مدى وجود ممارسات لإدارة الربحية في الشركات العاملة في سوق المال القطرية

The Extent of Practices of Earnings' Management by Companies Registered in the Qatar Capital Market

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المستخلص:

على الرغم من شيوع ممارسات إدارة الربحية وكثرة الأبحاث التي تناولتها فانه ليس من السهل على الباحثين التأكد من وجود تلك الممارسات أو إثباتها بأدلة قاطعة، و ترجع الصعوبة إلى أن مثل هذا الدليل يتطلب تقدير الإرباح قبل وجود اى أثر لتدخلات الإدارة ثم مقارنتها برقم الربح الذي ورد بالتقارير المالية بعد تدخلات الإدارة. ولذلك فان الأبحاث التي أجريت في هذا الصدد تحاول الوصول إلى قرائن أو مؤشرات على وجود مثل هذه الممارسات. و الجزء الميداني في الدراسة الحالية يعتمد على «اختبار مدى وجود ممارسات لإدارة الربحية في الشركات العاملة في السوق المالية القطرية» من خلال دراسة العلاقات بين كل من صافى دخل العمليات و التدفقات النقدية من أنشطة التشغيل، وكذلك العلاقة بين صافي الدخل وصافي التدفقات النقدية، وأخيراً العلاقة بين صافي الدخل وصافي المبيعات وذلك في الأجل الطويل. وتتفق نتائج الدراسة مع ما توصلت إليه دراسة Kinnunen and Koskela 2006 والتي اهتمت بموضوع إدارة الربحية على المستوى الدولي وذلك بالتطبيق على عينة قدرها ٨٧٠٠٠ رقم ربحية لعدد ٢٢٠٠٠ شركة في ثمانية عشرة دولة. من أجل ذلك فإن من واجب هيئة سوق المال القطرية اكتشاف أي ممارسات لإدارة الربحية واتخاذ إجراءات رادعة ضد الشركات التي يثبت لديها تلك الممارسات، وذلك كإجراء أساسي في إطار جهود رفع مستوى حوكمة السوق ورفع

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المستوى التنافسي للسوق القطرية في ظل عولمة أسواق المال، وفي ظل المنافسة الشرسة على اجتذاب رؤوس الأموال في أسواق المنطقة.

ABSTRACT:

Many studies have devoted their attention to get to know the extent of the practices of earnings management existent in various markets and This study seeks the examine of to what extent the Directors of companies registered at the Qatari capital market use the financial reports in the earnings' management, and whether or not these practices vary according to the characteristics of companies, such as the type of activity or the profile of the company or the level of earnings.

The data were collected from financial reports published for the sample of companies and then taking down the data and carrying out the statistical analysis of the data, which relied on the use of the test of Pearson correlation coefficient, hence the Correlation Matrix in order to test the above-mentioned relations between the elements of the statements of income and cash flows (at 90% confidence level).

The application of these tests on the companies data represented in the sample of the study as one group to examine to what extent there are practices of earnings' management at the corporate level. The results point to that, we may say there is a strong likelihood of the existence of practices of earnings' management and an attempt to interfere in the figures of the income statement, particularly in its second stage, namely, the expenses and other revenues (other than the key processes and activities). Those results are in line with the conclusion of the study conducted by Kinnunen and Koskela 2006, which focused on the management of earnings at the international level through the application on a sample of 87000 profitable numbers of 22000 companies in eighteen countries.

The Qataris' Capital Market Authority should focus on the discovery of such practices and to take deterrent measures against the companies found to have such practices, and this is considered as an essential part of the efforts exerted to raise the level of governance of the market and raise the competitive level of the Qatari market in the shadow of globalization of money markets, and in light of fierce competition to attract capitals in the markets of the region.

The Extent of Practices of Earnings' Management by Companies Registered in the Qatar Capital Market

Dr. Salem Abdullah Al-Otaibi

1- Introduction:

There is a close and reciprocal relationship between the capital markets and accounting. In fact the accounting plays an effective and influential role in providing transparency and protecting the interests of clients through the provision of financial reports. Likewise, the capital markets have contributed to the provision of an adequate environment for the development of the accounting rules and standards. The audited accounting information plays a key role to make the market work efficiently. Investors in that market, whether current or prospective want to get audited reports that show or reflect the level of performance in those companies and help them in making their various investment decisions. The Companies' Directors are responsible for the preparation and publication of such reports. However, we find that in multiple places, the accounting rules and standards allow an amount of flexibility, while in other places the preparation of financial reports requires to exercise an amount of judgment, given that the Directors' are supposed to be the best body to know about the performance of the company which it runs, and that it must take advantage of such knowledge (and avail it to others) through the choice of best practices that reflect the performance of the company, and judgment of the disclosures that meet the needs of the business environment in which the company operates. In other words, the Directors should use the judgments and the choices available to them, in order to make financial reports more informative. The use of judgments in the preparation of reports is designed primarily to improve the communication process (see Al-Otaibi, 2003). However, what happens in many cases, is that the Directors take advantage of the judgments and choices available to them, in order to influence the information contained in the financial reports on the performance of the company to achieve certain objectives of the Directors, and that is known as the Earnings Management. Rather, (Dechow and Skinner 2000) hold the view that that it is only natural that the Directors (as long as that is possible) would adapt the accounting figures to conform with its interests, and no doubt that such deliberate interventions on the part of the Directors affects the credibility, and reliability of the information contained in the financial reports.

The topic of earnings management is considered as one of the topics that has got the attention and interest of many researchers, as well as the regulators of capital markets, primarily the U.S. Securities & Exchange Commission (SEC).

In this regard, the field studies, which dealt with the use of financial statements in the earnings' management point to the fact that the directors are engaged in those practices for one or more of the following reasons:

- To avoid making reports on the losses or low profits.
- To bring the company's profits to the same level indicated in the previously announced forecasts, (whether by the Directors of the same company itself or by the financial analysts).
- Income smoothing
- Obtaining contractual advantages relative to the information contained in financial statements.
- Launching new securities in the market by the company.

A study conducted by (Degeorge et al, 1999) indicated that such motives come successively in proper order, foremost of which is keeping away from reporting the losses, and immediately after making sure that no losses were sustained, the primary motive of the earnings' management would be trying to show an increase in the level of earnings on the previous periods. If such target is achieved, the directors would then try to attain (or exceed) the levels of profits, which were foreseen both by the directors of the company itself or by the financial analysts.

Many studies have devoted their attention to get to know the extent of the practices of earnings' management existent in various markets and the reasons that prompted the Directors to do that, while another set of studies focused on trying to know the way by which the Directors do so, namely to identify the elements through which the Directors tried to influence the financial reports by examining the reports of companies where there are indications that they exercise the earnings' management. The practices of earnings' management are considered as factors that limit the quality of accounting information, and some studies considered them as a variable or an evidence of the quality of financial reporting (Burgstahler et al, 2006).

