



**IFRS Adoption, Political Connections, Family Firms and
Earnings Quality: The Case of the GCC Region**

By

Nasser S. Kh. Nasser

*BBus (Acc), Gulf University of Science & Technology, Kuwait
MBA, Gulf University of Science & Technology, Kuwait
Graduate Diploma of Research studies in Business, Griffith
University, Australia*

Griffith Business School
Department of Accounting, Finance & Economics (AFE)
Griffith University

Submitted in partial fulfilment of the requirements of the degree
of
Doctor of Philosophy

July 2021

Contents

List of Tables.....	iv
List of Figures	vi
List of Equations.....	vii
List of Abbreviations.....	viii
Statement of Originality.....	xiii
Acknowledgements	xiv
Abstract	xv
Chapter 1: Introduction.....	1
1.1 Introduction.....	1
1.2 Research Motivation	5
1.3 Research Questions.....	7
1.4 Research Methods.....	7
1.5 Research Contributions.....	9
1.6 Thesis Structure	10
Chapter 2: Institutional Background	11
2.1 Introduction.....	11
2.2 Elite Merchant Families and Gulf Monarchies: A Slice of History	11
2.3 Formation of the GCC	16
2.4 The Stock Markets, Financial Reporting Frameworks and Accounting Regulations of GCC Sample Countries	22
2.4.1 Kuwait.....	22
2.4.2 Bahrain	25
2.4.3 The UAE	26
2.4.4 Qatar	28
Chapter 3: Literature Review	30
3.1 Introduction.....	30
3.2 IFRS Adoption: Two Schools of Thoughts	30
3.2.1 Arguments in Favour of IFRS Adoption.....	31
3.2.2 Arguments Against IFRS Adoption	32
3.3 IFRS Adoption and Factors of Variations	35
3.4 IFRS Adoption: Possible Empirical Justifications.....	35
3.5 IFRS Adoption and Financial Reporting Quality	40
3.5.1 Determinants (Factors) Influencing the Adoption of the IFRS.....	42
3.5.2 Evidence from Voluntary Adoption of the IFRS	45
3.5.2.1 <i>Value Relevance and Voluntary IFRS Adoption</i>	46
3.5.2.2 <i>Comparability and Voluntary IFRS Adoption</i>	48
3.5.2.3 <i>Capital Market Effects and Voluntary IFRS Adoption</i>	49
3.5.3 Evidence from Mandatory Adoption of the IFRS	51
3.5.3.1 <i>Value Relevance and Mandatory IFRS Adoption</i>	51
3.5.3.2 <i>Comparability and Mandatory IFRS Adoption</i>	54
3.5.3.3 <i>Capital Market Effects and Mandatory IFRS Adoption</i>	55
3.6 Political Connections, Family Ownership and Earnings Quality	56
3.6.1 Family Ownership and Earnings Quality	56
3.6.2 Political Connections and Earnings Quality	61
Chapter 4: Theoretical Framework and Hypothesis Development	76
4.1 Introduction.....	76

4.2 Incentives for IFRS Adoption: A Theoretical Framework	76
4.2.1 Theory of Networks	76
4.2.2 Signalling Theory	79
4.3 Theories Related to Family Firms and Political Connections	80
4.3.1 The Resource Based View (RBV)	80
4.3.2 RBV and Family Firms	81
4.3.3 RBV and Political Connections	82
4.4 Study Variables and Hypotheses Development	83
4.4.1 Length of IFRS Experience (IFRS_EXP) and Earnings Quality (EQ)	84
4.4.2 Family Ownership (OWN), Political Connections (PC) and EQ	90
4.4.2.1 OWN and EQ	90
4.4.2.2 PC and EQ	94
Chapter 5: Methods and Methodology	99
5.1 Introduction	99
5.2 Research Methodology	99
5.2.1 Research Method for Question 1: Measuring IFRS Implementation (IFRS _x)	99
5.2.1.1 Selection of Disclosure Index Measurement	100
5.2.1.2 Selection of Specific Standards from the IFRS	102
5.2.1.3 Selection of Scoring Method for IFRS _x	108
5.2.1.4 Calculation of the Disclosure Index	111
5.2.2 Research Method for Question 2: Measuring Earnings Quality (EQ) and Length of IFRS Experience (IFRS_EXP)	112
5.2.2.1 Measuring the Dependent Variable Earnings Quality (EQ)	112
5.2.2.2 Measuring the Independent Variable Length of IFRS Experience (IFRS_EXP)	121
5.2.2.3 Measuring Firm-Level Control Variables	121
5.2.3 Research Method for Question 3: Measuring Family Ownership (OWN) and Earnings Quality (EQ)	124
5.2.3.1 Measuring the Dependent Variable Earning Quality (EQ)	124
5.2.3.2 Measuring the Independent Variable Family Ownership (OWN)	124
5.2.3.3 Measuring Firm-Level Control Variables	125
5.2.4 Research Method for Question 4: Measuring Political Connections (PC) and Earnings Quality (EQ)	125
5.2.4.1 Measuring the Dependent Variable Earning Quality (EQ)	125
5.2.4.2 Measuring the Independent Variable Political Connections (PC)	125
5.2.4.3 Measuring Firm-Level Control Variables	126
5.3 Country and Firm Selection	126
5.4 Sample Selection and Sample Period	127
5.5 Data Sources	129
5.6 Sampling Technique	130
5.7 Data Limitation	131
5.8 Data Analysis, Diagnostic Tests and Estimation Techniques	131
5.8.1 Data Analysis	131
5.8.1.1 Methods of Analysis	132
5.8.2 Diagnostic Tests	137
5.8.2.1 Normality and Outliers	137
5.8.2.2 Multicollinearity	140
Chapter 6: Results and Discussion	141
6.1 Introduction	141
6.2 Empirical Results for Q1	141
6.2.1 Descriptive Insights on IFRS Adoption Status in the GCC Region	141
6.2.2 Detailed Analyses of IFRS Adoption Status in the GCC Region	153

6.3 Empirical Results for Q2, Q3 and Q4.....	163
6.3.1 Descriptive Statistics	163
6.3.2 Correlation Analysis.....	171
6.3.3 Main Multivariate Panel Regression Analysis	180
6.3.3.1 Main Multivariate Analysis Results for Q2 (Hypothesis 1 (H_1)).....	182
6.3.3.2 Main Multivariate Analysis Results for Q3 (Hypothesis 2 (H_2)).....	191
6.3.3.3 Multivariate Analysis Results for Q4 (Hypotheses 3 (H_3) and 4 (H_4)).....	197
6.3.4 Robustness Checks.....	211
6.3.4.1 Robust Analysis Results for Q2 (Hypothesis 1 (H_1)).....	211
6.3.4.2 Robust Analysis Results for Q3 (Hypothesis 2 (H_2)).....	215
6.3.4.3 Robust Analysis Results for Q4 (Hypothesis 3 (H_3) and 4 (H_4)).....	218
Chapter 7: Summary and Conclusion	226
7.1 Introduction.....	226
7.2 Summary of Empirical Results	227
7.3 Research Contributions.....	232
7.4 Research Limitations	233
7.5 Directions for Future Research	234
References.....	236

List of Tables

Table 2.1 <i>Sample Countries' Information (as of 2020)</i>	20
Table 3.1 <i>List of Organisations Supporting Accounting and Financial Reporting Harmonisation</i>	36
Table 3.2 <i>Use of the IFRS in 150 Jurisdictions by Region</i>	40
Table 5.1 <i>Summary of Selected Standards from the IFRS and IAS for Self-Constructed Disclosure Index (IFRSx)</i>	103
Table 5.2 <i>Classification of Reported Earnings Quality Proxies</i>	113
Table 5.3 <i>GICS Taxonomy</i>	127
Table 5.4 <i>GICS Taxonomy of the Sample</i>	129
Table 5.5 <i>Skewness and Kurtosis of the Variables</i>	139
Table 6.1 <i>Average Level of IFRS Compliance by Country</i>	142
Table 6.2 <i>Summary of Investment and Economic Status for the Sample Countries</i>	144
Table 6.3 <i>Average and Median Levels of Mandatory IFRS Compliance by Standard</i>	148
Table 6.4 <i>Descriptive Statistics of Mandatory Level of Compliance with IAS 38</i>	156
Table 6.5 <i>Frequency Distribution of Kuwaiti Firms Complying with IAS 38</i>	158
Table 6.6 <i>Frequency Distribution of UAE Firms Complying with IAS 38</i>	159
Table 6.7 <i>Frequency Distribution of Qatari Firms Complying with IAS 38</i>	161
Table 6.8 <i>Frequency Distribution of Bahraini Firms Complying with IAS 38</i>	162
Table 6.9 <i>Descriptive Statistics of All Variables for the Full Sample</i>	166
Table 6.10 <i>Descriptive Statistics of All Variables by Country</i>	167
Table 6.11 <i>Pearson Correlation Coefficient Matrix of All Variables</i>	173
Table 6.12 <i>Multivariate Technique Classifications for All Models</i>	180
Table 6.13 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q2 (EPS)</i>	184
Table 6.14 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q2 (ROA)</i>	187
Table 6.15 <i>Two-Way Cluster-Robust Standard Error Regression Results of Dechow and Dichev's (2002) Model</i>	189
Table 6.16 <i>Two-Way Cluster-Robust Standard Error Regression Results of Equation A (Q2) (H₁)</i>	190
Table 6.17 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q3 (EPS)</i>	192
Table 6.18 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q3 (ROA)</i>	194
Table 6.19 <i>Two-Way Cluster-Robust Standard Error Regression Results of Equation A (Q3) (H₂)</i>	196

Table 6.20 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₃) (EPS)</i>	199
Table 6.21 <i>Two-way Cluster-Robust Standard Error Regression Results of Q4 (H₃) (ROA)</i>	202
Table 6.22 <i>Two-Way Cluster-Robust Standard Error Regression Results of Equation A (Q4) (H₃)</i>	204
Table 6.23 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₄) (EPS)</i>	206
Table 6.24 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₄) (ROA)</i>	208
Table 6.25 <i>Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₄)</i>	210
Table 6.26 <i>Random Effects Regression Results of Q2 (EPS)</i>	212
Table 6.27 <i>Random Effects Regression Results of Q2 (ROA)</i>	213
Table 6.28 <i>Random Effects Regression Results of Dechow and Dichev's (2002) Model</i>	214
Table 6.29 <i>Random Effect Regression Results of Equation A (Q2) (H₁)</i>	215
Table 6.30 <i>Random Effects Regression Results of Q3 (EPS)</i>	216
Table 6.31 <i>Random Effect Regression Results of Q3 (ROA)</i>	217
Table 6.32 <i>Random Effect Regression Results of Equation A (Q3) (H₂)</i>	218
Table 6.33 <i>Random Effects Regression Results of Q4 (H₃) (EPS)</i>	219
Table 6.34 <i>Random Effects Regression Results of Q4 (H₃) (ROA)</i>	220
Table 6.35 <i>Random Effect Regression Results of Equation A (Q4) (H₃)</i>	221
Table 6.36 <i>Random Effects Regression Results of Q4 (H₄) (EPS)</i>	222
Table 6.37 <i>Random Effects Regression Results of Q4 (H₄) (ROA)</i>	223
Table 6.38 <i>Random Effect Regression Results of Equation A (Q4) (H₄)</i>	224

List of Figures

<i>Figure 4.1.</i> Theory of network.	79
--	----

List of Equations

Equation 5.1 <i>Proposed Model for Q2</i>	112
Equation 5.2 <i>Basic Model of Earnings Persistence</i>	115
Equation 5.3 <i>Sloan's (1996) Model of Earnings Persistence</i>	116
Equations 5.4 and 5.5 <i>Measures of Earnings Persistence</i>	116
Equations 5.6, 5.7 and A <i>Dechow and Dichev's (2002) Model of Accruals</i>	118
Equation 5.9 <i>Jones's (1991) Model of Accruals</i>	120
Equation 5.10: <i>Proposed Model for Q3</i>	124
Equation 5.11 <i>Proposed Model for Q4 (H₃)</i>	125
Equation 5.12 <i>Effect of Political Connections and Family Ownership Interaction on Earnings Quality (H₄)</i>	125
Equation 6.1 <i>Interaction of Earnings Quality (EPS) and Length of IFRS Experience (IFRS_EXP)</i>	182
Equation 6.2 <i>Interaction of Earnings Quality (ROA) and IFRS Experience</i>	185
Equation 6.3 <i>Dechow and Dichev's (2002) Model of Accruals</i>	188
Equation A <i>Absolute Values of the Residual's Regression Equation for Q2 Based on Dechow and Dichev's (2002) Model of Accruals</i>	189
Equation 6.4 <i>Interaction of Earnings Quality (EPS) and Family Ownership</i>	192
Equation 6.5 <i>Interaction of Earnings Quality (ROA) and Family Ownership</i>	193
Equation A <i>Absolute Values of the Residual's Regression Equation for Q3 Based on Dechow and Dichev's (2002) Model of Accruals</i>	195
Equation 6.6 <i>Interaction of Earnings Quality (EPS) and Political Connections</i>	198
Equation 6.7 <i>Interaction of Earnings Quality (ROA) and Political Connections</i>	202
Equation A <i>Absolute Values of the Residuals Regression Equation for Q4 (H₃) Based on Dechow and Dichev's (2002) Model of Accruals</i>	203
Equation 6.8 <i>Interaction of Earnings Quality (EPS), Political Connections and Family Ownership</i>	205
Equation 6.9 <i>Interaction of Earnings Quality (ROA), Political Connections and Family Ownership</i>	207
Equation A <i>Absolute Values of the Residuals Regression Equation for Q4 (H₄) Based on Dechow and Dichev's (2002) Model of Accruals</i>	209

