresponds to the level of education generally required in the public and private

sector job market. A majority of the respondents (85.1%) are accounting graduates, highlighting the strong accounting-based background possessed by the sample in relation to fields sensitive to auditing and auditor liability. Regarding professional certifications, 56.8% hold a CPA qualification, while 13.5% were certified by the JCPA Attorneys' Association, suggesting that the sample possesses strong professional qualifications.

The average age of the sample is relatively young, with 51.4% of auditors having less than 10 years' overall audit experience. Second, the sample includes participants with different job titles, with "Audit Manager" being the dominant position (36.5%), indicating a reasonable percentage of heads or supervisors in the audit offices within this group.

## Hypothesis Testing

According to the sample's responses regarding Jordanian companies' motives and methods for earnings management aimed at increasing or decreasing profits, the categories were defined as follows: INC (often increasing profits), DEC (often decreasing profits), NON (no earnings management through the mentioned item), and BOTH (indicating both increasing and decreasing practices). This section presents the responses of the sample members and the outcomes of the hypothesis testing.

**H1:** There are no statistically significant differences between the profit-increasing or decreasing trends of Jordanian companies' executive management motivations for earnings management.

To test this hypothesis, the Friedman test is used, and the results are given in Table

**Table 1: Chi-square test**

Motives		Chi Square	Mean Rank			
			INC	DEC	NON	BOTH
Motives combined		28.721 **	3.62	3.00	1.04	2.35
M1	Executive Management Salaries Incentives and Bonuses	78.432**	3.35	2.22	2.00	2.43
M2	Company CEO rotation	21.027**	2.76	2.46	2.08	2.70
M3	Exploiting information about the direction of earnings management for personal gain	6.324	2.43	2.68	2.30	2.59
M4	The company is owned by the executive management	23.514**	2.65	2.81	2.05	2.49
M5	Debt contracts	35.514**	3.00	2.54	2.03	2.43
M6	Employees	37.459**	2.78	2.92	2.11	2.19

Motives		Chi Square	Mean Rank			
			INC	DEC	NON	BOTH
M7	Tax payments	68.378**	2.32	3.32	2.14	2.22
M8	Impact on stock price in the financial market	66.432**	3.30	2.35	2.05	2.30
M9	Financial analysts' forecasts (such as expected earnings indicators)	68.054**	3.32	2.24	2.14	2.30
M10	Issuance of shares and subscriptions	93.027**	3.46	2.30	2.05	2.19
M11	Mergers and acquisitions	70.324**	3.32	2.30	2.05	2.32
M12	Avoiding political costs (such as customs exemptions and community services)	48.703**	3.08	2.68	2.08	2.16
M13	Competitors, suppliers, and customers	28.270**	3.00	2.51	2.24	2.24

Source: Measured by authors using SPSS

(\*\*) Significant at 0.05 level

Table 1 shows that there are statistically significant differences in the responses of the sample members. This is concluded from the calculated value of the chi-squared test, which was equal to 28.721 at a significance level of less than 0.05. Hence, we do not accept the null hypothesis (H1) and adopt its alternative, which states that “There exists a statistically significant difference between profit-increasing and profit-decreasing trends with regard to executive management motives for managing companies’ profits”.

The most relevant findings on the composite motives indicate that the mean value of scores for this category across the study population (3.62) was the highest, indicating strong profit-driven motives. This was followed, in sequence, by a focus on reducing profits, which scored an average of 3.00. These results imply that most respondents in the sample think that the motives of executive management in Jordanian companies are primarily directed towards maximising profits.

**H2:** There are no statistically significant differences between the profit-increasing or decreasing trends of the methods used by Jordanian companies’ executive management for earnings management.

The Friedman test was used to measure the differences between earnings management trends for the combined methods, as well as for each method individually.

**Table 2: Chi-Square Values and Probability Values for the Statements of the Second Hypothesis**

Methods		Chi Square	Mean Rank			
			INC	DEC	NON	BOTH
Combined methods		14.280 **	2.90	3.20	1.20	2.70
T1	Methods of depreciation and estimation of fixed assets	19.622**	2.89	2.30	2.24	2.57
T2	Determining the values of the different allocations	20.054**	2.59	2.70	2.05	2.65
T3	Estimating the percentage of completion and the possibility of fulfilling contract claims	44.811**	3.16	2.35	2.16	2.32
T4	Estimating the value that could be gained from the company's restructuring	14,000**	2.81	2.32	2.27	2.59
T5	Ruling on the necessity and value of writing off certain inventory items	29.459**	2.38	2.89	2.05	2.68
T6	Estimating outstanding environmental liabilities (such as expenses and fines related to environmental damage)	32.919**	2.27	3.00	2.14	2.59
T7	Determining research and development expenses	4.162	2.41	2.68	2.38	2.54
T8	Determining or changing the amortisation period for intangible assets	3.946	2.43	2.57	2.35	2.65
T9	Determining the scope for capitalising various costs	13.892**	2.68	2.70	2.16	2.46
T10	Financial Investment Classification	5.676	2.73	2.41	2.49	2.38

Source: Measured by authors using SPSS

(\*\*) Significant at 0.05 level

Table 2 shows that there are significant differences among the responses of the sample members, as the observed and calculated  $\chi^2$  value was 14.280, which was greater than the tabulated  $\chi^2$  value at a significance level of less than 0.05. Hence, we accept the hypothesis that claims: "There are statistically significant differences in trends towards increasing or decreasing profits for the methods adopted by the executive management of Jordanian companies to manage profits."