Some academics, however believe that the attempt of the Directors to influence the financial reports is not an important issue as long as it is within the limits permitted by the accounting rules and standards. In addition, it is assumed that the investors and dealers at the market have a reasonable volume of awareness that enable them to take notice of such practices and take them into account when using the information contained in the financial reports. However, the persons in charge of regulating markets in addition to many researchers view otherwise. They believe that the earnings' management could have a serious impact on the interests of the dealers at the market. It is also possible to pay no attention to the fact that many of the dealers depend on largely, the figures and indicators contained in the financial reports, and their ability to observe and to avoid the impact of management, (Dechow and Skinner, 2000).

This study seeks the examine of to what extent the Directors of companies registered at the Qatari capital market use the financial reports in the earnings management, and whether or not these practices vary according to the characteristics of companies, such as the type of activity or the profile of the company or the level of earnings.

2- The Significance of the study:

The significance of this study is attributable to the following reasons:

- Despite the attention attached to earnings' management on the part of the researchers and regulators of the markets in most countries of the world, particularly in the markets of developed countries such as the United States (the USA) and the European Union (EU) and Japan. However it did not (as far as the researcher knows) receive the same attention from researchers in the Qatari market, rather the Arab markets, especially that they are emerging markets which probably enjoy a degree of transparency that does not go up to the level attained by the markets of many countries, such as the (European Union, Japan, etc.) which a lot of studies proved that the companies practice the earnings management.

- The importance of research becomes greater in the light of the sharp fluctuations (up or down) in the Arab markets, which makes it imperative to study the market and the practices of the various parties, primarily the Directors, in order to determine the extent of its practice of using the financial reports in the earnings management, and to know the factors that drive them in that direction, and what are the elements through which the Directors are trying to influence the company's profits, hoping that the results would be beneficial for the persons in charge of the regulation and control of those markets and also the organization responsible for issuing accounting standards.

- A lot of studies have pointed to the existence of an inverse relationship between the practices of earnings management and the existence of good and effective frameworks for corporate governance. Whereas there are active and prompt attempts to find good frameworks for the governance in these markets, then matter would require us to examine all information (positive as well as negative) related to such frameworks.

3- Objectives of the study:

The Study seeks to achieve the following objectives:

First: Review the accounting literature with regard to the use of financial reports in the earnings' management.

Second: To present an answer to the following questions:

1 – Do the companies registered with the Qatari capital market use the financial reports in the earnings' management?

2 - Do the Directors practice in the earnings' management differ according to the characteristics of companies, such as:
- Type of Activity.
- The profile of the company.
- The level of profits or losses realized by the company.

4- Contents of the study:

To achieve the objectives of the study, the remaining part of the study includes:

1- Review of the accounting literature on the use of the financial reports in the earnings' management (section 5).

2. A field study to identify the extent of the existence of the practices of earnings management in the companies registered with the Qatari Capital Market and the impact of the companies' characteristics on such practices (section 6).

5- Literature Review:

5-1 What is meant by earnings' management?

There is no doubt that the Directors while in the process of preparing the financial reports would have the advantage of practicing two things, namely the judgment and the freedom of choice between the accounting alternatives. The judgment will be required with respect to future economic events which have an impact on the financial reports such as: the expected productive lifetime of the long-term assets, the value of the asset as waste or scrap, the costs and benefits of private pensions, the taxes and the appropriations for bad debts and for assets impairment.

The Director also have to choose between the acceptable methods of reporting some transactions or economic events, such as the selection of the methods of depreciation (fixed and contradictory), assessment methods of the stock (first-in, or the last-in or middle-in), accounting for investment (the two methods of cost and property rights). The chance is also available for the Directors with regard to some items to consume those expenses or postpone them, such as the costs of the advertising campaigns, the maintenance expenses, and the costs of research and development.

In the process of defining what is meant by the Management of earnings Schipper (1989) pointed that what is intended by the earnings management is the Directors intervention in the process of preparing financial reports in order to achieve «a purposeful intervention in the external financial reporting process, with the intent of obtaining some private gain».

Healy and Wahlen (1999) indicate that the «earnings management occurs when Directors use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accounting numbers».

Those two definitions for the management of earnings are considered as part of the most widely accepted definitions (Dechow, Schipper 2000). It is noted that these two definitions of the earnings management are based on Management intention which is not easily detected. The difficulty becomes even greater as long as such practice usually occurs within the limits permitted by the accounting rules and standards, and what is required by the process of preparing the financial reports to exercise a kind of judgment.

It is noted that the definition pointed that the objective of the Management of earnings is to mislead all or some of those who have interest in the economic performance of the company. Of course, the Directors should use the judgments and the choices available to them to make financial reports more informative. The use of judgments in the preparation of reports is designed primarily to improve the communication process, but if the Directors misused that, the effect is to is represented in misleading some investors or dealers in the market, and therefore the cost resulting from earnings management is the poor distribution and allocation of resources. Accordingly, matter is considered as most critical for those responsible for the development of accounting standards. It is not easy to determine when the judgment will be required to increase the value of accounting information, and when it would lead to reducing the value of such information or misleading their users. As we have said before, the previous studies have sought to answer the following questions:

- *What are the motives that prompt the Directors to use the financial reports in the process of management earnings?*

- *What are the accounting aspects utilized by the Directors in this respect?*

- *What is the extent of the prevalence or spread of such practices?*

- *What are the economic effects of the earnings management?*

No doubt, the answers to those questions can help the standard-setters in the available judgment process of the Directors, if such practices are marked with spreading and prevalence and have a significant moral effect on the market, then the standard-setters should reconsider the formulation and revision of standards, in order to limit the chances of the Directors in such practices, and expand the scope of disclosure. But if such practices are not common or prevalent, or their effects on the decisions of the users are not moral, then the need would be less for re-formulation of standards or restricting access of the Directors of choice and judgment upon preparing the financial reports.

5-2- Motives of the Directors for Earnings' Management:

The accounting literature contains a lot of motives for the earnings' management, and we shall present in the next section the most important studies that dealt with the topic, according to the motive standing behind the Directors in those practices.

5-2-1 Motives Concerning the Market:

The use of information contained in the financial reports by investors and financial analysts is to assist in assessing the performance of the companies and to take decisions relating to the assessment and the sale and purchase of stocks and bonds issued by the company, could create an incentive for the Directors to try to influence the company's profits. In this regard, some studies have taken interest in examining the extent to which the Directors tries to influence the company's profits for two reasons related to the market:

- The company's issuance of new securities in the market.
- To meet the expectations of financial analysts about the performance of the company.