List of Abbreviations

AAC	African Accounting Council
AAER	Accounting and Auditing Enforcement Releases
ABWA	Association of Accounting Bodies in West Africa
ADSM	Abu Dhabi Securities Market
ADX	Abu Dhabi Securities Exchange
AFA	Federation of Accountants
AIC	Asociacion Interamericana de Contabilidad
AIMR	Association of Investment Management and Research
AIS	Accounting Information Systems
AISG	Accountants International Study Group
ASCA	Arab Society of Certified Accountants
ASEAN	Association of Southeast Asian Nations
ASX	Australian Stock Exchange
AUD_EXP	Accounting Expertise Within Audit Committee
BAA	Bahrain Accountants Association
BHB	Bahrain Bourse
BSE	Bahrain Stock Exchange
CAPA	Confederation of Asian and Pacific Accountants
CBB	Central Bank of Bahrain
CBK	Central Bank of Kuwait
CFO	Cash Flow from Operations
CEO	Chief Executive Officer
CMA	Kuwait Capital Market Authority
CMSD	Capital Markets Supervision Directorate
COE	Country-of-Origin Effect
CPI	Corruption Perceptions Index

DFM	Dubai Financial Market
DFSA	Dubai Financial Services Authority
DIFX	Dubai International Financial Exchange
DisAcc	Discretionary Accruals
DRC	Dubai Refreshment Company
DSE	Dhaka Stock Exchange
DSM	Doha Stock Market
EAA	The European Accounting Association
EP	European Parliament
EPS	Earnings per Share
EU	European Union
EQ	Earnings Quality
ERC	Earnings Response Coefficient
ESCAFA	East, South, Central Africa Federation of Accountants
FASB	Financial Accounting Standards Board
FDI	Foreign Direct Investment
FESE	Federation des Bourses Europeennes
FESCO	Forum of European Securities Commissions
GAAP	Generally Accepted Accounting Principles
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product
GICS	Global Industry Classification Standard
GRW	Growth Opportunity
G20	Group of 20
IAA	Inter-American Accounting Association
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee

IBOD	Independence of Board of Directors
IFAD	International Forum of Accounting Development
IFAK	International Federation of Accountants
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IFRS_EXP	Length of IFRS Experience
IFRSx	IFRS Disclosure Index
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offering
KOSPI	Korea Composite Stock Price Index
KSA	Kingdom of Saudi Arabia
KSE	Korean Stock Exchange
KSC	Kuwait Shareholding Company
KSE	Kuwait Stock Exchange
LAS	Local Accounting Standards
LEV	Leverage
MC	Market Committee
MENA	Middle East and North Africa
MOC	Ministry of Commerce
MOCI	Ministry of Commerce and Industry
MSCI	Morgan Stanley Capital International
MSM	Masqat Stock Market
NASDAQ	National Association of Securities Dealers Automated Quotations
NBK	National Bank of Kuwait
NFA	Nordic Federation of Accountants
OECD	Organisation for Economic Co-operation and Development
OFDI	Outward Foreign Direct Investment

OLS	Ordinary Least Squares
OWN	Family Ownership
PC	Political Connections
PPE	Property, Plant and Equipment
PTC	Permanent Technical Committee for Setting Accounting Rules
QFMA	Qatar Financial Markets Authority
QSE	Qatar Stock Exchange
RBV	Resource-Based View
ROA	Return on Assets
S&P	Standard & Poor's Financial Services, LLC
SCA	Securities and Commodities Authority
SET	Stock Exchange of Thailand
SFAS	Statement of Financial Accounting Standards
SIZE	Company Size
SOE	State-Owned Enterprise
SOCPA	Saudi Organization for Certified Public Accountants
TI	Transparency International
TLR	Timely Loss Recognition
UAE	United Arab Emirates
UEC	Union Européenne des Experts Comptables Economiques et Financiers
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
US	United States of America
VAT	Value-Added Tax
VIF	Variance Inflation Factor

WC	Working Capital
WFE	World Federation of Exchanges

Statement of Originality

I, Nasser S. Kh. Nasser, declare that this thesis and work has not previously been submitted for a degree or diploma in any university. To the best of my knowledge and belief, the dissertation contains no material previously published or written by another person except where due reference is made in the dissertation itself.

Signed:



Nasser S. Kh. Nasser

Date:

7 July 2021

Acknowledgements

First and above all, I would like to express my sincere and deep gratitude to almighty Allah, glory be to him, for his great favours and blessings that He has bestowed upon me, and for his guidance that allowed me to continue this challenging and long journey. I went through heavy matters during this academic journey, from a very complicated divorce, not seeing my family for two consecutive years due to COVID-19 pandemic, to major health issues that required two major surgical treatments. Without Allah, glory be to him, finishing this thesis would have been an impossible task. All I can say is Alhamdulillah.

Second, I would like to pay tribute and appreciation to my supervisors, Professor Reza Monem and Dr. Shamsun Nahar, to whom I owe massive respect and gratitude for their guidance and support throughout my journey. Their valuable intellectual support have broadened my knowledge and inspired me to expand the confines of my thinking about research in general and my topic in particular. Also, I would like to thank the Australian government for awarding me the chance to study in Australia. Similarly, I must also acknowledge Griffith University for granting me both, the GU Postgraduate Research Scholarship and GU International Postgraduate Research Scholarship. Relocating from Kuwait to Australia represented a huge financial challenge and strain for me and my family, and awarding me these two scholarships significantly helped me to fully focus my attentions on my research.

Third, I am eternally indebted to my family, specially to my parents. Nothing, not even an ocean worth of heartfelt gratitude, can compensate them for their late-night prayers, and their endless financial and emotional support throughout my life. I feel how weak and fruitless must be any words of mine which should attempt to admire their presence in my life. It is with the most profound sense of joy that I am writing this to inform you your son, Nasser, has earned his PhD. I must also extend my thanks to my siblings, Abdullah and Ghusoon, for their constant support and encouragement that pushed me to strive as hard as I can to best represent myself and them, I owe you everything.

Finally, I would like to thank Capstone Editing for their professional and efficient copyediting and proofreading services.

Abstract

This thesis examines whether the adoption of the International Financial Reporting Standards (IFRS) plays a role in improving financial reporting quality, in the shape of earnings quality, in Gulf Cooperation Council (GCC) countries. This thesis also investigates the relationship between political connections, family firms and earnings quality in the same context. The vast majority of countries that have adopted the IFRS are emerging economies with weak institutional environments and weak accounting infrastructure, and critics have questioned the efficacy of IFRS adoption for improving financial reporting quality in these economies. It has been argued that change in the quality of financial reporting in a given context is a function of the presence of significant factors (e.g., socio-political and enforcement mechanisms) other than accounting standards. Motivated by this, this thesis descriptively explores the current state of IFRS implementation in the GCC region. Also, the thesis investigates quantitatively the association between the length of the IFRS experience (i.e., time since implementation) and earnings quality.

Additionally, the GCC region has very distinctive cultural aspects that have evolved over time (e.g., high degree of uncertainty avoidance, large power distance and secrecy). The uniqueness of the region's corporate environment stems particularly from the fact that businesses are predominantly controlled by families, and many businesses have overt political connections with ruling families. Empirically, prior evidence has shown that family-owned firms are characterised by higher earnings quality than non-family firms. Conversely, politically connected firms are characterised by lower earnings quality than non-connected firms. Given the significance of these two distinctive features in businesses in the GCC region, this thesis exploits this unique institutional setting and

investigates how the relationship between family-owned firms and earnings quality is moderated by the presence of firm-level political connections.

The relationship between IFRS adoption, political connections, family ownership and earnings quality is examined using a cross-country sample of 222 listed firms from Bahrain, Kuwait, Qatar and the United Arab Emirates (UAE) over the period 2012–2017. Level of IFRS compliance is measured by employing a self-constructed disclosure index using 24 applicable standards (seven IFRS and 17 International Accounting Standards [IAS]) with 219 disclosure items. The length of IFRS experience is measured by subtracting the adoption date from the end of each calendar year in the sample. Earnings quality is measured via two properties of earnings: persistence and accruals quality. Persistence is measured using two alternative proxies (earnings per share and return on assets) and accruals quality is measured using Dechow and Dichev's (2002) model of accruals.

The descriptive results provide evidence that the average level of compliance for the full sample over the sample period is 34.25%, suggesting that the level of overall compliance is low. This overall low level of compliance among sample countries can be attributed to the weak institutional environments of these countries (i.e., weak governance mechanisms, low financial reporting transparency and weak enforcement laws). Also, as a unique core cultural dimension in GCC countries' societies, the propensity of secrecy can play a key role in lowering the level of compliance and disclosure practices, as it overrides IFRS/IAS requirements.

Multivariate regression estimates based on two-way cluster-robust standard errors and random effects suggest that earnings persistence is decreasing in IFRS experience and discretionary accruals are increasing in IFRS experience in the GCC region over the period 2012-2017. The findings clearly show that reported earnings quality has declined following IFRS adoption in the GCC region over time. This is consistent with the critique

that mere adoption of higher quality accounting standards does not improve financial reporting quality unless institutional weaknesses and managerial incentive problems are addressed.

In addition, panel data estimations based on random effects suggest that family-owned firms exhibit higher earnings persistence (earnings per share) compared to non-family firms. Also, the two-way cluster-robust standard errors and random effects estimations provide evidence that family-owned firms exhibit higher accruals quality than non-family firms. Further, panel data estimations based on two-way cluster-robust standard errors and random effects suggest that politically connected firms exhibit higher earnings persistence and higher accruals quality than non-connected firms. However, the earnings quality of politically connected, family-owned firms is not significantly different from that of politically unconnected, family-owned firms in all models. Thus, the presence of board members that are politically connected with ruling families in the GCC region does not weaken the influence of family ownership on earnings quality.

This thesis contributes to the literature in several ways. First, the GCC region is increasingly important in the global economy. Moreover, the literature on IFRS adoption, political connections, family firms and earnings quality in the Middle East is in its infancy. This thesis extends the literature on these topics by documenting recent evidence from the GCC region. Second, prior studies on IFRS adoption documented that IFRS adoption in the GCC region is *de jure* but not *de facto*. This thesis's results provide new evidence that earnings quality has declined in IFRS experience in the GCC region. Third, this thesis contributes to the literature by exploiting the unique institutional setting of the GCC region, where political ties with ruling families are a precondition to business success and family ownership has emerged as the dominant form of business ownership. This setting allows us to examine how earnings quality is shaped in the simultaneous presence of family ownership and corporate–political connections. Finally, the results can

be used as a reference by policymakers and governmental officials in other emerging economies that are in the process of implementing the IFRS. The regulatory bodies in these countries are subject to the danger that, unless there is a general awareness within the government and business communities regarding the role of enforcement mechanisms and other socio-political factors, IFRS implementation will be partial, particularly if managers have no motives or incentives to follow these standards.

Chapter 1: Introduction

1.1 Introduction

This thesis examines the quality of financial reporting in Gulf Cooperation Council (GCC) countries in the context of their International Financial Reporting Standards (IFRS) adoption. It also examines the interaction between two unique institutional aspects of GCC countries, that is high levels of corporate–political connection and family ownership, with financial reporting quality. The past two decades have witnessed a rapid rise in foreign trade, economic growth, integration of complex capital markets and market globalisation (He et al., 2012). These developments in international trade and investments have affected how businesses organise themselves and operate. A demand for financial reporting convergence and harmonisation has emerged. Policymakers, academics and practitioners have highlighted the need to adopt a single set of high-quality accounting standards, comparable financial reports and relevant/reliable financial information that various stakeholders rely on for decision-making (for review, see De George et al., 2016).

At present, over 160 countries have either fully or partially mandated or permitted the adoption of the IFRS (IFRS, 2021). The lion share of the jurisdictions that have adopted the IFRS resembles emerging economies (Houqe & Monem, 2016). However, many scholars question the relevance, effectiveness and suitability of adopting and implementing the IFRS in emerging economies (Chamisa, 2000), given the considerable differences between developed and emerging economies in terms of the economic, cultural, political and institutional environments (Muttakin et al., 2015). Ball (2006) argues that a change in financial reporting will only be visible if there is also a change in the real economic and political factors that determine it. Therefore, given that the vast majority of countries that have adopted the IFRS are developing countries, there is a real

need to determine whether the adoption of the IFRS, and the extent of implementing these standards in these countries have positively affected financial reporting quality.

Unlike developed countries, developing and emerging economies are characterised in general by a lack of resources and fundamental aspects of accounting infrastructure, weak investor protection, weak enforcement and governance mechanisms, poor financial reporting transparency, widespread corruption and shortage of qualified accountants (e.g., Houque & Monem, 2016; Samaha & Khlif, 2016; Thompson, 2016; Lin, 2012; Bova & Pereira, 2012; Kaufmann et al., 2011; Olken & Pande, 2012; Fan et al., 2011; Faccio et al., 2006; Faccio, 2006; La Porta et al., 2000; Scott et al., 1976).

From a cultural perspective, the GCC region represents a collectivist society (for review, see Gray, 1988). Among the other developing nations, all of the GCC member countries (Kuwait, Bahrain, Qatar, Oman, the United Arab Emirates [UAE] and the Kingdom of Saudi Arabia [KSA]) mandated the gradual adoption of the IFRS by all listed firms. Sharing strong religious, geographical and economic ties, the members of the GCC region have recently launched their '30 years vision' plans, with an aim to form an effective economic bloc, in addition to being a leading global competitive centre of international economic activities (European Union [EU], 2017; Al-Mannai & Hindi, 2015).

Governments in the GCC region are in the process of implementing extensive economic reforms and embracing new open economic policies to attract international foreign direct investment (FDI) opportunities (Al-Shammari et al., 2008). These reforms include establishing free economic zones and diversifying investment channels from hydrocarbons and oil to sectors such as construction, finance and manufacturing (EU, 2017). The socio-political environment of the GCC region makes it an ideal setting in which to investigate the effect of political–corporate connections on financial reporting, mainly the quality of earnings. Political–corporate connections are more readily apparent

in emerging economy contexts than in developed nations (Muttakin et al., 2015; Faccio et al., 2006; Faccio, 2006), and favouritism, nepotism and political connections are evident in the GCC region (Atiyyah, 1992). These practices are considered to be the basic cultural tool for conducting business.