The notable finding regarding the combined methods is that this group's responses in the study sample had the highest average value (3.20) when following a profit-decreasing trend, compared to an average value of 2.90 when following a profit-increasing trend. This means that most respondents in the sample think that the tools used in Jordanian corporate executive practices are primarily those related to reducing reported profits.

**H3:** There is no statistically significant correlation between the motivations and methods used for earnings management in Jordanian companies.

Spearman’s correlation coefficients were calculated between motives (M) and methods (T), and the results were summarised in Table 3.

**Table 3: Correlation Matrix between Motives and Methods**

	T1	T2	T3	T4	T5	T6	T7	T8	T9	T10
M1	.63**	.44**	.54**	.43**	.40**	.32**	.32**	21	10	19
M2	.54**	.46**	.45**	.34**	.42**	.44**	.50**	.50**	43**	36**
M3	.60**	.64**	.62**	.56**	.64**	.61**	.51**	.42**	.50**	.57**
M4	.41**	.54**	.50**	.53**	.53**	370**	.60**	.57**	.51**	.62**
M5	.54**	.54**	.47**	.46**	.38**	.61**	.55**	.50**	.53**	.56**
M6	.40**	.44**	.42**	.50**	.47**	.35**	.35**	18	.44**	.34**
M7	.50**	.49**	.49**	.38**	.35**	.54**	.66**	.59**	.56**	.53**
M8	.26	.57**	.53**	.46**	.43**	.54**	.58**	.60**	.63**	.54**
M9	.39**	.59**	.52**	.55**	.44**	.66**	.68**	.66**	.61**	.61**
M10	.20	.57**	.48**	.50**	.49**	.49**	.48**	.46**	.50**	.44**
M11	.17	.57**	.50**	.50**	.50**	.46**	.50**	.52**	.56**	.45**
M12	.49**	.45**	.59**	.41**	.42**	.53**	.51**	.44**	.46**	.52**
M13	.49**	.41**	.44**	.32**	.31**	.21	.21	.14	.20	.29

Source: Measured by authors using SPSS

(\*\*) Significant at 0.05 level

*Results of the correlation between the motive (executive management salaries, incentives, and bonuses) and earnings management methods:* Table 3 shows that this motive demonstrated a positive correlation with the majority of methods, as the significance level of the correlation coefficient between most methods and this motive was less than 0.05. It was observed that the significance level for each of the following methods was greater than 0.05: (determining or changing the amortisation period for intangible assets), (determining the extent of capitalisation of various costs), and (classifying financial investments). This indicates an absence of a statistically significant correlation between the motive (executive management salaries, incentives, and bonuses) and these methods. This can be explained by the fact that management may not resort to using these methods to achieve this motive.

*Results of the correlation between the motive (CEO turnover) and earnings management methods:* This motive demonstrated a positive correlation with all methods,

with the significance level of the correlation coefficient between this motive and all methods being less than 0.05. This indicates that the management of Jordanian companies may resort to using all methods to achieve the motive (CEO turnover).

*Results of the correlation between the motive (exploiting information about the direction of earnings management for personal gain) and earnings management methods:* This motive demonstrated a positive correlation with all methods, with the significance level of the correlation coefficient between this motive and all methods being less than 0.05. This indicates that the management of Jordanian companies may resort to using all methods to achieve the motive (exploiting information about the direction of earnings management for personal gain).

*Results of the correlation between the motive (executive management ownership) and earnings management methods:* This motive demonstrated a positive correlation with all methods. This indicates that the management of Jordanian companies may resort to using all methods to achieve the motive (executive management ownership).

*Results of the correlation between the motive (debt contracts) and earnings management methods:* This motive demonstrated a positive correlation with all methods. This indicates that the management of Jordanian companies may resort to using all methods to achieve the motive (debt contracts).

*Results of the correlation between the motive (employees) and earnings management methods:* This motive demonstrated a positive correlation with most methods. This indicates that the management of Jordanian companies may resort to using most methods to achieve the motive (employees). While the significance level of the correlation coefficient between this motive and the method of “determining or changing the amortisation period for intangible assets” was greater than 0.05, this indicates a lack of statistically significant correlation between the employee motive and that method. This can be explained by the possibility that management may not utilise this method to serve the employee motive.