With regard to the first motive regarding the issuance of new securities, a lot of studies came to the conclusion of increasing the practices of management earnings upon the company's decision to issue new securities and cast them in the market. This includes the study of (Dechow, et al., 1996), which indicated that most of the cases in which the companies were subject to sanctions from the U.S. Securities & Exchange Commission(SEC) for violations related to the financial reports in years where the company used to issue new securities immediately after the issuance of those reports. The study conducted by (Anthony, et al., 2006) concluded the existence of a positive relationship between the practice of earnings management for reasons pertaining to the issuance of new bonds in the market and the profile of such new issuances. The study conducted by (Pastor and Fuentes, 2006) supported the previous results, as the researchers pointed to the fact that practices of earnings management in the period close to the issuance of new shares by the company is considered as the factor that interprets the state of confusion or fluctuations in the prices of shares of those companies. The researchers came to the conclusion that such practices aiming at increasing the profits of companies within the time of issuance often result in a rise in prices of company' shares of the company, but on the long term, matter would often turn to the contrary through the decline in the returns of those stocks. However, The study of (Vafeas et al., 2003) has taken interest in studying the extent of the impact of the earnings management in the periods that preceded the action taken by the companies to purchase a part of its own shares from the market and showed a remarkable decline in the practice of the earnings management in the periods in which the companies repurchased their shares from the market, compared with the level of the existence of such practices for the companies win the same industries or activities.

The second reason pertaining to the market is company's deliberate influence on the company's profits in order to meet the forecasts of financial analysts about the performance of the company. The study conducted by (Bushee, 1998), as well as the study conducted by (Kasznik, 1999) showed that the companies have exercised the earnings management to bring the rates of the profits to the level of the forecasts of financial analysts. Bushee (1998), further pointed to the increase of the rates of earnings (and in particular by addressing the costs of research and development) in the cases of the companies where a significant percentage of their shares are owned by financial institutions whose financial portfolios are marked with high turnover rates. In the same context, came the study of (Frank and Rego, 2006), which upheld the existence of a moral evidence that the U.S. companies have made use of an asset valuation allowance account to bring the company's profits to the same average level of the forecasts given by the financial analysts, while the study did not present any moral evidence on the use of such account to bring the figure of company's profits to the targets predetermined by the Management.

In an endeavor by the company Directors to reach the level of profits or the earlier expectations or forecasts, it shut its eyes to the implementation of any unimportant (non-crucial) amendments required by the External Auditor if their implementation would result in a reduction in the level of profits below the level of expectations, and would implement them only if they did not have an impact on the profits meeting the level of expectations (Libby and Kinney, 2000), which (Arthur Levit) called the Directors use of relative importance as means to mange the earnings, and the "abuse of materiality" as one of the most common gimmicks used to manage earnings to meet analysts' consensus forecasts. In response to that, the Auditing standards Board issued the auditing standards in April 1999 by issuing the Statement on Auditing Standards No. 89 (SAS, No.89)), which aimed at encouraging the Management to implement all observations given by the external auditor (whatever its value), and called the auditors to inform the Audit Committee about any changes that were demanded but not implemented.

The SAS requires that, in its representation letter to the auditor, management express its belief that any misstatements aggregated by the auditor that are not corrected in the financial statements are immaterial to the statements taken as a whole. It also requires that the auditor inform the Audit committee about any misstatement brought to management's attention that remains uncorrected in the financial statements (AICPA, 1999).

5-2-2 Management of Earnings for Contractual Reasons:

Often, the accounting information (either explicitly or implicitly) are used in the developing contractual relationships between some interested parties in the company, for example, the contracts to determine the rewards and remunerations of the Directors, the contracts of borrowing which are sometimes formulated so that there is confirmation that the Directors cannot take any action on behalf of shareholders at the expense of lenders, and such contracts may create an incentive to manage the earnings. Therefore, some studies have focused on trying to find out the extent of the practices of earnings management for contractual reasons, i.e. the existence of any evidence or correlation between the presence of contractual incentives and both the change of the accounting methods ways and the Directors estimates.

5-2-2-A – Loans Contracts:

Many studies have dealt with by the companies tied with loans contracts and at the same time assume the management of earnings, including for example: (Healy and Palepu, 1990) , (DeAnglo, 1992) and (DeAnglo and Schipper1992).

These studies have examined whether or not the companies have changed their accounting methods or style of the judgments immediately after signing some contracts, in a bid to reduce the amounts paid or to reduce the cost of borrowing. Those studies have come to the conclusion that there was no moral evidence that such actions were taken by the Directors of the companies. Those studies indicated that the companies suffering from difficulties or financial problems have tried to focus on managing cash flow by reducing the payments and restructuring their operational processes and contractual relations. This course of action is known as the core management or material earnings management.

Of course, the Management can meet some of the special conditions pertaining to limiting the distributions, while it may be difficult for them to meet or face other conditions such as interest rate or the ratio of debt to property rights. Some studies have dealt with the companies that have already violated some of the contractual terms (concerning the loans) and come to differing or inconsistent results.

In a study by (Defond and Jiambalvo, 1994), theyfound that the companies covered by the study sample have accelerated or increased the figure of profit (i.e., they have practiced the management of earnings) in the year preceding the year in which they violated the terms of the contract, and viewed this as an evidence that the company practices the management of earnings with the approach or arrival of the appointed date of the contractual obligations.

The study of Sweeny - 1994 indicated that the companies which violated the terms of the borrowing contracts have tried to increase the figures of the profits, but did so after violating the conditions; which indicates that the companies did not exercise management earnings in order to avoid charges of violating the conditions, but to reduce the likelihood of future covenant violations or to reduce the negative impact of proving such violations. The same study also provided evidence of the extent of recurrence of the practices of earnings management for contractual reasons and its impact on the allocation of resources. Among 22 companies surveyed and covered by the study, all in breach of the contractual terms, it found out that five companies only have succeeded in delaying the financial failure by using the accounting changes. This points to the low rate of recurrence of the cases of earnings management for reasons relating to contracts of loans and the attempt of these companies to hide or avoid the emergence of their technical default in the loans contracts.

5-2-2- B - Directors contracts:

Some studies have dealt with the effect of Directors contracts as one of the motives of the earnings Management. The results point to the possibility that the Directors would try to inflate the profits, which may lead to the increase in the remunerations of the Directors. The study conducted by (Guidry et al, 1998) pointed that the branch managers in the multinational companies tend to defer parts of the revenue if the profits brought them to the level of the maximum which they can get in the form of commissions and bonuses associated with the level of profits. At such level, they will no more benefit from the increase in the level of profits and therefore they resort to postpone part of them to take advantage of them at later stages, if they needed them. The study of (Sloan et al,1995), agreed with the previous study that the company's Directors were inclined to postpone the income if it reached the maximum limit of the commission (related to the level of profits) as compared to other companies in which the Directors contracts do not include a maximum of the commission.