The corporate and business environment in the GCC region is built upon mutual interests and close relationships between the royal families, business elites and family-owned firms. The latter has increased in power and size due to their robust political ties with Gulf monarchies and politically infused financial intermediary channels, such as banks. The majority of listed banks in the Middle East and North Africa (MENA) region are politically connected (Abdelsalam et al., 2017).¹ More so than any other region, Gulf political regimes and corporate settings are affected by favouritism towards personal and family connections (Atiyyah, 1992). Business families that have close ties with countries' political regime or royal family members are frequently placed on public firms' boards (Halawi & Davidson, 2008).

Hertog (2012) notes that in the GCC region's corporate setting, the board chair positions of the top 29 state-owned firms are occupied by royal family members, while executive directors are selectively appointed by the political leadership, to whom they have direct and privileged access. Also, GCC governments always keep their 'regime-tied elites' close (Mazaheri, 2013) as they play a big role in supporting and protecting the governments against public opposition or revolutionary economic or political developments, and thus maintaining their relative power within the country (Mazaheri, 2013; Tulloc, 1987).

Although political connections and nepotism are relatively high in the GCC region, the effect of political connections on financial reporting (i.e., earnings quality) is

¹ MENA is a region that consists of approximately 21 countries in the Middle East and North Africa. Its substantial natural resources (such as petroleum and gas reserves) make it a rising economic power. The region accounts for roughly 6% of the world's population, 60% of the world's oil reserves and 45% of the world's natural gas reserves (Erdogdu & Christiansen, 2016).

barely known in this context. Corporations tend to have close relationships with politically connected persons and government members to gain preferential treatment and benefits, such as restricting competitors from entering the market, preferential tax treatment, easier access to loans and access to bail outs during any financial distress (Bunkanwanicha & Wiwattanakantang, 2009; Claessens et al., 2008; Faccio, 2006; Khwaja & Mian, 2005; De Soto, 1989). In exchange for this special treatment, in many cases, listed corporations have to share some of the monetary benefits gained from these connections.

Prior research in other jurisdictions shows that managers' incentives to prepare financial reports, the quality of the disclosed information and financial transparency are affected by political connections (e.g., Chaney et al., 2011; Bushman et al., 2004; Ball et al., 2003). From a managerial perspective, the presence of political connections encourages managers to selectively disclose particular information that would maximise their own personal benefits and suit their agenda (Watts & Zimmerman, 1990).

Similarly, anecdotal evidence suggests that once listed firms gain support from politically connected persons, they become more complacent and, therefore, avoid any pressures from capital markets or stakeholders regarding disclosing reliable financial information, which will result in preparing and disclosing low-quality earnings and financial reports (Harymawan & Nowland, 2016; Chaney et al., 2011). Also, politically connected persons can take advantage of their position in the firm by imposing their control over financial institutions, lenders and regulatory policy to favour their partners in exchange for their political support (Bushman et al., 2004).

The uniqueness of the GCC context due to the dominance of family-owned firms and the strong representation of royal family members on the boards of listed firms provides an ideal environment in which to investigate whether the presence of politically

connected persons (ruling family members) on firms' boards influences the quality of financial reports.

1.2 Research Motivation

This research selects an emerging economy context to examine the proposed topic. The decision to select an emerging economy is based on the global significance of emerging and developing markets, which represent 80% of the world's population (Muttakin et al., 2015). It must be noted that the GCC region is rising in terms of its economic power. On a per capita basis, the six GCC nations are among the wealthiest countries in the world, together owning 30% of global oil reserves (Nautiyal, 2018) and almost US\$265 billion of US debt, and are considered the US's main oil trade partner (supplying nearly one-third of the US's oil demand) (Amadeo, 2018). Their combined gross domestic product (GDP) is US\$1.62 trillion, higher than that of Canada (US\$1.53 trillion) and Russia (US\$1.28 trillion). Additionally, the GCC region's combined foreign trade in 2013 was ranked fifth globally, at around US\$1.42 trillion (Nautiyal, 2018).

Despite the above, the GCC countries also share the woes of other developing and emerging economies in the MENA region. The vast majority of Middle Eastern countries have weak institutional environments in that most have no or low quality of domestic reporting standards, in addition to weak external governance mechanisms (e.g., secrecy, large power distance, high uncertainty avoidance, weak rule of law and weak enforcement laws). For instance, Al-Shammari et al. (2008) confirm that one of the challenges the UAE will face during the process of adopting the IFRS is how to overcome the culture of secrecy and fraud. The secrecy culture in the GCC region is consistent with a high preference for uncertainty avoidance, which explains the attitude of restricting the sharing or disclosing of information to avoid competition and preserve security in the economy. Secrecy is also linked with power distance, as high-power distance societies (including

all the GCC countries) are likely to restrict sharing and disclosing of information to preserve power inequalities and high-rank positions (hierarchy) (Gray, 1988).

The combination of the above unique attributes makes the GCC region a fertile ground for testing Ball's (2006) assertion that the idea of adopting the IFRS is a function of other significant factors (e.g., enforcement levels in an adopting country) and that financial reporting quality is mainly shaped by context's economic and political environment rather than accounting standards themselves. This study thus extends the growing literature on the benefits of IFRS adoption by documenting how implementing the IFRS in the GCC region has affected the quality of disclosed financial information in general and earnings quality in particular.

Although family ownership and corporate–political connections have been examined separately in developed economies, very little known about the role of political connections in family and non-family firms in the GCC bloc, despite these distinctive institutional characteristics being prevalent in the MENA region. The ownership of firms in the GCC region resembles a concentrated family ownership structure, in addition to the presence of politically connected persons on firms' boards. This differs from the predominate Western/Anglo-American structure of dispersed ownership. Limited literature shows that family firms exhibit higher earnings quality (e.g., Johl et al., 2010; Tong, 2007; Wang, 2006). Conversely, politically connected firms have been found to have lower earnings quality compared to politically non-connected firms (e.g., Harymawan & Nowland, 2016; Braam et al., 2015; Chaney et. al., 2011). Thus, the role political connections play in the association between family firms and earnings quality is an unanswered question that is addressed by this thesis.

1.3 Research Questions

This thesis formulates the following four research questions in four studies to investigate IFRS adoption, corporate–political connections, family firms and earnings quality in the GCC region:

Q1: What is the current state of IFRS implementation in the GCC region?

Q2: What is the relationship between the length of IFRS experience and earnings quality in the GCC region?

Q3: What is the relationship between family ownership and the quality of reported earnings for listed firms in the GCC region?

Q4: What is the relationship between politically connected firms and the quality of reported earnings for listed firms in the GCC region?

1.4 Research Methods

The researcher uses secondary data and applies content analysis technique to generate robust results in all four studies. Secondary sources consist of the annual reports of all sample firms that are available on either the firms' official websites or sample countries' official stock exchange websites. The four studies cover a period of six years (from 2012–2017) to extract information regarding IFRS implementation, corporate–political connections, family firms and reported earnings. This research is conducted in the context of the GCC region, focusing on four GCC countries—Bahrain, Kuwait, Qatar and the UAE. This study also uses purposive sampling technique. The final sample consists of 222 firms listed on the stock exchanges of the four selected countries (excluding firms in the financial and insurance sectors).

The first study in this thesis descriptively examines the current status of IFRS implementation in the GCC region. Following prior studies (e.g., El-Mahjoub & Dicko, 2017; Tahat et al., 2016; Popova et al., 2013), the researcher constructs a self-built index—IFRS Disclosure Index (IFRSx)—to measure the extent of IFRS implementation

in the GCC region. A total of 24 standards (seven IFRS and 17 International Accounting Standards [IAS]) with 219 disclosure items are selected for constructing the IFRSx. This index is calculated using the binary (unweighted) approach.

The second study employs quantitative methodology to examine the relationship between IFRS experience and earnings quality in the GCC region. The dependent variable in this study (earnings quality) is estimated using two properties of reported earnings: earnings persistence and discretionary accruals. Earnings persistence is measured using two proxies—earnings per share (EPS) and return on assets (ROA)—and accruals quality is measured using Dechow and Dichev's (2002) model of accruals. With regards the variable of interest, the length of IFRS experience is measured by subtracting the adoption date from the end of each calendar year in the sample.

The third study investigates the relationship between family ownership and the quality of reported earnings in the GCC region. As in the second study, the dependent variable in the third study is earnings quality, estimated using earnings persistence (measured by the proxies EPS and ROA) and discretionary accruals (measured using Dechow and Dichev's [2002] model). This study proposes a new definition and measurement for family ownership. Family ownership is measured by the presence of at least two directors on the board who are from the same family (same family surname).

The fourth study examines 1) the relationship between politically connected firms and earnings quality and 2) how the relationship between family firms and earnings quality is moderated by the presence of firm-level political connections. Following recent studies (e.g., Al-Hadi et al., 2016), a firm is considered to be politically connected if at least one of its board members is from the royal family. Again, the dependent variable in this study is earnings quality, estimated using earnings persistence (measured by the proxies EPS and ROA) and discretionary accruals (measured using Dechow and Dichev's [2002] model). In addition to the abovementioned variables, the researcher examines

several control variables discussed in prior earnings quality literature, such as firm's growth, firm's size, leverage, the independence of board of directors, and accounting expertise within an audit committee. All data are analysed and compared using the STATA (v. 16) software package.

1.5 Research Contributions

This thesis contributes to the literature in several ways. First, this thesis documents and provides recent evidence on the current status of IFRS adoption in the GCC region. Evidence on the effect of IFRS adoption in the GCC region and within MENA countries is scarce, with previous studies on IFRS adoption focusing on developed economies. Second, given the scepticism raised surrounding IFRS adoption by emerging economies with weak institutional environments and questions as to whether IFRS adoption really improves financial reporting quality (e.g., Ball, 2006), this thesis provides important evidence on the effect of IFRS experience on earnings quality in the GCC region.

Third, by exploiting the unique institutional setting of the GCC region, where business entities are highly politically connected and family firms dominate most industries, this study provides evidence on the interaction of corporate-political connections with family ownership in influencing earnings quality. Prior literature suggests that earnings quality is high in family-owned firms (for review, see An, 2015; Tiscini & Di Donato, 2012) and low in politically connected firms (for review, see Narayanaswamy, 2013; Chaney et al., 2011). Thus, it is unclear whether earnings quality is high or low when a firm is politically connected and family owned. The unique institutional environment of the GCC region provides an excellent opportunity to explore this phenomenon.

Fourth, this study can be used as a reference by practitioners, policymakers and governmental officials in other developing capital markets that have recently implemented, or are in the process of implementing, the IFRS and enforcing these on

listed firms operating in their jurisdiction (e.g., the KSA). Regulatory bodies in these newly adopting countries face the danger that, unless there is a general awareness within the government and business communities regarding the influence of political connections and family ownership on the components and quality of firms' financial reports, IFRS implementation will be partial, particularly if managers have no motives or incentives to follow these standards. Finally, this thesis proposes a new exploratory measurement for the variable 'family ownership' suited to the unique institutional setting of the GCC region.

1.6 Thesis Structure

This thesis comprises seven chapters. Chapter 1 has provided a brief discussion and background of the proposed topics, clarified the research motivation, listed the research questions, touched on the methods and methodology adopted to investigate the proposed topics, and summarised the thesis's research contribution. Chapter 2 provides a brief historical overview of, and background information about, the relationship between elite Gulf merchant families and Gulf monarchies, the formation of the GCC, and the financial reporting frameworks and accounting regulations in each GCC sample country. Chapter 3 reviews the literature on IFRS, political connections, family firms, and earnings quality. Chapter 4 discusses the theoretical framework adopted to interpret the research findings, leading to the development of the research hypotheses. Chapter 5 details the research methodology and methods used in this research (including justification for their selection), the thesis's sample (sampling technique, sample size, etc.), the dependent and independent variables and data collection process. Chapter 6 presents and discusses the data and results. Chapter 7 concludes the thesis, providing an overview and summary of the thesis results, research contributions and limitations, as well as directions for future research.

Chapter 2: Institutional Background

2.1 Introduction

This thesis investigates whether the adoption of the IFRS improves financial reporting quality (earnings quality) in the GCC region. This thesis also sheds light on the relationship between political connections, family firms and earnings quality in the same context. This chapter provides a historical overview of, and background information about, the GCC region. The chapter provides historic glances on the development of the relationship between elite Gulf merchant families and Gulf monarchies (Section 2.2); discusses some pivotal socio-political points during the past half century leading to the establishment of the GCC (Section 2.3); and briefly discusses the stock markets, financial reporting frameworks and accounting regulations in each GCC sample country (Bahrain, Kuwait, Qatar and the UAE) (Section 2.4).

2.2 Elite Merchant Families and Gulf Monarchies: A Slice of History

Prior to the discovery of oil, the Gulf region comprised of proto-states—tribes of varying levels of development. Many tribes and merchant families from different lineages occupied the land, enjoying high levels of collective autonomy (Hertog, 2018). All these groups shared similar religion, language, traditions and culture. The key social formations in the Arabian Peninsula were royal families (monarchies), which persist to this day (see Table 2.1 in Section 2.3); merchant families; the tribal, Arabian, nomadic Bedouin (or Badoo); and workers from different Arabian and non-Arabian small communities (labourers). The Gulf royal families descended from different tribes, such as Al-Otoob (Al-Sabah, current royal family in Kuwait), Al-Mrudah (Al-Saud, current royal family in the KSA), Al-Jalahma (Al-Khalifa, current royal family in Bahrain), Bani-Yas (Al-Nahyyan, current royal family in the UAE) and Al-Zahran (Al-Said, current royal family in Oman) (Kamrava et al., 2016; Colton, 2011).