*Results of the correlation between the motive (“tax payments”) and earnings management methods:* This motive demonstrated a positive correlation with all methods. This indicates that the management of Jordanian companies may resort to using all methods to achieve the motive of “tax payments.”

*Results of the correlation between management methods and the motive (influencing the stock price in the financial market):* This motive demonstrates a positive correlation with most methods. This indicates that the management of Jordanian companies may resort to most methods to achieve the motive (influencing the stock price in the financial

market). However, the correlation coefficient between this motive and the depreciation and valuation of fixed assets method was greater than 0.05, showing a lack of statistically significant correlation. This can be explained by the possibility that management does not resort to this method to serve the motive of influencing the stock price in the financial market.

*Results of the correlation between the motive (financial analysts' expectations) and earnings management methods:* This motive demonstrates a positive correlation with all methods. This indicates that the management of Jordanian companies may resort to all methods to achieve the motive (financial analysts' expectations).

*Results of the correlation between the motive (issuing shares and subscriptions) and earnings management methods:* This motive demonstrates a positive correlation with most methods. This indicates that the management of Jordanian companies may resort to most methods to achieve the motive (issuing shares and subscriptions). However, the correlation coefficient between this motive and the depreciation and valuation of fixed assets method was greater than 0.05, showing a lack of statistically significant correlation. This can be explained by the possibility that management does not resort to this method to serve the motive of issuing shares and subscriptions.

*Results of the correlation between the motive (mergers and acquisitions) and earnings management methods:* This motive demonstrates a positive correlation with most methods. This indicates that the management of Jordanian companies may resort to most methods to achieve the motive (mergers and acquisitions). However, the correlation coefficient between this motive and the depreciation and valuation of fixed assets method was greater than 0.05, showing a lack of statistically significant correlation. This can be explained by the possibility that management does not resort to this method to serve the motive of mergers and acquisitions.

*Results of the correlation between methods and the political cost avoidance motive:* This motive demonstrates a positive correlation with all methods. This suggests that the management of Jordanian companies may resort to all methods to achieve the motive of avoiding political costs.

*Results of the correlation between methods and the motive (competitors, suppliers, and customers):* This motive (competitors, suppliers, and customers) demonstrates a positive correlation with several methods, including the depreciation and valuation of fixed assets, determining the values of various provisions, estimating the percentage of completion and feasibility of fulfilling contractual claims, estimating the value due from the company's restructuring, and determining the necessity and value of writing off certain inventory items, with correlation coefficients of less than 0.05 for these

methods. This suggests that the management of Jordanian companies may resort to using these methods in earnings management to satisfy the competitors, suppliers, and customers motive.

Conversely, the correlation coefficient between the ‘competitors, suppliers, and customers’ motive and the following methods—estimating environmental liabilities, determining research and development expenses, determining or changing the amortisation period for intangible assets, determining the extent of capitalisation of various costs, and classifying financial investments—was greater than 0.05, which leads to acceptance of the alternative hypothesis.

## RECOMMENDATIONS

The researchers suggest that it is important to use AI-driven analytics tools to help detect suspicious filings earlier and to enhance sustainability governance by encouraging board independence, raising ESG reporting quality, and aligning with International Financial Reporting Standards (IFRS) S1 and S2. In addition, encouraging integrated reporting can facilitate links between profitability and CSR performance and reduce information asymmetry.

It is also important to emphasise to auditors the need to increase their capabilities in advanced data analytics so that they can better pinpoint earnings management, and to upgrade regulatory monitoring using AI surveillance systems at the Jordan Securities Commission (JSC) and Amman Stock Exchange (ASE).

## AUTHORS' CONTRIBUTIONS

Ahmad Wasef Mohammed Dbeis managed the data, theoretical framework, statistical analysis, and formulation and discussion of findings. Dr Mohammed Idris oversaw computer model design, analytical model development, and theoretical framework assessment and Dr Sodfa Eltahir conducted editing and proofreading of the paper.

## CONCLUSIONS

This paper offers a deeper understanding of the complex reasons and methods which allow Jordanian companies (JCs) to engage in earnings management (EM), showing how these activities may serve to challenge transparency and long-term viability. The results support earlier evidence that both accrual-based and real earnings manipulation cause accounting reports to become less trustworthy, resulting in greater stakeholder risk.

At the same time, sustainability frameworks and governance arrangements are central to addressing opportunism and increasing accountability. This paper also notes that, in light of its growing importance as a means to detect anomalies, AI represents a powerful new resource for improving surveillance and increasing transparency in financial reporting. In order to produce more reliable, trustworthy, and accountable financial statements by Jordanian companies, integrating AI analytics in the process of auditing or regulation may be helpful.

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