Other studies dealt with the recurrence of the practices of earnings management and its relationship with the job security. In other words, would such practices increase with the expected approach of the end of the Management's term of mandate on the company. A study conducted by (Dechow and Sloan, 1991) that in the last year of the term of the chief Executive Officers (CEOs), the Directors often resorts to reducing the spending on the researches and development. The researchers considered that such behavior is a natural consequence of the compensation literature on short term basis. But it is possible, however, that the Directors have done so as an investment decision, not to affect the profits of the year, but may be to leave room for the new Directors and to make matter more flexible in front of it, with regard to the policies and the future of researches and development in the company.

The previous results mean, at least, that some Directors manage earnings in order to increase their commissions and remunerations or to increase the chances of job security. But there was no indication of the prevalence and spread of such conduct by the Directors, nor about do the most prominent items through which the Directors deliberately intends to influence the profit figures, or the impact of such practices on the market and prices of securities (i.e. the impact on the allocation of resources.

5-2-2-C Directors 's quota of the shares of the company to earnings' management:

In the actual practice, there is an attempt to employ several mechanisms to address the conflict that may arise from the separation of ownership from Directors, including mechanisms to encourage the Directors to have a quota of the company's shares. Thus the following question poses itself: Does the Directors 's possession of a quota of the shares of the company would be one of the motives to influence the figures of the company's profits?. In theory, it is assumed that the more the Directors' quota of the shares of the company, the more its act would be in the interest of shareholders. One of the methods is to make the Directors' part of the reward in the form of shares. Some studies have addressed the relationship between the size of Directors' quota in the company's shares and the rewarding the Directors in the form of shares, and the impact of this situation on the future performance of the company, and the associated impact on practice of earnings management. Some have argued that making a part of the Directors reward in the form of shares may encourage the Directors to exercise earnings management in such a way as to increase the price of shares in the short term to take advantage of this situation by selling the shares during that stage (Rise). Theoretically, the Directors could resort to such action (i.e. the sale of part of the shares owned by the company) as a result of the desire of diversifying the increased risk associated with ownership or stock-based compensation. In a study conducted by (Ofek and Yermak, 2000) pointed that when the Directors give a part of its remuneration in the form of shares, it often tend to sell the shares in its possession, or part thereof for reasons related to the diversification of the risks, or to limit them if the reduction exceeded the acceptable level. The more the quota of the Directors in the shares of the same company, its personal wealth was more sensitive to the fluctuations which may occur in the prices of those shares, and therefore resort to selling a part of them. The process of sale could make the management wealth more closely related to the company's shares in the short term. This situation would prompt it to try to increase the price of those shares on the short term basis, and hence of the management of earnings. A study conducted by (Cheng and Warfield, 2005) tried to examine and test the acceptability or the validity of this assumption, and the study came to the following conclusions:

The supported the increase in sales of the Directors of the shares in the period immediately following the Management of earnings, or in other words, the existence of practices for the management of earnings in the period immediately preceding the sale of shares of the Directors.

- The more the Directors' quota of the increased share , the more the Directors practices to bring the company's profits up to a level that reaches or exceeds more than forecasts of financial analysts with regard to the company's profits.

- The volume of sales of the Directors of the shares would increase in the periods immediately following the profit rise to the level of the forecasts of the financial analysts compared with the periods in which the company's profits do not attain that level.

- The study supported the existence of an increase in the sales shares by the Directors in the periods where there are abnormal accruals in the income increasing.

- The study agreed with the foregoing in the fact that giving the Directors a part of the reward in the form of shares may drive it to try to settle the income between the periods in conformity with the interests of the Directors.

Thus such results refer to accepting the hypothesis that the increase of the Management quota in the property shares or giving it a part of the reward in the form of shares, represent one of the motives of the earnings' management.

5-2-3 Earnings Management for organizational reasons:

There are three forms of organizational motives that were discussed in previous studies, namely the following:

- Earnings' management to circumvent the laws and rules relating to a particular industry or activity.

- Earnings' management to reduce the intervention of the Anti trust regulators.

- Earnings' management for tax reasons.

It is believed that the latter is the most prevalent reason. However, it was the least dangerous, as the tax authorities have the capacity to examine the financial reports and have standards governing the processes of the examination, and also have the right to discuss with the Management responsible for the preparation of these reports and ask them any question they deem necessary. Finally the Tax Department has the authority to waste such reports and regard them as non-existent if they became certain of the existence of manipulations by the Directors before, or have found enough evidence.

The bodies responsible for setting the accounting standards was particularly interested in the exercise of earnings management to circumvent the rules for certain activities, such as banks, insurance companies and the oil sector. In fact, the shift towards fair value and increase of disclosure requirements on the risks associated with financial assets and liabilities, as well as changes in accounting standards for banks and financial institutions increased the attention and concern of them as a result of the financial disasters the befell the institutions operating in that activity, particularly during the last two decades, and such accounting changes sought to try to alleviate, even on partial basis, the practices of earnings' management, and to improve the quality of accounting information provided to those who have interests in those institutions. In the banking sector, for example, in various countries around the world, such sector has certain binding rules and is subject to the control of central banks, which monitors the extent to which such banks commitment and abidance by certain rules, including the rules of the volume of capital and deposits with the central bank and their percentage of the customers' deposits, beside other conditions. The insurance companies are subject to the similar terms and conditions that suit The nature of their activities, and many studies have proved that such conditions represented a motive for Directors to practice the earnings' management in order to show their financial statements in such a way that reflect those conditions ((Mayer 1990).

In association with the earnings' management for organizational reasons, some companies may resort to reducing their profits in order to get government subsidy. In the study of (Jones, 1991), he found out that the industrial companies, which apply for subsidy to support the export or to confront the import have tried to make use of the accounting estimates and flexibility available in some processes to reduce the profits for the years during which the requests were made to obtain these subsidies or support. In another study, (Key, 1997) found that companies operating in the cable industry and information means have tried to reduce their profits during the year or the period when the U.S. Congress held hearings to examine the mechanisms of control and organization of the work of these companies. And some studies have indicated that some institutions, which are linked to the role of social activity may also resort to trying to reduce their profits, in order to obtain more support from the government or to highlight their social role (Healy and wahlen 1999).

In correlation with the impact or the role played by the legal and regulatory factors, the study of (Burgstahler, et al, 2006) came to test effect of the market pressures and institutional factors, as factors that impact on the Directors trends that produce an effect on the profits' figures, by application on the companies working in the European Union countries. The researchers have benefited from such situation due to the fact that both of the companies whose shares are traded in the market and companies with the closed contribution, apply the same accounting standards, and the researchers have studied the practice of the Directors for the earnings' management (as one of the factors for the quality of the work or the quality of accounting or the quality of financial reporting, which are in turn influenced by the motives and trends of the Directors) in both types of companies that operate in the same market and apply the same rules and accounting standards. The study found that the closed companies have practiced a higher level of earnings' management. The study also pointed to the link between the strong legal system and the Directors practices in the earnings' management in both types of the companies, Private as well as Public companies, in addition to the fact that both types, Private and public firms respond differentially to institutional factors, such as book-tax alignment, outside investor protection and capital market structure. Finally, the study pointed to the existence of the reciprocal and interactive influence between the legal institutions and capital market forces.