Natural resources and sources of nutrition were extremely limited during these times. Agriculture was not an option due to the harsh terrain and desert arid climate. The merchant families made their living from trading, pearling, fishing and shipbuilding. The majority of the inhabitants were nomadic Bedouin, who sustained themselves via animal husbandry (Colton, 2011) and weaponry trade. Workers and labourers were the most essential, as they were specialised in building ships, building forts and pearl diving. Gulf monarchies played a key role in controlling the region's unstable and unpredictable changes in political power (Kamrava et al., 2016; Colton, 2011). To ensure the region's stability in each proto-state, Gulf monarchies formed strategic conventions with the main influential tribal leaders and family merchants (Kamrava et al., 2016).

These conventions established the foundation of the present-day monarchy–merchant relationship in all Gulf states. To sustain and enforce their reign, Gulf monarchies started strengthening their relationships with elite merchant families through marriages, which is still the case today (e.g., the current Amir of Kuwait, Shaikh Nawaf Al-Ahmed Al-Jaber Al-Sabah, is married to Sharifa Sulaiman Al-Jasem Al-Ghanim, a member of one of the richest and most politically powerful merchant families in Kuwait). Politically, these marriages did and continue to provide a sort of assurance to Gulf monarchies, which use this cultural mechanism to expand their political alliances. Specifically, modern-day Gulf monarchies use these intermarriages with elite merchant families as a shield against revolt/conflict within the ruling family itself and to affirm their authority over other senior royal family members.

Economically, Gulf monarchies relied on merchant families as a source of income (generated through taxes on the merchants' pearl businesses), loans and financial aid (Crystal, 1995). In return, merchant families received preferential treatment and protection for their businesses (e.g., protection for ships travelling between Gulf ports) (Kamrava et al., 2016). The conventions also provided an opportunity for merchant

families and tribal leaders to gain political influence by voicing their concerns (Yom & Gause III, 2012). For example, the ruler in some Gulf states had to consult the head of certain elite merchant families and tribal leaders (Shaikh) on important political and economic matters, including treaties, wars and taxes.

The deep mutual interest between Gulf monarchies and elite merchant families solidified merchants' political influence in the Arabian Peninsula. Merchant families' day-to-day involvement in the political and economic policymaking process saw their political power grow, which they used to reinforce their economic strength (Kamrava et al., 2016; Crystal, 1995). This long-term mutual commitment was always perceived by merchant families as a credible favour to the ruler, by which they could 'tie rulers' hands' and force them to protect their economic interests (Mazaheri, 2013).

These alliances between Gulf monarchies and merchant families were shaken on a number of occasions over the years. For example, one of the most notable monarchy–merchant disputes in the Gulf region occurred when Kuwait's Amir, Shaikh Mubarak the Great (1896–1915) attempted to enforce new taxes on the pearl trade. In 1905, pearl trading was at its peak and the dominant industry. Around 461 pearl boats were owned by merchant families, employing approximately 9,200 workers (Crystal, 1995). In addition, boatbuilding thrived during this period, with around 120 pearl boats built per year (Crystal, 1995).

The growth of Mubarak's armed forces necessitated an increased military budget, which he attempted to fund by controlling market prices and implementing new taxes on pearl trading (e.g., boat taxes, pearl taxes and import taxes). These decisions were made without consulting merchant traders, who subsequently boycotted his regime. As a sign of objection, elite merchant families moved their businesses to nearby ports in Bahrain, including their traders, shipbuilders, pearl divers and pearl ships (Crystal, 1995). The economic consequences forced Mubarak to concede, and the market controls and new

taxes were repealed. The episode reaffirmed the importance and influence of merchant traders, and the necessity of the monarchy–merchant relationship.

The discovery of oil in the early 1930s was another disruption to this relationship (Kamrava et al., 2016; Crystal, 1995). Prior to this, the pearl market had declined substantially due to World War I restricting trade routes and causing a decline in international demand, and the 1928 advent of artificial pearls.

The discovery of oil in Bahrain in 1932, Kuwait in 1938, Qatar in 1940, the UAE (i.e., Abu Dhabi) in 1958 and Oman in 1964 (Aydin, 2013) led to upheaval in all Gulf states. In particular, groups who lived in the Gulf region during the pre-oil period were now subservient to and dependent on oil revenues and the state itself (Hertog, 2018). Oil became the primary economic bargaining card for Gulf rulers, providing them with direct funds and revenues that once had to be generated through taxing or loaning from merchant families. The result was the erosion of elite merchant families' political and economic leverage on Gulf monarchies and their gradual exclusion from the political scene (Crystal, 1995). In short, the new source of oil revenues freed Gulf monarchies from a longstanding economic and political mercantile network of obligation.

To protect their economic interests and regain part of their political influence, Gulf merchant families demanded the partial preservation of their political power via established assemblies, where they could suggest, discuss and legislate political and economic reforms (Colton, 2011). To avoid clashes or instability, Gulf states, or their respective ruler per se, had to 'buy off' elite merchants, with slight variations between states (Kamrava et al., 2016; Crystal, 1995).

For example, the rulers in Kuwait had to establish unique distributive economic policies that allowed elite merchant families to control the markets and perpetuate their historic identity as 'Regime-tied elites'. Specifically, Kuwait created an enclaved private sector (privileging merchants) by indirectly allowing oil revenues to be distributed

through the merchant-controlled market. The state also guaranteed elite merchant families privileged access to the oil sector through contracts related to maintenance, construction, distribution and managerial planning. Finally, the state started to bail out merchants from financial distresses, giving grants in the form of land acquisitions and monopoly concessions (Kamrava et al., 2016; Colton, 2011; Crystal, 1995). Similarly, in Oman, the rulers assured the merchants of reduced royal family participation in business activities and increased room for merchants' involvement in daily politics.

In Qatar, the rulers offered merchants economic protection in the shape of privileged trade monopolies and protective economic policies. However, as Qatari merchant families were very limited in size and lacked political experience, the Qatari ruling family started to form new conventions with newly wealthy allies, shifting their reliance to tribal leaders and families outside the old regime-tied elites' network. Thus, the Qatari ruler allowed his relatives to participate much more extensively in the market (Crystal, 1995).

In the UAE, the ruling families of Abu Dhabi (Al-Nahyan) and Dubai (Al-Maktoum)—two of the six ruling families in the UAE—relied directly on merchant families in building the post-oil state. As compensation for politically depowering them, the UAE ruling families rewarded merchant families with large and long-term construction contracts and exclusive monopoly concessions. In the KSA and Bahrain, merchant families retained control of the economy and the market, relying on their close personal, family and business relationships with senior royal family members. The involvement of royal family members in the market helped merchant families to expand their operations and increase their wealth.

In summary, merchant families continue to have a strong political and economic presence post-oil discovery in the Gulf. Prior to oil discovery, Gulf monarchies had formed strategic conventions with elite merchant families and tribal leaders to ensure

regional stability. In addition, intermarriages between Gulf monarchies, tribes and elite merchant families were a cultural mechanism to sustain the monarchies' reign. At that time, Gulf monarchies relied on merchants' wealth and revenues as a source of income, and merchants on the monarchies' protection and privileged economic access. However, this longstanding relationship between Gulf monarchies and elite merchant families was rocked by various internal and external factors, predominately the discovery and exploitation of oil in the Gulf region. In the wake of Gulf monarchies' economic independence due to oil revenues, merchant families attempted to retain their privileged societal status and influence in political and economic decision-making. To preserve social harmony and political stability, Gulf monarchies bought off merchant families, allowing them to partially maintain their political identity as historic regime-tied elites (Crystal, 1995). The political, social and economic relationships between Gulf monarchies and elite merchant families remains pivotal in the present day, with links commonly reaffirmed through marriages.

2.3 Formation of the GCC

The GCC region's current socio-political and economic status has been shaped by regional and international incidents over the past century. Pivotal historical events included the entry of British colonial forces in the 1820s, the discovery and exploitation of oil in the 1930s–1960s, independence from Britain and subsequent political reforms in the 1960s–1970s, the oil boom in the 1970s, the Iran–Iraq War in 1980–1988, the Souk Al-Manakh stock market crash in 1982 and subsequent recession, the establishment of the GCC in the 1980s, and the Gulf War (beginning with Iraq's invasion of Kuwait) in the early 1990s.

According to Zahlan (1998), the structure of Gulf society in totality is a British product constructed over a long period of colonisation. The British were involved in Gulf affairs for over 150 years (from 1918–1971) (Colton, 2011; Abdulla, 2010). The first

official presence of Britain as a colonial force was in 1918, when it signed separate agreements with each Gulf monarchy and another ‘General Treaty of Peace’ with all monarchies (Colton, 2011; Zahlan, 1998). The General Treaty provided Gulf monarchies with validity to act as British agents in the region and restricted them from engaging in ‘privateering’ (i.e., piracy or maritime service for a foreign power) which was communal act at that time in the region (Aydin, 2013). The treaty isolated the Gulf states from another, with each now jockeying for preferred treatment from the British.

The General Treaty allowed the British to control all the Gulf monarchies and tribal leaders by holding them accountable for specific duties (Zahlan, 1998) and effectively locked out other foreign powers from the region. During their colonisation of the Gulf, the British implemented profound changes and legislations in the region, such as drawing arbitrary and artificial borders between Gulf states, imposing regulations on Gulf tribes and perceived tribal order, establishing a naval base, changing rulers as dictated by British interests and negotiating all matters related to foreign affairs on behalf of all Gulf monarchies.

The long presence of the British in the region was not accompanied by infrastructure development (Colton, 2011) until the discovery and extraction of oil (beginning with the ‘First Oil Well’ in Bahrain in 1932). With the states as rentiers, oil revenues allowed for Gulf rulers’ nominal economic independence (although they were still under the political control of Britain) but also led to a lack of economic diversity. Britain’s unexpected and somewhat sudden withdrawal from the Gulf region (conducted from 1968–1971) resulted in a power vacuum (Partrick, 2011) and left the Gulf rulers vulnerable and faced with the extreme challenge of building self-governing states (Abdulla, 2010). The sudden loss of stability in the region effected global stock markets, and was reflected in oil prices, which increased by over 400% in 1973—though this generated immense wealth for the Gulf rentier states (Abdulla, 2010).

The formation of the current GCC, a regional intergovernmental political and economic union, was not achieved easily. After British withdrawal from the region, the Omani Government was the first to officially propose Gulf integration, mainly for the establishment of regional security and defence policies. In May 1976, during an official visit to the UAE, then-Amir of Kuwait Sheikh Jaber Al-Sabah formally called for the establishment of a unified organisation that would preserve the region politically and economically from any future international threats. The idea was strongly supported by then-Amir of the UAE Sheikh Zayed (Galeeva, 2018). In November 1976, ministers from all six Gulf states attended a meeting in Muscat, Oman, as an initial step to discussing this massive commitment. However, the inclusion of Iraq and Iran in this meeting proved counterproductive, as their objections to various policies and conflicting goals prevented any consensus from being reached (Galeeva, 2018).

Discussions and meetings among the GCC states' representatives continued over the next five following years, and regional events accelerated the formation process. The Iranian coup/revolution in 1979 and the USSR's military involvement in Afghanistan beginning in the same year convinced the Gulf states of the need for at least a formal forum for cooperation. The foreign ministers of the six Gulf states held a meeting in Riyadh, KSA, in February 1981 and unanimously signed the legal instrument for the creation of the GCC. In May 1981, the formal declaration of the GCC's establishment was made in Abu Dhabi, UAE.

The GCC has since proven wildly successful, providing for the establishment of a unified military command and GCC police force (a step towards a fully coordinated regional security and defence policy) to preserve the Gulf's security and political stability, as well as economic integration and harmonisation (in the shape of free trade zones and a customs union). The GCC now is one of the most rising economic forces globally. Based on GDP per capita, the six GCC countries are among the world's wealthiest countries (for

review, see Table 2.1). The GCC countries collectively own 30% of the world's oil reserves (Nautiyal, 2018) and nearly US\$265 billion of US debt, and are considered the US's main oil trade partner (supplying almost one-third of the US's oil demand) (Amadeo, 2018). The GCC's combined GDP (US\$1.62 trillion) exceeds that of Canada (US\$1.53 trillion) and Russia (US\$1.28 trillion), and its foreign trade in 2013 was valued at around US\$1.42 trillion (Nautiyal, 2018). However, there remain various causes of instability in the GCC region, and 'full unity' in the form of a 'Gulf Union' has yet to be achieved. The recent rift between the KSA and Qatar has also indicated possible future political and economic dissonance (Galeeva, 2018).

Table 2.1
Sample Countries' Information (as of 2020)

	Country			
	<i>Bahrain</i>	<i>Kuwait</i>	<i>Qatar</i>	<i>United Arab Emirates</i>
Political system	Constitutional monarchy	Constitutional emirate	Absolute monarchy	Constitutional federation
Legal system	Mixed legal system (Islamic 'Sharia' and civil laws)	Mixed legal system (Islamic 'Sharia' and civil laws)	Mixed legal system (Islamic 'Sharia' and civil laws)	Mixed legal system (Islamic 'Sharia' and civil laws)
Taxation system	Individuals: No tax Corporate: Taxes on oil and gas and banking sectors VAT: Yes	Individuals: No tax Corporate: Taxes levied on profit share attributable to non-GCC shareholders of local entities VAT: Yes	Individuals: No tax Corporate: Taxes levied on profit share attributable to non-GCC shareholders of local entities VAT: Yes	Individuals: No tax Corporate: Taxes on oil and gas and banking sectors VAT: Yes
Religion	Islam	Islam	Islam	Islam
Population	1.5 million	4.1 million	2.7 million	9.5 million

	Country			
	<i>Bahrain</i>	<i>Kuwait</i>	<i>Qatar</i>	<i>United Arab Emirates</i>
Financial authority	Capital Markets Supervision Directorate (CMSD)	Kuwait Capital Market Authority (CMA)	Qatar Financial Markets Authority (QFMA)	Dubai Financial Market (DFM)
IAS/IFRS adopted	Yes	Yes	Yes	Yes
IAS/IFRS adoption year	2001	1991	1999	2015
GDP (USD)	35.5 billion	120.7 billion	161.1 billion	385.6 billion
GDP per capita (USD)	23,743	29,759	59,125	40,645

Note. VAT = value-added tax, GDP = gross domestic product, USD = US dollars, IAS = International Accounting Standards, IFRS = International Financial Reporting Standards.

Source: World Bank (2020)

2.4 The Stock Markets, Financial Reporting Frameworks and Accounting Regulations of GCC Sample Countries

The integration of global and regional financial markets created a need for a common global financial language. The IASB introduced the IFRS to unify accounting standards and achieve comparability in financial reporting, as a step towards global financial harmony. The GCC region's profound economic development and integration into the global economy created the need for common accounting standards, first under British rule and later as independent states. In all GCC countries, the government is responsible for regulating the accounting profession and supervising, enacting and endorsing financial reporting standards. The following sections discuss the stock markets and financial reporting regulations of each GCC sample country.

2.4.1 Kuwait

During the golden age of oil businesses in the 1950s, Kuwait was an investment destination, capturing the attention of regional and international investors. In the early 1950s and prior to the official establishment of the Kuwait Stock Exchange (KSE), people engaged in share trading after the initial public offering (IPO) of the National Bank of Kuwait (NBK). The initial stock exchange was introduced in 1952, and the NBK and Kuwait Shareholding Company (KSC) were the first to incorporate in Kuwait (Markaz, 2019), with the NBK being the first Kuwaiti entity to sell its stocks to the public (Almujamed et al., 2017). At that stage, there was no official regulation to protect brokers or regulate the market.

In 1970, Commercial Law No. 32 was enacted and was considered a cornerstone in the development of Kuwait's share trading activities. The law was passed to regulate trading securities for Kuwaiti public companies by establishing a financial supervisory committee to supervise daily trading activities and establish a formal stock market (Almujamed et al., 2017). During these years, another unofficial trading market existed,

known as Souq Al-Manakh (or Al-Manakh market). This unofficial market consisted of 46 unlisted Kuwaiti and 38 non-Kuwaiti firms incorporated in other Gulf states. The core of daily trading activities at Al-Manakh market was futures trading (Markaz, 2019).

The Ministry of Commerce and Industry (MOC) tasked the Division of Securities with supervising the market. The Division's responsibilities were to supervise the daily trading activities in the market, mandate all brokers to record their daily transactions with the ministry, and issue the official daily bulletin of prices. In 1976, the Division of Securities was replaced by the Market Committee (MC). The new committee consisted of 11 members, including representatives from MOCI, the Central Bank of Kuwait (CBK) and the Kuwait Chamber of Commerce and Industry, as well as independent individuals selected by the minister of commerce and industry himself. The main role of this group was to manage the market and oversee regulations (Almujamed et al., 2017).

The Kuwaiti Government's first attempt to set its own accounting standards was in June 1981, when it established the Permanent Technical Committee (PTC) for setting accounting rules, and for regulating and publishing Kuwaiti accounting standards under Ministerial resolution No. 57/1981 (Al-Qahtani, 2005). The main objectives of the PTC were to establish a relevant set of accounting standards, prepare a code of ethics and practice for the auditing profession, periodically review and update the standards and study the latest regulatory trends. The committee conducted a series of meetings for almost three years (1981–1984) but did not enact or issue any standard.

The Al-Manakh market crashed in 1982, precipitating a recession in Kuwait and then across the entire Gulf region. The aftermath showed that about US\$94 billion worth of post-dated cheques were found to be outstanding and these debts were from 18 traders only. Also, over 350 firms and individuals declared bankruptcy (Markaz, 2019). Several investigations were conducted by governmental committees, which concluded that the main reasons behind the Al-Manakh market crash were providing insufficient and false

financial information to investors, the absence of effective government legislation and monitoring regulations, and gambling with Gulf stocks.

The crash prompted a new era, with then-Amir of Kuwait Shaikh Jabir Al-Sabah signing and issuing an Amiri Decree in 1983 to officially establish the KSE under the oversight of the MC and an executive administrative team from the KSE, who were to ensure the enforcement of regulation and investor protection. The government also undertook numerous stock market and financial reporting reforms. First, the government established the second PTC in 1986, with the same objectives as the aforementioned first PTC (Al-Qahtani, 2005). This committee issued three local accounting standards related to (a) financial statements, (b) investment accounting and (c) property accounting. However, Shuaib (1998) confirms that these standards were heavily criticised by the public and accounting practitioners due to their ambiguous nature and impracticality. Ultimately, the second PTC advised the government to adopt and mandate the IAS for listed firms in Kuwait. Second, the government passed Law No. 33/1988, allowing for Gulf shares to be traded in Kuwait. Third, the government mandated all firms listed on the KSE to provide regular audited financial statements to the KSE.

Fourth, the government established two disciplinary committees. Each committee is authorised to send warnings to traders and brokers, terminate suspicious trading transactions and terminate a subscription or membership. Most importantly, the Kuwaiti Government, represented by the MCI and following the recommendation of the second PTC, passed Ministerial Decree No. 18 (1991), mandating all firms listed on the KSE to prepare their financial statements in accordance with the IAS (Al-Mutawaa & Hewaidy, 2010; Al-Qahtani, 2005). After 30 years, the KSE was renamed to Boursa Kuwait under Capital Markets Authority Commissioners' Council Resolution No. 37/2013. Boursa Kuwait is currently one of the oldest stock markets in the Middle East (Al-Hashemi, 2015), with around 170 listed firms across 12 sectors.

2.4.2 Bahrain

The history of accountancy in Bahrain extends back around 100 years. In 1928, international auditing and accounting firm Ernst & Young established one of its oldest branches in the Gulf region in Bahrain, with experienced accountants from the United Kingdom (UK) brought in to audit the books of foreign oil and gas companies (Joshi & Al-Basteki, 1999). Bahrain's case is very similar to Kuwait's; during the oil boom in the 1950s, most Bahraini traders engaged in 'off the books' trading activities, started trading activities in an unofficial Bahraini market (Al-Jowhara) and also traded in the Al-Manakh market. At that point, no commercial law had been enacted and, therefore, there were no auditing or financial standards regulating the market. The first non-Bahraini (Arabian) office for a non-Bahraini firm in Bahrain was established in 1954 (Joshi & Al-Basteki, 1999).

The rapid growth of Bahrain's economy in the 1970s led to many significant changes in Bahraini corporate and government regulation. For instance, the Bahrain Accountants Association (BAA) was established in 1971. The BAA initially had limited activities, mainly delivering seminars to the public (Joshi & Al-Basteki, 1999), but greatly expanded in the 1990s. After re-registering the BAA in the Ministry of Labour in 1992 under Law No. 78, the association started to develop laws in 1994 (Joshi & Al-Basteki, 1999). In particular, the BAA started to supervise all its members to raise their awareness in regard to accounting principles and to protect their rights, develop accounting concepts in Bahrain to serve the country's economic and financial interests, and sponsor scientific research in various fields of accounting and auditing (BAA, 2021).

The Bahraini Commercial Law (Decree No. 28 of 1975) provided basic accounting rules for corporations, such as preparing income statements, balance sheets and dividends distribution reports. However, the Decree did not specify what accounting standards should be applied in preparing these statements, or what would be the penalty

for not using any accounting standards (Joshi & Ramadhan, 2002). The Law also provided regulations related to companies' formation and registration.

The Al-Manakh market crash in Kuwait in 1982 resulted in the Bahraini unofficial market, Al-Jowhara, crashing soon after. As a result, the Bahraini Ministry of Trade and Agriculture established a committee in 1983 consisting of professional international and national accountants to decide whether to adopt the IAS (Al-Qahtani, 2005). According to the minutes of the committee's meetings, it strongly advised the Bahraini Government to adopt the IAS. In 1987, the government started a chain of regulatory reforms by establishing the Bahrain Stock Exchange (BSE), which started trading officially in 1989 through Amiri Decree No. 4, with the Ministry of Commerce regulating all BSE activities. The year 2001 was a turning point for Bahrain's financial reporting history. In 2001, Article 219 of the Commercial Companies Law (Decree No. 21 of 2001) was issued, mandating all firms listed on the BSE to prepare and publish their financial statements in accordance with the IAS. One year later, the Central Bank of Bahrain (CBB) took over the responsibility of supervising and regulating the BSE. In 2010, the BSE was replaced by the Bahrain Bourse (BHB) by Royal Decree No. 60. Presently, there are around 43 listed firms on the BHB in six different sectors.

2.4.3 The UAE

Trading in the UAE can be traced back to the early 1960s, when a number of local Emirati firms were incorporated (Al-Muzaiqer et al., 2016). Similar to Bahrain and Kuwait, traders in the UAE used to trade securities over the counter through non-licensed firms (Khedhiri & Muhammad, 2011) and the Al-Manakh market in Kuwait. At this time, there was no legal framework or official regulatory body.

By an Amiri Decree, the Dubai Refreshment Company (DRC) was established as the first joint stock corporation in the UAE in 1959. The Emirati Government had plans to establish an official regulated stock market exchange by the 1980s. In 1981, the Central

Bank of UAE reached out to the International Finance Corporation (IFC) and sought their guidance in relation to establishing an official stock market in the country. As news of the Al-Manakh market crash spread, it prompted the Emirati Government to hasten the establishment of an official and regulated stock market. However, this was severely hindered by the oil crises in the mid-1980s. The 1980s also witnessed the passing of a number of important acts and laws related to market regulations and financial reporting, such as (i) Federal Law No. 14/1988 for organising commercial agencies, (ii) UAE Ministerial Decision No. 5/1982 for the formation of the Committee for Commercial Agencies, and (iii) Federal Law No. 8/1984 for Commercial Companies Law.

In 2000, Shaikh Khalifa bin Zayed enacted Federal Law No. 4/2000 to establish the Securities and Commodities Authority (SCA), whose core objective was to supervise and monitor stock exchanges in UAE (Al-Muzaiqer et al., 2016). In the same year, the governments of Dubai and Abu Dhabi established the Dubai Financial Market (DFM) and the Abu Dhabi Securities Exchange (ADX) (formerly the Abu Dhabi Securities Market [ADSM]) under Decree No. 14/2000 and Decree No. 3/2000, respectively. Both exchanges are under the regulatory umbrella of SCA. As an open market encouraging free trade and FDI, the UAE started to trade international stocks in 2005 after establishing the Dubai International Financial Exchange (DIFX) (known now as the National Association of Securities Dealers Automated Quotations [NASDAQ]). Currently, the NASDAQ operates under and is governed by the Dubai Financial Services Authority (DFSA).

At present, all listed firms in the UAE are required to prepare and publish their financial reports in accordance with the IFRS, per Commercial Companies Law No. 2 of 2015. It is worth mentioning that the UAE's decision to adopt the IFRS was a consequence of systematic and ongoing pressure from various institutional forces over several years. These pressures are categorised as coercive pressures from major global

institutional forces (such as the World Bank, International Monetary Fund [IMF] and Organisation for Economic Co-operation and Development [OECD]), normative pressures from the Big Four accounting firms and mimetic pressures from trade partners and multinational corporations (Irvine, 2008). There are currently around 150 firms listed on the DFM, ADX and NASDAQ in 17 different sectors.

2.4.4 Qatar

Compared to other GCC countries, Qatar's financial reporting framework and legal structure is primitive (Al-Maliki et al., 2015). Little is known about the financial reporting environment prior to the 1990s. In 1980, the Qatari Ministry of Economy and Commerce enacted Company Act Law No. 11, which, at the time, was considered the basis of all financial reporting practices in Qatar. This Law mandated all Qatari firms to prepare a balance sheet and a statement of profit and loss, though a fundamental issue of this law was the lack of clarity regarding the accounting standards to be used. The 1990s witnessed the enactment of the Doha Stock Market (DSM) Law No. 14/1995. Two years later, the DSM officially started operations. A new financial reporting era for Qatar started in 1999 when the Central Bank of Qatar mandated all listed firms to prepare and publish their financial reports in accordance with the IAS (Al-Maliki et al., 2015). The DSM was restructured and renamed the Qatar Stock Exchange (QSE) in 2005. Currently, there are 48 firms listed on the QSE in seven different sectors.

In conclusion, most of the Gulf states started trading in the 1950s, though traders mainly engaged in trading activities in unofficial markets. At that time, there were no financial reporting regulations or standards or commercial laws to regulate the markets. The Al-Manakh market crash in Kuwait in 1982 was a watershed for the Gulf states and played a key role in these states accelerating their respective processes of establishing fundamental financial reporting and auditing regulations and official stock markets. Most

of the GCC countries established official stock exchanges and commercial reporting regulations in the mid- and late 1980s.

All GCC countries have adopted and mandated the IFRS. However, the applicability and suitability of these standards for the region are questionable. Accounting standards and financial reporting practices are influenced and shaped by socio-political and economic elements. The GCC region has its own unique institutional environment shaped by the history discussed in this chapter. The mere adoption of higher quality standards such as the IFRS does not necessarily improve financial reporting quality and the information environments, unless enforcement and other institutional factors are also conducive.