In the wake of the crisis, the collapse of many U.S. companies, and as a direct reaction, the law number 2002, known as the Sarabanes-Oxely Act, which aimed at improving the degree of the accuracy credibility of the corporate financial disclosure, and he held the Directors responsible for the safety of financial reports.

Among the provisions mentioned in that law is that Article 404 called for the External Auditor to refer in his report to the assessment of the internal control structure and called for him to mention in his report any material weakness in the structure. Thus the study conducted by (Chan et.al, 2005) came to examine the relationship between the existence of defects in the structures of internal control and the companies' practice of earnings' management. In effect, the study pointed to the increase of likelihood of the practice of earnings' management in the companies which the reports external auditor indicated that they have a weakness or defect in the structure of its internal control.

In this context, a study conducted by (Zhou and Lobo, 2006) came to a conclusion regarding the existence of a moral impact consequent to the issuance of the famous U.S. law, namely Sarbanes-Oxley Act on the level of the level of the Directors reservation upon the preparation of the financial reporting. Immediately after the issuance of this law, the Directors became more cautious in the preparation of financial reports and reduced the prospects for practicing the earnings' management to increase the level of the company's profits. In association with the issuance of the same law, Sarbanes-Oxley Act, a study by (Cohen, 2006) pointed to the spread of Directors practices in the earnings' practice in the American companies since 1987, and the period following the issuance of this law has seen a marked decrease in such practices, but the study noted that the most important thing is that such decline has coincided with an increase in the practices or activities of the management of the real earnings real management activities, i.e., the management of earnings through administrative policies and practices, instead of influencing the earnings figures through the use of judgments and estimates and the flexibility of the accounting standards. The study conducted by (Carter et al, 2005) tried to consider the effect of the above-mentioned law on the earnings management for reasons pertaining to the rewards of the Directors on a sample of US companies during the period from 1996 to 2003. A decline was noted in the practices of earnings management as the profits were associated with the Directors rewards the period that followed the issuance of the law (the said law was enacted in 2002).

5-3 Earnings' Management, and the Corporate Governance:

The term Corporate Governance refers to the set of rules and arrangements that govern and regulate the rights and responsibilities between the owners and directors and other concerned parties in the company, and there are many factors and reasons that led to increased concern of the governance during the last ten years, foremost of which is the dire need to restore the confidence of dealers in the capital markets, particularly in the wake of collapses and failures that have occurred in some markets, where the corruption and mismanagement were of the most important causes. Another cause also was the accelerated steps of the globalization, given that it is through the governance that the international organizations and the developed countries seek to create the largest possible degree of profiling in the frameworks and systems that govern the work of companies in different markets (Abdel-Hamid 2002).

The accounting plays an essential and a key role in the governance, as it represents through the provision of financial reports a most important instrument to activate the mechanisms of governance. By its very nature, the governance is inherently linked to the problem of the agency and the separation of ownership from Directors. It is historically known that the financial reports which are subject to auditing by an independent auditor play a key role in resolving the problem of the agency. In confirmation of that, the different guidelines on the governance, which were released from various quarters, included a reference to the importance of reporting and financial information and the transparency as one of the elements of good governance. On the other hand, the dissimilarity of the frameworks and governance structures from one market to the other probably had an impact on the rules and practices of accounting and auditing in these markets. We can therefore say that there is a three-dimensional relationship between (1) the level of the frameworks and structures of the governance, (2) the degree of growth and development of the Capital Market, and (3) the quality of the rules and practices of accounting and auditing (Abdul-Hamid, 2002).

If earnings' management point to the Directors' role to influence the figures provided in the financial reports, it is expected to be less likely to happen, the higher the level of governance frameworks, which regulate the work of such companies. A lot of studies have concerned themselves of studying the relationship between the practices and earnings' management and the variables of the governance, such as the concentration of ownership, the number of non-executive members in the Board of Directors, and the existence of an Audit Committee . . . etc. One of these studies is the study conducted by (Chtourou et. al, 2001) which sought to determine the impact of some variables of the governance on the degree of the companies' practice of the earnings' management, as the results of the study pointed out that:

- There is an adverse relations between the degree of practicing the earnings' management by the company and the number of members from outside the company's Audit Committee.
- There is an adverse relation between the level of practicing the earnings' management and of financial expertise available in the members of the Audit Committee.

There is an adverse relation between the degree of practice of the Directors of the company's earnings and the number of executive members in the company's board of directors.

In confirmation of the above information, we refer to the study conducted by (Burgstahler et. al , 2004), which sought to test the extent of practicing the earnings' management by the companies operating in the European Union countries, and it came to the conclusion that there is an obvious effect for the quality of the legal and institutional systems on practicing the earnings' management by the companies, as the management of earnings and varied between the countries of the European Union, despite the application of the same Accounting Standards. The researchers have attributed the degree of practicing the management of earnings to the dissimilarity of the Quality of Legal System and Enforcement, which clearly reflects the level of governance.

The study of (Cornett, 2006), which dealt with the phenomenon of the earnings' managment in a sample of U.S. banks, pointed to the existence of the practices of earnings' management in such banks, and specifically through a process of judgment of the loan Lose Provisions. Such practices have tried in most cases to increase the volume of profits, and that such practices have been positively linked with the Directors' quota of the company's shares. This means that the Directors has sought to increase a personal wealth through the reflection of the increase in profits on prices of the shares in the market, and it fell drastically in proportion with the increase of the number of independent members in the Board of Directors (who come from outside the company or who do not occupy executive positions in the company).Those results point to the role played by the governance mechanisms as an indication of the practices of earnings' management.

- There was no evidence to prove the existence of a moral relation between the role of the Audit Committee to oversee and control of work of the internal audit function and the selection of the external auditor and the practice of earnings' management.

In the same context, the study conducted by (Peasnell, et. al, 2005) focused on the impact of the formation of the Board of Directors (the number of members from outside the company) and the Audit Committees on the practices of earnings' management through the application on the companies operating in the United Kingdom. The study points to the following:

- There is an adverse relation between the possibility of Directors tendency to influence the direction of the financial statements in order to avoid the losses or consequent to the decline in the level of profit and the proportion of outsiders on the board.

- There is an evidence that the opportunity to use the element of judgment by the Directors to convert the loss into profit, or to emphasize that the level of earnings did not go down in a moral degree, in proportion with external members in the Board of Directors.

- While the study did not find out a moral evidence to prove the existence of impact of the Audit Committee on prompting the Directors to perform such practices, and thus these results indicate the extent of the Directors' contribution to the integrity of financial statements which is consistent with the Agency theory.