Chapter 3: Literature Review

3.1 Introduction

This chapter reviews the literature on IAS/IFRS adoption, political connections, family firms and earnings quality. In particular, this chapter examines factors that significantly affect adoption of the IFRS; discusses the two dominant schools of thoughts regarding IFRS adoption; and summarises the relevant literature on the micro and macro determinants of IFRS adoption, political connections, family firms and earnings quality. The chapter is organised as follows. Section 3.2 discusses the two main schools of thoughts regarding IFRS adoption. Section 3.3 reviews the factors causing variations and differences in accounting standards. Section 3.4 provides possible empirical justifications for IFRS adoption in developing countries and the GCC region. Section 3.5 presents the effects of voluntary and mandatory IAS/IFRS adoption on accounting and reporting quality. Section 3.6 summarises the literature regarding the relationship between political connections, family firms and earnings quality.

3.2 IFRS Adoption: Two Schools of Thoughts

Adoption of the IFRS is increasing (Bova & Pereira, 2012). As of March 2021, over 160 jurisdictions have fully or partially transitioned to the IFRS (IFRS, 2021), and it looks certain that the current number of jurisdictions embracing the IFRS will keep rising in the future. Remarkably, aside from the EU members and few countries outside the European continent (e.g., Australia and New Zealand), most of the adopting jurisdictions are emerging economies (Houqe & Monem, 2016). This has encouraged many researchers to examine the growing acceptance and use of the IFRS, resulting in a vast and growing literature with mixed evidence (De George et al., 2016; Brown & Tarca, 2012; Chen et al., 2010).

3.2.1 Arguments in Favour of IFRS Adoption

Proponents of IFRS adoption argue that the IFRS are high quality and superior to any local or national accounting and financial reporting standards (Chen et al., 2010; Barth, 2008). A number of scholars (e.g., Houqe & Monem, 2016; Hope et al., 2006) argue that IFRS adoption is especially useful for enhancing the accounting environment in emerging economies, as these rarely have high quality accounting standards. Drawn from this perspective, Houqe and Monem (2016) provide four mechanisms through which mandatory IFRS adoption might enhance the accounting environment in developing countries.

The first mechanism, which emerges from the marketing field, is built on the notion of country-of-origin effect (COE) (for review, see Teas & Agarwal, 2000; Agbonifoh & Elimimian, 1999). COE theorises that consumers in developing countries perceive products manufactured in more advanced and developed countries positively, assuming they have higher quality attributes compared to products manufactured in emerging economies (Agbonifoh & Elimimian, 1999). Houqe and Monem (2016) argue that because the IFRS originate from several developed countries (i.e., the UK, Australia, Germany and the US) (Ball, 2006), it is more likely that emerging economies will perceive the IFRS as a set of higher quality standards and adopt them. In addition, early adoption of the IFRS by EU member countries and other developed economies gave the standards credibility.

Second, prior to their decision to adopt the IFRS, many developing countries had weak national accounting and reporting standards (Cai et al., 2014). Examining the adoption behaviour in emerging economies, Cai et al. (2014) find that developing countries have benefited more from IFRS adoption compared to countries that already had good quality national accounting and reporting standards in place.

Third, adopting the IFRS facilitates integration with the international economy and trade system. According to Houqe and Monem (2016), high-quality standards, such as the IFRS, likely raise local firms' standards of business practices within emerging economies. Gordon et al. (2012) find that adoption of the IFRS certainly increases FDI inflows. Cai and Wong (2010) confirm that IFRS adoption leads to a higher degree of capital market integration, and DeFond et al. (2011) find that countries that mandatorily adopt the IFRS experience an increase in foreign mutual fund ownership.

Fourth, Alfredson et al. (2009) claim that several prestigious international organisations (e.g., the World Bank, Basel Committee, IMF, International Federation of Accountants [IFAC]) endorse IFRS adoption, as well as making it an eligibility requirement for reformation schemes and financing. Such pressure from these organisations might improve the disclosure and information environment in emerging economies.

Numerous empirical studies have highlighted the potential benefits of IFRS adoption, including improved comparability, improved transparency, lower cost of capital, elimination of cross-border investment barriers, enhanced disclosure quality, reduce information asymmetry, improved ability to detect financial manipulations, reduction of information costs, enhanced capital market efficiency and more professional judgement by auditors and management (Lang & Stice-Lawrence, 2015; Cascino & Gassen, 2015; Horton et al., 2013; Herbert & Tsegba, 2013; Capkun et al., 2013; Yip & Young, 2012; Chen et al., 2010; Armstrong et al., 2010; Horton et al., 2008; Daske et al., 2008; Choi & Meek, 2005; Levitt, 1998). Nevertheless, there is ongoing debate regarding these benefits (Christensen, 2012; Hail et al., 2010).

3.2.2 Arguments Against IFRS Adoption

A growing scepticism is that relying only on the adoption of a set of financial reporting standards (e.g., the IFRS) does not guarantee an improvement in the financial

reporting environment, allocation of financial resources or information quality (for review, see, e.g., De George et al., 2016; Lourenço et al., 2015; Brown, 2011; Ball, 2006). Bhattacharjee and Islam (2009) and Ball (2006) note that adopting high-quality financial reporting standards does not automatically improve the financial reporting environment or information quality. They assert that financial reporting quality is mainly determined by a country's economic and political settings rather than accounting standards.

Chen et al. (2010) and Kvaal and Nobes (2012) assert that there is a growing consensus that each country has a unique economic environment and institutional framework, both of which shape its accounting and financial reporting standards. Therefore, countries' respective accounting and financial reporting standards should differ, and adoption of the IFRS will not by itself improve the financial and reporting environment in these countries.

Pawsey (2017) raises another concern regarding the costs of IFRS adoption. Jermakowicz and Gornik-Tomaszewski (2006) cite adopting firms' cost concerns related to the preparation and certification phases. Some costs are incurred during the transition from local financial reporting standards to the IFRS, while other costs are ongoing and related to the complex nature of the IFRS itself. The IFRS are a very complex set of standards (Dunne et al., 2008; Fearnley & Hines, 2007) that require additional and greater disclosure of information from adopting firms (Leung & Ilsever, 2013). The regulators and standard setters are aware of this complexity and publish periodic amendments, though these often result in additional costs. It must be noted that costs vary among firms, with smaller sized firms incurring higher costs (Pawsey, 2017) due to their need to hire more experienced auditors to navigate the complexity of the IFRS (Rezaee et al., 2010).

Ongoing costs that firms may bear after the adoption of the IFRS include updating their accounting information systems (AIS), external professional consultancy, educational workshops related to the new standards for stakeholders, audit support,

redesign of internal firm policies and enforcement mechanisms, and training sessions for management and staff (Pawsey, 2017; Moqbel & Bakay, 2010; Rezaee et al., 2010).

In relation to costs associated with training, Chand (2005) asserts that adopting firms have to dedicate substantial resources towards IFRS training programs. Prior to the transition wave in early 2005, Cope and Clarke (2003) predicted that the shortage of trained staff was going to be the principal challenge for any firm adopting the IFRS. Gyasi (2009), researching in the context of Ghana, finds several problems in training structure, such as a shortage of trained instructors, lack of educational materials and teaching resources, and an ill-prepared training framework for accountants. Another challenge for many developing countries is translation.

A number of empirical studies (Thompson, 2016; Faraj & El-Firjani, 2014; United Nations Conference on Trade and Development [UNCTAD], 2008) provide evidence that translation of the IFRS education and training materials to the native language is problematic in some emerging economies (Brazil, Libya and Turkey). Faraj and El-Firjani (2014) document non-compliance with English-language reporting in Libya. The UNCTAD identifies lack of widespread English language use in Brazil as a reason for preparers of financial reports and accountants in that country not generally understanding how the IFRS can be used and applied.

There are also criticisms of the time taken for implementation. Pilcher and Dean (2009) show that Australian government agencies' adoption and implementation of the IFRS was expensive and time consuming. While in the Asian context, Phan et al. (2016) survey Vietnamese accountants and auditors, the majority of whom express concerns over the undesirable features of adopting the IFRS (chiefly, overly costly implementation, time-consuming process and, ironically, less comprehensive reporting after implementation). Hoogendoorn (2006), surveying European firms, confirms that

preparing and publishing financial reports in accordance with the IFRS exceeds the time estimations of most firms.

In examining arguments for and against IFRS adoption, it must be noted that these are not mutually exclusive (Mardini et al., 2019; Bova & Pereira, 2012). For example, proponents of IFRS adoption state that while adoption of superior reporting standards should enhance the financial reporting environment by reducing information asymmetry and lowering cost of capital, firms' adoption of and compliance with the IFRS is not guaranteed. Similarly, the argument that compliance will vary between firms does not extend to saying that the IFRS have no positive effect on financial reporting quality. These two schools of thoughts regarding IFRS adoption compel us to think about the explanations behind the general worldwide move towards IFRS adoption and the consequences of this adoption.

3.3 IFRS Adoption and Factors of Variations

Nobes (2011) asserts that prior to the 1970s, most investors preferred to invest within their own countries' borders, and thus the use of national reporting and accounting systems was not an issue. In the early 1970s, the wave of international mergers, hostile acquisitions, national stock exchanges going international and the growth of multinational corporations created demand for a common unified accounting language to reduce miscommunication in international commerce. The IASB subsequently developed the IFRS to achieve uniformity and comparability in financial reports across countries (IASPlus, 2017a, 2017b).

3.4 IFRS Adoption: Possible Empirical Justifications

In the past two decades, the integration of international capital markets and globalisation generally has raised the issue of differences in accounting and financial reporting standards (Samaha & Khlif, 2016). Note that some firms operating in the same country use different financial and accounting systems. For instance, in Japan, firms can

follow the Japanese Generally Accepted Accounting Principles (GAAP), IFRS or US GAAP (Tanaka, 2013). Consequently, the vision of a high-quality, unified and harmonised set of global financial reporting standards has been widely endorsed (Khelif & Souissi, 2010; Chamisa, 2000), including by the EU, top Group of 20 economies (G20), IMF, OECD, International Organization of Securities Commissions (IOSCO) and IFAC (Prada, 2014; Ağca & Aktaş, 2007) (see Table 3.1).

Table 3.1
List of Organisations Supporting Accounting and Financial Reporting Harmonisation

Organisation Name	Abbreviation
African Accounting Council	AAC
Asociación Interamericana de Contabilidad (Inter-American Accounting Association)	AIC, IAA
Arab Society of Certified Accountants	ASCA
Confederation of Asian and Pacific Accountants	CAPA
European Union	EU
Federation des Bourses Europeennes	FESE
The Forum of European Securities Commissions	FESCO
The European Accounting Association	EAA
Union Européenne des Experts Comptables Economiques et Financiers	UEC
Association of Accounting Bodies in West Africa	ABWA
United Nations	UN
East, South, Central Africa Federation of Accountants	ESCAFA
Organization for Economic Cooperation and Development	OECD
Association of Southeast Asian Nations	ASEAN
Federation of Accountants	AFA
Commonwealth Conference of Accountants	—

Organisation Name	Abbreviation
Nordic Federation of Accountants	NFA
Accountants International Study Group	AISG
World Federation of Exchanges (formally International Federation of Stock Exchanges)	WFE
International Organization of Securities Commission	IOSCO
International Accounting Standards Board	IASB
International Forum of Accounting Development	IFAD
International Federation of Accountants	IFAC

Source: Ağca and Aktaş (2007).

In January 2005, the European Parliament (EP) mandated the adoption of the IFRS in all EU countries. This prompted both renewed scholarly interest in the IFRS and adoption by other countries. De George et al. (2016), Chen et al. (2010) and Judge et al. (2010) note that most of the debates on IFRS at this time were speculative opinions due to a lack of sufficient data (Ball, 2006) with which to evaluate the costs and benefits of such a major regulatory transition (De George et al., 2016). Nevertheless, the EU's transition to the IFRS was persuasive for key groups in other countries (policymakers, practitioners, standard setters and accounting researchers), especially those in emerging economies and countries that had suffered historically from fledging and bubbly stock markets (Samaha & Khelif, 2016; Colombo, 2006).

The significant differences in the economic, political, and institutional environments across countries are addressed by Rottig (2016), Muttakin et al. (2015) and Zeff (2007), who report that the institutional environments in which firms in developing markets exercise their activities differ significantly from those in developed markets and economies. For example, corporate–political connections are more pronounced in emerging and developing countries (for review, see Muttakin et al., 2015; Faccio, 2006).

A number of studies characterise developing markets and economies in general as having weak institutions, a lack of resources and infrastructure (Bova & Pereira, 2012), weak investor protection and low-quality government (La Porta et al., 2000), weak enforcement and governance mechanisms (Lin, 2012), lack of freedom of press (Kaufmann et al., 2011), poor financial transparency (Fan et al., 2011), widespread of corruption (Houqe & Monem, 2016; Olken & Pande, 2012; Faccio, 2006), difficulty attracting foreign investment (Samaha & Khelif, 2016; Faccio, 2006), shortage of qualified accountants, unavailability of accounting or financial information, and weak or non-existent auditing laws (Thompson, 2016; Scott et al., 1976).

Despite the limited evidence of benefits for emerging economies adopting the IFRS, many developing and emerging economies adopted the IFRS shortly after the EU's adoption (Al-Akra et al., 2010). Ramanna and Sletten (2014) provide two explanations for such behaviour. First, changing perception of the IFRS, especially in regard to potential benefits (chiefly, minimising transaction costs for foreign users of financial reports, thereby encouraging foreign investment). Second, adoption based on the notion of 'network effects' theory—when a certain product (in this case, the IFRS) becomes more valuable and significant as more people (or adopting countries) use it (for review, see Shapiro & Varian, 1998). Sarkissian and Schill (2004) find that geographical proximity affects firms' cross-listing behaviour, and Ramanna and Sletten (2014) claim that network effects may also arise from geographic proximity. That is, if a country or region has already adopted the IFRS, geographically proximate countries are more likely to adopt the IFRS, especially if the adopting country or region is particularly influential (e.g., the EU's economic importance likely played a role in other countries adopting the IFRS post-EU adoption).