And in line with these results the study conducted by (Tehranian et. al, 2006), pointed to the governance mechanisms that represent an effective factor that controls the Directors' use of the two elements of judgment and flexibility, which are available in the available in the accounting standards to affect the figure of the net income. The most important variables of the governance were the most important variables affecting the practices of earnings' management are: the ownership of shares, institutional investor representation, in the Board of Directors, and the presence of independent outside directors in the Board.

As for the impact of the ownership of the company, the study of (Wang 2006) indicated that the financial reports of the family ownership are marked with a high quality of the earnings information, as measured by the level of the practices of earnings' management and the high degree of informatics as compared with the other non-family companies. researcher (Abdul-Hamid, 2005) came to the conclusion that the earnings' managment may limit the role of accounting in corporate governance. If such role depends in essence on the financial reports, which represent an important tool for activating the mechanisms of governance, yet such financial reports are subject to be influenced by a certain party, and therefore, how can it represent one of the mechanisms that regulate the rights and responsibilities (the goal of governance) between the interested parties in the company, while one of those parties have the capacity to influence the content of such reports.

5-4- Earnings' Management: Its prevalence and the most important items and their impact on the market:

The Study conducted by (Kinnunen and Koskela 2006) concerned itself with the issue of the management of earnings at the international level through the application on a sample of 87000 profitable numbers of 22000 companies in eighteen countries by using the relationship between the net profit or loss and the net sales as an indicator of the practices of earnings' management. It was found out that in the profitable companies, the attempts for the management of the earnings are often and mostly conducted in the lower or last part of the income (the part concerning the items of expenses and other revenues) ore than using the upper part of the statement.

The contrary is true with regard to the companies that realized a net loss. In its comparison of those practices on the international level, the study focused on the existence of an effect of the regulatory factors and the institutional factors. Such practices have increased in the countries where the accounting standards are marked with a greater degree of flexibility, and have differed in accordance with the cultural values that vary from one society to another. In contradiction with the results of other studies there is no evidence that such practices are associated with the level of legal protection of shareholders, neither there is an association between the financial accounting and the tax accounting. However, the study conducted by (Teoh, et al., 1998) has found that 62% of the companies issuing new shares have practiced the management of earnings and that the average of the unjustified part of the profits, which is due from the point of view of the researchers to the practices of earnings' management, has amounted to about 4.5% of the volume of assets of exporting companies. However, another study, (Erickson and Wang, 1998) pointed that such percentage has reached an average of about 2%. Anyway, it is not easy to determine the frequency and the value of management practices and earnings, particularly researchers tend to lead to the selection of samples increase the likelihood of such practices (Healy and wahlen, 1999).

As for the main items which are used in the earnings' management, the study of (Teoh et al. 1998) tried to answer this question as the researchers identified two categories of companies; the first are the companies that issued new shares and found that there is an increase in the profits of companies of the first group (which have issued new shares) compared to the companies of the category (which did not issue new shares) during the year of issuance, and found that the increase in profits resulted from the change in the company policies with regard to allocation of depreciation and doubtful debt provisions, as the company policy has differed in dealing in this particular year from the policies adopted in other years.

The banking industry and insurance companies, provide a fertile ground to examine the exploitation of certain items, the loan loss reserves. This item depends basically on the judgments and policy of the Management and is directly linked to the evaluation of the most important assets of the bank, and has a direct relevance to the net income and property rights. Therefore, many studies have focused on analyzing the policies of the banks in dealing with this item (such as th studies: (Wahlen, 1994), (Beaver and Engel, 1996) &(Wahlen, Liu, and Ryan, 1998). These studies came to the conclusion that the directors of banks use that item in the earnings management , but they did not confirm whether or not those practices were consequent to reasons pertaining to the market. However, such studies that tried to identify items that were used by the Directors, such studies are to blame as they pointed that such items were general cases having general motives, and therefore it was not certain that the earnings' management are attributed to reasons pertaining to the market only, as they may be related by other reasons, for example contractual reasons., the market may only relate to the reasons another contract for example. The study conducted by (Mcvay, 2006) focused on the way of earnings' management, and came to the conclusion that the Directors try such course of action in many cases, by just changing the place of presentation of some of the items in the income statement, i.e., to transfer the item from the section concerning the operating expenses to the section concerning the other expense, particularly for reasons relating to meeting the expectations of financial analysts about the company's profits. The researcher noted that such a switch, though it does not affect the final profit figure, has a significant impact on the figures of the statement of income and the information it contain.

But what about the effect of the practices of the earnings' management on the decisions of investors or on the prices of shares? In other words what was the reaction of the investors with regard to the changes in the accounting methods applied by the Directors for purposes of earnings' management? The study of (Dechow et al., 1996) noted that the companies which were declared to be accused by the Securities and Exchange Commission (SEC) have sustained a decline in the prices of their shares immediately after such declaration, and such decline has reached an average of 9%.

Some studies, which focused on the consider the effect of the existence of the practices of earnings' management on the market, pointed to the existence of a negative impact on the prices and returns of the shares of the banks and the companies that carried out such practices. However, these same studies indicated that the decline in the price of those shares and dividends took place in the years that followed the case of such practices and not in the same year. This has been interpreted by the researchers that the managers of the companies practice the earnings' management in order to inflate the earnings in a bid to improve the market expectations about the performance of the and future of the company, and therefore a high demand would take place for such shares, and their prices would go up. In the subsequent the contrary would happen as both the rates of performance and earnings would be less than what is expected. This would reflect on the performance and price of the shares of these companies in the market. Those results mean that the practices of earnings' management have an impact on the movement of the prices of the shares in the market and, therefore, have an impact on the allocation of resources. (Wahlen, 1994), (Beaver and Engel, 1996) & (Wahlen, et al. 1998).

In the context of having an interest in trying to identify some elements by which the Directors try practice earnings' management through a series of companies where there are strong signs and indications that they are trying to maximize their profits. The study (Burgstahler and Dechev,1997) noted that the companies which budgets are characterized with an increase in the value of their circulating assets and liabilities are subject to increase their capacity to practice the earnings' management, where the earnings' management would be less likely to be detected and gave an example of a company with huge stocks from the accounts of debtors and the receipt documents.

The results of a study conducted by (Plummer and David, 2000) confirmed the assumption regarding the company's ability to increase earnings whenever the volume of traded assets increases, while there is no statistical significant sign on the impact of the current liabilities. The same study found that the companies often manage earnings by increasing the number of sales and try to reduce the value of operating expenses, while the study did not support the attempt to influence the company's profit figures by influencing the terms of non-operating expenses and depreciation expenses.

In a study of Japanese companies , (Herrman e.t al, 2003), concluded that the Japanese companies practice earnings' management through the sale of investments, Fixed Assets and Marketable Securities, as the study pointed to the existence of an adverse relation between the income originating from the sale of assets and the forecast errors of the directors with regard to the company's When the Directors find that the level of profits would be lower than previously predicted, they tries to cover the difference through the sale of some investments and long-term assets.

The next section, however, will present the results of the empirical tests.

6- The Research Approach

Despite the prevalence of the practices of earnings' management and the large number of researches that dealt with them, it is not easy for researchers to confirm the existence of such practices or prove them with a conclusive evidence. The difficulty is attributed to the fact that such evidence requires the assessment of profits prior to any interventions by the Directors, then compare such profits with the profit figure outlined in the was financial reports after the interventions of the Directors. For that reason, the researches conducted in this regard try to gain access to evidence or indications of the existence of such practices (Healy and Wahlen, 1999). Upon reviewing the studies conducted in this domain we can deduce that they have used two main models:

- The first model, by (Jones, 1991) assumed that the Directors used the adjustments that are subject to selections and judgments to influence the profits, according to this model, the calculated profit is broken down into two components by separating that part which is influenced by the judgments and selects of the directors away from the rest of the income. This would then be followed by studying the behavior and direction of that part which is subject to the judgments of the Directors during the periods in which the Directors have motives to influence the profit figures, such as offering new shares in the market or concluding contracts for loans, and other motives which we have discussed before. i.e., «To decompose accruals into its discretionary and non-discretionary components and study the behavior of discretionary accruals around incentives».

  The use of this model has widely spread after it was forwarded by Jones in many of the studies on the earnings' management. In this respect, we mention, for example, (Dechow et. al, 1995) and (Pincus and Rajgopal, 2002).
- The second model is based on the study of the characteristics and relations of the items outlined in the income statement, and maybe some other items contained in the financial reports of the company. This approach assumes that in the periods where the Directors have a motive to manage the earnings, some changes may occur in those characteristics and relationships (Burgstahler and Dichev, 1997).

The empirical part in the current study relies on the use of the second model to test the extent of the practices of earnings' management through the study of the relations between each of the net operations income (the main activities) on the basis of maturity and the cash flows from operating activities, as well as the relationship between net income (before deductions) and net cash flows and, finally, the relationship between the net income and the net sales, in the long term. It is expected in the long run there would be a clear correlation between each of these variables. In the case of the intervention of Directors to influence the number of net income is expected to lead to distortion or weakness of that relationship. In the periods of low performance of the company, the Directors may resort to using some of the items subject to its own discretion and judgment, such as the allocations, while the value of cash flows from operating activities are not affected.

The study sought to answer the following questions:

1 – Do the companies registered with the Qatari capital market use the financial reports in the earnings management?

2 - Do the practices of the Directors in the domain of earnings' management differ in accordance with the characteristics of the companies, such as:
- The Type of Activity
- The profile of the company
- The level of profits or losses realized by the company

6-1 Data sources:

The «Data» required for the research were collected from the financial reports published by the Qatari joint-stock companies registered at the Qatari capital market during the period 2004/2007 AD. (these reports are available in the Qatar Capital Market website).

6-2 The Society and sample of the study:

The research community in the joint-stock companies registered at the Qatari capital market, which number was 42 companies at the time of preparing the research, classified by the nature of their activities into the following four groups:

(Table 1) Statues of Sample

Type of activity	The number of companies
Banks	10
Industry	6
Insurance	8
Services	18

The banking and insurance sectors have been excluded, due to their special nature, and the two remaining sectors were covered by the study, namely the sectors of industry and services. The reason is that they represent the largest sectors in terms of the number of companies. After the exclusion of the two sectors of banking and insurance companies (18 companies) the proportion of the companies belonging to these two sectors is 22 to 42, i.e., about 53% of the total number of the companies.

The set of time series for the data of the study in three years, namely the period from 2004 to 2007, and after excluding the companies that did not qualify and which were registered in the capital market for a period less than three consecutive years, and after the exclusion of companies whose data represent extreme values that can clearly affect the results of the study. The companies that were covered by the sample of the study are as follows:

(Table 2) Statues of Sample selection

Type of Activity	Total number of companies in the sector	Number of companies in the study sample	Percentage
Industry	6	6	100%
Services	18	16	89%
Total	24	22	92%

The data were collected from financial reports published for that sample of companies and then taking down the data and carrying out the statistical analysis of the data, which relied on the use of the test of Pearson correlation coefficient, hence the Correlation Matrix in order to test the above-mentioned relations between the elements of the statements of income and cash flows (at 90% confidence level), as follows:

6-3 Findings and Discussion:

6-3-1-The application of these tests on the companies data represented in the sample of the study as one group to examine to what extent there are practices of earnings' management at the corporate level (see Table 3).

The results point to invalidity of the first assumption of non-existence, as there is a moral relation to some extent between income from operations (or the main activities) of the company with net cash flow the from operations and operational activities (0.690), while the moral relation was not moral between the net income from the operations and the main activities of the company with net cash flow from all activities, as they hit (0.180). Likewise, the non-moral relation between the net income before the deductions with net cash inflows that hit (0.285). Hence, we may say that there is a strong likelihood of the existence of practices of earnings' management and an attempt to interfere in the figures of the income statement, particularly in its second stage, namely, the expenses and other revenues (other than the key processes and activities). Those results are in line with the conclusion of the study conducted by Kinnunen and Koskela 2006, which focused on the manage-ment of earnings at the international level through the application on a sample of 87000 profitable numbers of 22000 companies in eighteen countries and using the relationship between the net profit or loss and the net sales as an indicator of the practices of earnings' management. It was found out that the profitable companies, the attempts for the management of the earnings are often and mostly conducted in the lower or last part of the income (the pat concerning the items of expenses and other revenues).

(Table 3) Person correlation coefficient for all sample

	V1	V2	V3	V4
V1 Person Correlation Sig (2- tailed).	1 .	.897** .000	.735** .000	.797** .000
V2 Person Correlation Sig (2- tailed)	.897** .000	1 .	.645** .000	.701** .000
V3 Person Correlation Sig (2- tailed)	.735** .000	.645** .000	1 .	.753** .000
V4 Person Correlation	.797**	.701**	.753**	1

	V1	V2	V3	V4
Sig (2- tailed)	.000	.000	.000	.
V5 Person Correlation Sig (2- tailed)	.536** .000	.425** .000	.690 .000	.715** .000
V6 Person Correlation Sig (2- tailed)	.357** .000	.374** .000	.180** .005	.285** .000

Overall, we can reject the imposition of non-existence, and then we can confirm the soundness and correctness of the following hypothesis:

The companies registered in the Qatari capital market use the financial reports in the earnings' management.