The two above explanations for the recent global IFRS adoption behaviour can aid our understanding of IFRS adoption in the GCC region. All GCC countries are

developing countries, and all have mandated the adoption of the IFRS for all or some of the listed firms in their jurisdiction (Oman was the first in the GCC region to adopt the IFRS [in 1986], followed by Kuwait [1991], Qatar [1999], Bahrain [2001], the UAE [2015] and the KSA [2016]). The strong geographic, economic and cultural ties between this regional bloc (Al-Shammari et al., 2008) likely influenced the spread of IFRS adoption, albeit gradually (approximately 30 years between the first and last adopter). Note that adoption accelerated as more countries adopted the IFRS. In other words, the value and the significance of the product (the IFRS) is directly dependable on the gradual adoption behaviour of the network (the other geographical neighbours).

The GCC region has recently seen various economic reforms and ‘open economic policies’ implemented by member states to attract FDI (Al-Mannai & Hindi, 2015; Al-Shammari et al., 2008). The GCC is building a strong economic image through establishing free economic zones (in which there are no limits foreign ownership) and diversifying the economy (OECD, 2010). IFRS adoption in this context may relate to the perceived benefit of such adoption (Ramanna & Sletten, 2014); namely, minimising the barriers and transaction costs for foreign investors by operating under a unified set of financial reporting standards (Stoltenberg et al., 2011).

Table 3.2
Use of the IFRS in 150 Jurisdictions by Region

Region	Number of jurisdictions in the region	Jurisdictions that require IFRS use by all or almost all domestic PAEs		Jurisdictions that permit or require IFRS use by less than 50% of domestic PAEs	Jurisdictions that do not require or permit IFRS use by domestic PAEs
		<i>n</i>	%		
Europe	44	43	98	1	0
Africa	23	19	83	1	3
Middle East	13	13	100	0	0
Asia and Oceania	33	24	73	3	6
Americas	37	27	73	8	2
Total	150	126	84	13	11
% of 150	100%	84%	84%	9%	7%

Note. PAEs = publicly accountable entities.

Source: IFRS (2017).

3.5 IFRS Adoption and Financial Reporting Quality

As discussed earlier, those in favour of IFRS adoption agree that financial reporting under the IFRS is of higher quality than that under local national standards or local GAAP (Palea, 2013; Agostino et al., 2011; Chen et al., 2010; Ashbaugh & Pincus, 2001). This is generally argued on the basis that IFRS adoption significantly influences accounting information quality in financial reports (Blanchette et al., 2013; Prawat, 2011) by enhancing earnings quality, improving financial disclosure and transparency, promoting cross-border comparability, reducing information asymmetry and minimising agency costs, raising foreign investments and restricting opportunistic behaviour by management (Kaaya, 2015; DeFond et al., 2011; Levitt, 1998). Daske and Gebhardt (2006) document that firms reporting under the IFRS (voluntarily or mandatorily) tend to disclose higher quality information than firms reporting under the national GAAP.

However, many studies have reported that adopting the IFRS either does not improve the quality of financial information. Studies have generally aimed to empirically assess and document the effects of IFRS adoption on financial reporting quality. For example, den Besten et al. (2015) focus on the effect of IFRS adoption on earnings quality by foreign investors in the US. The authors use a difference-in-difference regression estimation (pre-IFRS period from 2002–2006 and post-IFRS period from 2008–2011) to test the quality of discretionary accruals and the small positive earnings for a sample of foreign issuers in the SEC. They report that earnings quality did not change between the pre-IFRS and post-IFRS periods, though reported earnings were lower, which may indicate higher earnings quality.

Similarly, Fuad et al. (2019) use panel data analysis and a number of earnings attributes that can affect accounting information quality (accruals quality, timely loss recognition, earnings smoothing and earnings persistence) to evaluate whether the IFRS add value to these attributes. Those authors find no conclusive evidence of any improvements to the examined attributes post-IFRS adoption in Indonesia.

In Australia, Bryce et al. (2015) investigate whether IFRS adoption by 200 Australian Stock Exchange-listed firms (from the 500 top-listed Australian companies) on the Australian Stock Exchange ‘ASX’ has improved accounting and financial reporting quality. They find no significant change to accounting quality (measured by earnings and accruals quality) post-IFRS adoption in Australia. Expanding beyond country-specific analysis, Doukakis (2014) applies differences-in-differences design and uses absolute discretionary accruals as a proxy for accrual earnings to examine the effect of mandatory IFRS adoption on the reported earnings of 2,021 European listed firms in 22 European countries. Again, no difference was found between earnings reported under the IFRS and those reported under domestic GAAP.

Several empirical studies, in Europe and elsewhere, continue to assess the effects of the IAS/IFRS on accounting and reporting quality (De George et al., 2016). After several years of empirical analyses, the results regarding the effects of IFRS adoption are mixed (Agostino et al., 2011). Some research has reported negative effects of IFRS adoption on earnings quality (Mongrut & Winkelried, 2019; Callao & Jarne, 2010; Jeanjean & Stolowy, 2008; Paananen, 2008).

3.5.1 Determinants (Factors) Influencing the Adoption of the IFRS

Accounting and its standards are social products that are attached to and influenced by the institutional environment (Belkaoui, 1983). Choices of accounting standards and policies are mainly influenced by the interactive process between several external and internal environmental factors (Kolsi & Zehri, 2013; Cooke & Wallace, 1990) within a given country (De George et al., 2016; Ramanna & Sletten, 2009; Zeghal & Mhedhbi, 2006). Such influential environmental factors include economic and social factors, the local legal system, culture, the political system, enforcement and reporting incentives, geographic and economic ties with other countries, the size and complexity of business entities, financial market maturity, the degree of openness to foreign markets, liquidity and type of ownership (Ramanna & Sletten, 2014; Zeghal & Mhedhbi, 2006; Alhashim & Arpan, 1992). Significant changes in any of these variables might affect (directly or indirectly) a country's accounting and reporting policies or regulations (Zeghal & Mhedhbi, 2006).

It is worth mentioning that some of these factors rarely change (e.g., culture) and are thus considered to be barriers to IFRS adoption and hinderances to general efforts to harmonise accounting practices (Doupnik & Salter, 1995). Other factors (e.g., economic ties) tend to be more dynamic (Zehri & Chouaibi, 2013).

Empirical investigations of favourable or unfavourable conditions that affect IFRS adoption behaviour in developing countries are scarce and have mixed results (Zehri

& Chouaibi, 2013; Zeghal & Mhedhbi, 2006). The vast majority of studies investigate the benefits and costs of IFRS adoption in developed countries (Zehri & Chouaibi, 2013). Specifically, there are two main types of studies discussing the determinants of IFRS: studies on the macroeconomic factors related to determinants of IFRS adoption and studies on the microeconomic factors related to determinants of IFRS adoption.

After examining the reporting standards of German listed firms in 1998, Leuz and Verrecchia (2000) conclude that some microeconomic factors (firm size, financing needs and financial performance) are significantly related to voluntary adoption of IAS. In a related study of the US software industry, Trembley (1989) documents that the adoption choice is chiefly made by smaller sized firms audited by auditors who support early application of statement of financial accounting standards (SFAS) No. 86. Recently, scholars have disputed whether the results of these studies can be generalised to developing countries.

A number of studies have investigated the role of culture in adoption behaviour. Lahmar and Ali (2017) find that economic conditions are a vital factor affecting adoption (in the case of Libya, the decision to integrate the Libyan stock market with other regional stock markets). In addition, the Libyan tax system, legal system and culture also affected adoption behaviour. Chamisa (2000) asserts that the effects of the IAS on the reporting practices of listed Zimbabwe firms are far-reaching due to the cultural differences between Zimbabwe and the Western world. Similarly, Zeghal and Mhedhbi (2006) report that developing countries—which predominately have free active capital markets, high literacy rates and education levels, and embrace the Anglo-American culture—are most likely to adopt the IFRS.

In relation to the GCC region, Al-Mutawaa and Hewaidy (2010) explore the extent of IFRS compliance among Kuwaiti firms. Using a sample of Kuwaiti firms (48 firms, out of the 121 KSE-listed firms), they find that firm size, profitability and auditor

type significantly affect adoption decision. Similarly, Al-Shammari et al. (2008), using a sample of 137 listed firms from 1996–2002, provide a cross-country analysis to investigate the main determinants of IFRS compliance. Firm size, leverage and multinationality were found to significantly affect IFRS adoption. Bova and Pereira (2012), researching in the Kenyan context, find that leverage ratio, firm size and profitability ratio are among the most significant factors affecting IFRS adoption.

In Germany, Bassemir (2018) investigates why German firms voluntarily adopt the IFRS rather than the local GAAP, finding that German firms that have transitioned to the IFRS tend to have higher growth opportunities, more debt (leveraged) and more public bonds issued (to raise capital externally), as well as being more internationally active (higher international sales compared to their local peers) and audited by one of the Big Four auditing firms.

Shima and Yang (2012) investigate whether a set of eight environmental (macroeconomic) factors extracted from Choi and Meek's (2008) framework have an influence on IFRS adoption in 73 countries from 2000–2007. Their results show that all eight factors are significant and create three types of incentives for adoption:

1. contracting incentives—incentives created from political and economic ties with other countries (colonialism and trade alliances), source of finance (reliance on external/'foreign' debts), and commonality of type of legal system and laws (common laws)
2. signalling incentives—incentives created from economic development (economic growth rate and capital formation) and education level (literacy rates)
3. disincentives—factors that reduce adoption likelihood, such as size of capital markets, taxation, and inflation.

Francis et al. (2008) use a sample of 3,722 small- and medium-sized private, limited liability firms in 56 countries. Such firms are more likely to adopt the IFRS if they have higher growth rates, are larger in size, rely heavily on external financing, have foreign owners and are engaging in export activities. The authors also find that firms operating in countries with weak legal and institutional environments and low financing barriers are more likely to adopt and benefit from the IFRS.

3.5.2 Evidence from Voluntary Adoption of the IFRS

Prior to the EU's adoption of the IFRS in 2005 (i.e., mandatory for all EU firms), numerous firms from different jurisdictions had adopted the IAS voluntarily. Since then, accounting researchers have attempted to investigate the link between high-quality financial reporting and voluntary adoption of the IAS/IFRS. Soderstrom and Sun (2007) offer two important reasons for the international surge in voluntary adoption of the IAS in the late 1990s. First, for firms to receive external financing and foreign equity investments, they needed to be listed on foreign stock exchanges, which required them to adopt the characteristics and financial reporting standards of the target foreign stock exchange(s). Accordingly, many firms adopted the IAS, as preferred by various European stock exchanges.

Second, the large-scale improvement and amendment of the IAS by the International Accounting Standards Committee (IASC) over the years² gave the standards a reliable reputation. In that time, many European countries (chiefly Italy, Switzerland, France and Germany) permitted firms operating in their jurisdictions to voluntarily adopt the IAS instead of the local GAAP (Van Tendeloo & Vanstraelen, 2005). As a result, a significant body of scholarly literature investigated the value relevance, comparability

² Concerns and criticisms in the late 1980s over non-compliance with the IAS, in addition to increased opportunities for earnings management under the IAS, forced the IASC to plan and execute a project of comparability and improvements in 1993, resulting in 10 new financial reporting standards. Five years later, the IASC issued a new set of fundamental IAS requiring adopting firms to fully comply with the standards. The improvements to the IAS led to them being endorsed by several reputable organisations, including the IOSCO.

and economic consequences of adopting the IAS/IFRS, chiefly within the context of voluntary adoption.

3.5.2.1 Value Relevance and Voluntary IFRS Adoption

The value relevance of the IFRS is considered to be a key indicator of its usefulness (Houque et al., 2013). Francis et al. (2004) recognise value relevance as one of the seven main desirable attributes (accruals quality, persistence, value relevance, timeliness, predictability, smoothness and conservatism) of accounting and financial reporting quality. Clarkson et al. (2011, p. 1) affirm that ‘The value relevance of aggregate book value and earnings is a natural place to look for the impact of IFRS adoption on financial reporting quality’.

The effect of adopting the IFRS on value relevance varies from one context to another (Chalmers et al., 2011). In a sample of 31 foreign cross-listed firms in the US, Harris and Muller (1999) document little difference between earnings and book value of equity reported under the IAS and the US GAAP by voluntarily adopting firms from 1992–1996. In Germany, Hung and Subramanyam (2007) investigate the effects of voluntary IAS adoption on the financial reports of 80 industrial German firms from 1998–2002. They report that compared to the local GAAP, total assets and book value of equity are significantly higher under the IAS. Net income was significantly higher under the local GAAP. However, no evidence was found that voluntary adoption of the IAS by German firms enhances the timeliness or value relevance of the information disclosed in financial reports. In contrast, Bartov et al. (2005) conclude that earnings are more value relevant under the US GAAP and the IAS than under the German GAAP, while there is no difference in value relevance between the IAS and the US GAAP. (The inconsistency between Bartov et al.’s [2005] and Hung and Subramanyam’s [2007] findings can be explained by the omission of equity’s book value in Bartov et al.’s regression model).

Barth et al. (2008) examine whether voluntary IAS adoption in 327 firms in 21 countries between 1994 and 2003 improved accounting and reporting quality. The researchers report that firms reporting under the IAS experience less earning management, more value relevance and more timely recognition of losses compared to firms reporting in accordance with the German GAAP. Other German studies (e.g., Hung & Subramanyam, 2007; Gassen & Sellhorn, 2006; Daske & Gebhardt, 2006) agree that financial and reporting quality has been improved under voluntary adoption in Germany. Conversely, Van Tendeloo and Vanstraelen (2005) find that from 1999–2001, voluntary IFRS adoption by firms in Germany did not result in lower earning management behaviour compared to German firms using the German GAAP.