6-3-2- With regard to examining of the effect of the companies' characteristics on the practices of earnings' management, and such characteristics under examination were represented in the type of activity and the profile of the company and the level of indebtedness and earnings of the company, This objective, however, has been eliminated due to the fact, that the number of companies investigated is not sufficient. Thus, the researches with enlarged sample companies should be followed after financial data are accumulated more

At the same time, As for the effect of the type of activity on the correlation coefficient between the operations income (on an accrual basis) and net cash flows from operating activities in the industrial companies (0.767) (Table 4), while the correlation coefficient in the service companies went down to (0.505) (Table 5). This difference in the correlation coefficient between the companies indicates that the prospects for earnings' management practice are larger in the serves sector vis-à-vis other activities.

(Table 4) Person correlation coefficient for companies in industrial sectors

	V1	V2	V3	V4
V1 Person Correlation Sig (2- tailed).	1 .	.748** .000	.767** .000	.213* .034
V2 Person Correlation Sig (2- tailed)	.748** .000	1 .	.781** .000	.322** .001
V3 Person Correlation Sig (2- tailed)	.767** .000	.781** .000	1 .	.021 .834

	V1	V2	V3	V4
V4 Person Correlation Sig (2- tailed)	.213** .034	.322** .001	.021 .834	1 .

However, in terms of the correlation between the two variations of the net income before the deductions, and the net cash flow from all the activities (the net increase or decrease in the cash balance), the correlation coefficient between these two variables in all the companies has fallen down. In the industrial enterprises it reached (0.322) (Table4), and in the service companies it came down to (0.053) (Table 5). In light of such information, it could be said that there are prospects for an increase in the practices of earnings' management in the latter part of the income statement.

(Table 5) Person correlation coefficient for companies in the services sectors

	V1	V2	V3	V4
V1 Person Correlation Sig (2- tailed).	1 .	.729** .000	.505** .000	-.054 .596
V2 Person Correlation Sig (2- tailed)	.729** .000	1 .	.601 .000	-.053 .599
V3 Person Correlation Sig (2- tailed)	.505** .000	.601** .000	1 .	-.050 .618
V4 Person Correlation Sig (2- tailed)	.054 .596	.053 .599	-.050 .618	1 .

7- Conclusion, Recommendations and Proposed Future Studies:

Many studies have devoted their attention to get to know the extent of the practices of earnings management existent in various markets and the reasons that prompted the Directors to do that, while another set of studies focused on trying to know the way by which the directors do so, namely to identify the elements through which the directors tried to influence the financial reports by examining the reports of companies where there are indications that they exercise the earnings' management. The practices of earnings' management are considered as factors that limit the quality of accounting information, and some studies considered them as a variable or an evidence of the quality of financial reporting.

This study seeks the examine of to what extent the Directors of companies registered at the Qatari capital market use the financial reports in the earnings management, and whether or not these practices vary according to the characteristics of companies, such as the type of activity or the profile of the company or the level of earnings.

The data were collected from financial reports published for that sample of companies and then taking down the data and carrying out the statistical analysis of the data, which relied on the use of the test of Pearson correlation coefficient, hence the Correlation Matrix in order to test the above-mentioned relations between the elements of the statements of income and cash flows (at 90% confidence level).

The application of these tests on the companies data represented in the sample of the study as one group to examine to what extent there are practices of earnings' management at the corporate level. The results point to invalidity of the first assumption of non-existence, as there is a moral relation to some extent between income from operations (or the main activities) of the company with net cash flow the from operations and operational activities 690, while the moral relation was not moral between the net income from the operations and the main activities of the company with net cash flow from all activities, as they hit 180. Likewise, the non-moral relation between the net income before the dedections with net cash inflows that hit 285. Hence, we may say that there is a strong likelihood of the existence of practices of earnings' management and an attempt to interfere in the figures of the income statement, particularly in its second stage, namely, the expenses and other revenues (other than the key processes and activities). Those results are in line with the conclusion of the study conducted by Kinnunen and Koskela 2006, which focused on the management of earnings at the international level through the application on a sample of 87000 profitable numbers of 22000 companies in eighteen countries and using the relationship between the net profit or loss and the net sales as an indicator of the practices of earnings' management.

The recommendations arising from the results of this study can be divided into groups according to the body responsible for contributing to the implementation of those recommendations, as follows:

7-1 The Capital Market Authority:

- It is essential to pay attention to the issue of practicing the earnings' management on the same pattern applied in the Securities & Exchange Commission (SEC), and to focus on the discovery of such practices and to take deterrent measures against the companies found to have such practices, and this is considered as an essential part of the efforts exerted to raise the level of governance of the market and raise the competitive level of the Qatari market in the shadow of globalization of money markets, and in light of fierce competition to attract capitals in the markets of the region.
- Demand and obligate the companies to apply more disclosure and transparency in the aspects that need to exercise judgments choices between certain alternatives in the accounting methods by the Management.
- The establishment of the Research Center supplementary to the Capital Market Organization, for conducting researches in various domains related to the manner of support the market and raising its efficiency and to examine what the practices that take place by the various parties who deal with the market, in order to achieve the stability of the market and to increase the confidence, particularly in light of the fluctuations that took place over the past few years. The most prominent issue that should be addressed and studied by this center is the way to increase the level of credibility of financial information in circulation at the market and to rationalize their decisions instead of depending on other sources information that may help in addressing the illogical and senseless fluctuations that take place in the market.

7-2 the Qatari Association of Accountants and Auditors:

- Raise the awareness of the auditors who practice this profession of the practices of earnings management and familiarize them with detecting such practices and prompting them not to accept such practices and clinging to the necessity that the Management would carry out the adjustments which they may require in the financial reports to avoid any impact of the exploitation of the Management of the assessment process in the preparation of financial reports.
- The accounting standards issued by the Commission should include obliging the companies to extend more disclosure of the

aspects that require estimates by the management or the selection from accounting alternatives.

7-3 The Academics and Researchers in the field of Accounting and Auditing:

- The necessity of taking interest in studting the phenomenon of earnings management in the Qatari market, in ordeto know to what extent the management practice such phenomenon. There are a lot of subjects that represent opportunities for future researches related to the same subject, foremeost of which are:
- Re-studying this phenomenon by using another method that depends on separating the portion from the income list, prepared on the accrual basis, which depends on the Judgment and choice of the Management, then studying the conduct and direction of that part of what the variations it sustains, and to what extent this is related to any changes in the company's financial circumstances or its contractual obligations or any other factors that could force the management to influence the earnings figures.
- Conduct a series of studies that attempt to identify the most important elements which the Management is trying to use in the of earnings management.
- Conduct a series of studies that attempt to monitor the impact of these practices on the decisions taken by investors in the market and the prices of shares, and therefore get to know the scope of seriousness and impact of such practices. There is no doubt that the results of those studies will be most important and could be helpful to the market regulators and setters of the accounting standards, in order to curb such phenomenon, and increase the efficiency of the market and raise the competitiveness of the capital market of Qatar.

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