In a comparative study, Hellström (2006) compares the value relevance of accounting information between the Czech Republic and Sweden from 1994–2001. The tested results provide evidence that the value relevance of earnings of Czech firms are lower during the sample period than that of Swedish firms. The value relevance of Czech firms' earnings was also found to be increasing during the sample period due to improvements in the Czech Republic's institutional framework and accounting environment.

Christensen et al. (2015) re-examine Barth et al.'s (2008) results for the effects of voluntary IFRS adoption on value relevance in the German context. The authors replicate Barth et al.'s methodology on voluntary and mandatory adopters and report that after subsampling the two groups, voluntary IFRS adopters experience a significant rise in earnings value relevance, lower earnings management and more timely loss recognition, while mandatory adopters experience low enhancement in reporting quality. In Egypt, Hassan et al. (2009) report an insignificant positive relationship between voluntary disclosure and value relevance.

Alfaraih and Alanezi (2012) investigate the value relevance of disclosed accounting and financial information of 119 KSE-listed voluntary adopter firms in 2007. Their empirical results, obtained from applying both the price and returns models, provide positive but insignificant evidence that earnings are value relevant and negative but insignificant evidence that book values are value relevant (i.e., voluntary adoption of the IFRS in Kuwait has insignificant effects on earnings and book values).

3.5.2.2 Comparability and Voluntary IFRS Adoption

De George et al. (2016) emphasise that comparability is one of the most significant characteristics of financial reporting quality. According to Libby et al. (2011), comparability in financial reports is a crucial trait, as it is impossible to analyse financial information without a basis for comparison. The Financial Accounting Standards Board (FASB, 2015) state that any investing or lending decision cannot be made rationally and without data comparison, as these decisions essentially involve evaluations of alternative opportunities. Adetoso and Oladejo (2013) and Brown (2011) stress that users of financial reports are able to make significant comparisons between different sets of information when the information is presented consistently over time. The structure of the IFRS is more than adequate for enhancing reporting consistency and comparability since they are principle-based reporting standards.

Yet, without monitoring and enforcement, adopting the IFRS might weaken comparability as the flexibility nature of the standards might prompt managers to engage in opportunistic behaviour by selecting certain dissimilar accounting measurements and methods for similar sets of transactions (De George et al., 2016). In this vein, some researchers have raised concerns regarding the notion that relying only the IFRS will improve the comparability of financial reports, arguing that accounting and financial reporting quality is also determined by a firm's reporting incentives.

This is evidenced in Ball et al.'s (2003) study on reporting quality status in East Asian countries (Hong Kong, Malaysia, Singapore and Thailand). The researchers confirm that the reporting quality of the published financial statements in these four countries is low, despite the fact that the financial reporting standards in these countries are comparable with those in common-law countries (US and UK GAAP). One implication of the results is that to achieve complete comparability of financial reports published under the IAS requires an international symmetry of managers' and auditors' incentives and incorporation of global political, economic and legal systems. Supportive evidence for this interpretation is provided by Jayaraman and Verdi (2013), who document that in the EU, international economic incorporation (e.g., adoption of the Euro currency) has a direct effect on the comparability of accounting and reporting quality.

The topic of comparability-related effects of IFRS adoption is quite new within the literature. Motivated by the U.S. Securities and Exchange Commission's published roadmap to transition from the US GAAP to the IFRS, Barth et al. (2013) examine if voluntary IFRS adoption by firms operating in 27 capital markets is linked to increased comparability of accounting information. Adopting Barth et al.'s (2012) methodology, Barth et al. (2013) use two matched sample groups of firms: firms in the process of adopting the standards matched with current adopting firms (Group A) and firms in the process of adopting the standards matched with non-adopting firms (Group B). Barth et al. (2013) show that value relevance comparability between firms in Group A increases significantly after adopting firms adopt the IFRS. Conversely, value relevance comparability between firms in Group B decreases significantly after adopting firms adopt the IFRS.

3.5.2.3 Capital Market Effects and Voluntary IFRS Adoption

Regulators and standard setters perceive the IAS/IFRS as reducing information asymmetry between managers and shareholders (Soderstrom & Sun, 2007), reducing the

cost of capital, reducing the cost of equity and increasing liquidity (De George et al., 2016). The adoption of a unified set of high-quality standards ensures that firms are committed to being more transparent and open to disclosing valuable financial information to outsiders, which should improve investors' willingness to invest and thus increase stock prices (Diamond & Verrecchia, 1991). In relation to reducing the cost of capital, Barry and Brown (1985) argue that reporting corporate financial information in accordance with the IAS/IFRS can reduce estimation risk and enhance risk sharing, which will decrease the firm's cost of capital.

Studies exploring the effects of voluntary IFRS adoption on stock markets are very limited and present mixed results. The majority originate from Europe, specifically Germany, as voluntary IFRS adoption was common among German firms before the 2005 EU adoption. Leuz and Verrecchia (2000) provide some insights on voluntary IFRS adoption and its effects on cost of capital in Germany. Their results show that firms that voluntarily adopted the IAS or US GAAP experience lower bid-ask spreads and higher stock turnover ratios. They also find no significant statistical difference between the IAS and US GAAP. Similarly, Leuz (2003) examines the difference in stock liquidity of German firms that report under the IAS, US GAAP or both and reaches a similar conclusion (i.e., adopting the IAS or US GAAP does not improve the reporting quality).

Using a sample of 15,382 firm-year observations extracted from non-US and non-Canadian firms listed in 34 countries, Kim and Shi (2010) empirically test whether voluntarily adopting the IFRS influences stock price synchronicity. Their findings demonstrate that stock price synchronicity is lower for firms that have voluntarily adopted the IFRS (decreasing from the pre-adoption period to the post-adoption period). Wang and Yu (2009) document evidence from 44 countries that adopted the IFRS or US GAAP from 1995–2004 and find that adopting either enhances the functionality of stock markets

in general. However, this appears to be limited to jurisdictions where the legal environment supports and enforces such high-quality standards.

In relation to the cost of capital, Daske (2006) documents that voluntary IFRS adoption seems to increase the cost of capital for German firms. Daske et al. (2013) re-examine the effects of IFRS adoption (voluntary and mandatory) on German firms' liquidity and cost of capital. Results from a sample of 69,528 firm-year observations across 30 countries from 1990–2005 show little evidence that voluntary IAS adoption is linked to an increase in market liquidity or reduction in cost of capital.

3.5.3 Evidence from Mandatory Adoption of the IFRS

Following the EU's adoption of the IFRS in 2005 (i.e., mandatory adoption for all firms in the EU's jurisdiction) and adoption by several other countries, many studies revisited IFRS adoption behaviour and the effects of adoption on financial reporting quality.

3.5.3.1 Value Relevance and Mandatory IFRS Adoption

Based on a sample of 3,488 firms from Australia and 14 European countries that mandatorily adopted the IFRS in 2005, Clarkson et al. (2011) find that the mandatory IFRS adoption greatly improves the value relevance of the book value of equity and earnings in code law countries. Paananen (2008) found that mandatory IFRS adoption by committed Swedish publicly listed firms decreased accounting quality from 2003–2006. Paananen and Lin (2009) indicate that German firms that adopted the IAS/IFRS (voluntarily or mandatorily) experienced decreased reporting quality from 2000–2006. Ahmed et al. (2013) examine reporting quality under the IFRS using a sample of listed firms in 20 countries—all countries with strong monitoring and enforcement policies—during 2005. They find that earnings quality did not improve in countries that mandated IFRS adoption, thus confirming that accounting and reporting quality decreased in these countries as a result of mandated IFRS adoption.

Conversely, Barth et al. (2012) find that the value relevance of the book value of equity increases when firms mandatorily adopt the IFRS. Barth et al. (2014), using a sample of 1,201 firms operating in 15 European countries, investigate whether transition from local GAAP to the IFRS improves financial reporting quality and whether news of transitioning is value relevant to investors. They find that the reconciliation adjustments for the book value of equity numbers are value relevant to investors only for firms listed in the financial sector.

Switching to developing capital markets, Trabelsi and Trabelsi (2014) investigate the value relevance of accounting information for 12 DFM-listed banks from 2008–2013 (214 firm-quarterly observations). After analysing two standard value relevance models (return and price models), the authors find that the results are inconsistent throughout the sample period. In addition, earnings and equity book value during the post-recession recovery period (2011–2013) were decreasing.

Analogous to Trabelsi and Trabelsis' study, Alali and Foote (2012) examine the value relevance of accounting information reported under the IFRS using a sample of 56 ADX-listed firms operating in nine industries from 2000–2006. Using price and return models, Alali and Foote show that the value relevance of accounting information prepared under the IFRS has changed over time. Specifically, value relevance increased from 2000–2005, after which the market was affected by investors' speculations and rumours (thus, the accounting information reported under the IFRS might not have been value relevant during this period).

Based on a sample of 17 ADX-listed firms traded from 2001–2008, Khanagha (2011) investigate the value relevance of accounting information pre- and post-IAS/IFRS adoption in the UAE. The results from price and returns models reveal that accounting information reported under the IAS is value relevant. Surprisingly, comparison of results obtained from analysing the pre- and post-IAS/IFRS adoption periods show the value

relevance of accounting information decreased after IFRS adoption. In a related study, Kargin (2013) conducted a similar study observing the value relevance of accounting and financial information in Turkey pre (1998–2004) and post (2005–2011) IFRS adoption, finding that the value relevance of accounting information had improved post-IFRS adoption (although there was no improvement in the value relevance of earnings).

In an early study in Kuwait, El Shamy and Kaled (2005) find that earnings and book value reported under the IAS are value relevant. Similarly, Alfaraih and Alanezi (2015) report a significant relationship between level of IFRS compliance and the value relevance of information. Chebaane and Othman (2014) use a sample of seven countries (the UAE, Bahrain, Jordan, Kuwait, Qatar, Turkey and South Africa) from 1998–2012 to examine the effect of mandatory IFRS adoption on the value relevance of earnings and the book value of equity. Their results show that mandatory IFRS adoption positively affected both measurements in the seven sample countries. They also note that the value relevance of information is affected by the legal system in these countries, with common law countries experiencing a greater increase in value relevance.

The effect of mandatory IFRS adoption on reporting quality in general and the value relevance of financial reports in particular within the MENA region is thoroughly examined by Apergis (2015). Apergis (2015) finds a positive effect of IFRS adoption on reporting quality and the value relevance of book values and earnings in all sectors. Desoky and Mousa (2014) investigate the value relevance of financial information reported mandatorily under the IFRS in Bahrain and Oman from 2005–2011 using a sample of 40 BHB-listed firms and 29 Masqat Stock Market–listed firms in the Masqat Stock Market (MSM). Their results show that the value relevance of financial information in Bahrain has improved greatly since mandatory IFRS adoption, while the value relevance of financial information in Oman has not changed compared to the pre-adoption period.

3.5.3.2 Comparability and Mandatory IFRS Adoption

Researchers have endeavoured to assess the comparability of accounting and financial information prepared under the two most adopted accounting standards, the IFRS and US GAAP. Barth et al. (2012) evaluate the comparability of financial information prepared under the IFRS and US GAAP using a sample of 27 countries with size- and industry-matched firms in the US from 1995–2006. Their results suggest that the comparability of financial reports is higher in countries that mandatorily adopt the IFRS, have a strong monitoring and enforcement environment and use the common law legal system.

A number of cross-country studies have reported results contesting the claim that IFRS adoption enhances the comparability of financial reports. In an attempt to assess changes in cross-country comparability measures, Liao et al. (2012) use the value relevance of earnings and book value of equity reported under the IFRS by German and French firms. They conclude that the value relevance of earnings and book value of equity are comparable after IFRS adoption, but comparability starts to decline in later years. Similarly, In the same vein, Lang et al. (2010) provide novel evidence that mandatory IFRS adopters experience a noticeable increase in earnings comovement, whereas a decrease in accounting comparability is experienced by a control sample of non-adopting firms. Moreover, for the IFRS adopters, the increase in earnings comovement negatively affects the usefulness of the financial information in financial reports.

In another comparative study attempting to examine whether economic integration in the EU may substitute for accounting harmonisation, Jayaraman and Verdi (2013) use a sample of IFRS-adopting and non-adopting firms from 15 countries and find that the benefits flowing from IFRS adoption are three times greater in European countries compared to non-adopters in the same region. Cascino and Gassen (2015) investigate within the German and Italian contexts the effect of mandatory IFRS adoption on the

comparability of financial information and reporting using a within-country matched sample of private firms. They find the overall effects of mandatory IFRS adoption on comparability to be marginal, parallel to Ball and Shivakumar's (2005) findings.

3.5.3.3 Capital Market Effects and Mandatory IFRS Adoption

In relation to the effects of mandatory adoption of the IFRS on capital markets, Daske et al. (2008) investigate the effects of mandatory IFRS adoption on capital markets in 26 countries from 2001–2005, mainly addressing the effects on stock liquidity, cost of capital and Tobin's Q. Their results show that, on average, there is a significant increase in market liquidity after mandatory adoption (3–6% increase compared to pre-adoption period), a decrease in the cost of capital (26 basis points compared to one year pre-adoption) and an increase in Tobin's Q (7% increase compared to one year pre-adoption).

Li (2010) tests whether the mandated IFRS adoption in the EU reduced the cost of capital for 1,084 European firms from 1995–2006. Li finds that mandatory adopters experienced a 47-basis-point decrease in cost of equity. Platikanova and Perramon (2012) examine whether the EU's mandatory adoption resulted in more liquid markets. Sampling first-time IFRS-disclosed financial reports only, their results confirm that European markets responded positively to the mandatory adoption.

After a series of reforms of the EU's accounting and reporting regulation, some studies have revisited the empirical evidence from Daske et al. (2008). Christensen et al. (2013) re-evaluate Daske et al.'s (2008) results by surveying academics, practitioners and regulators. Christensen et al. find that Finland, Germany, the Netherlands, Norway and the UK were undertaking essential reform processes synchronous with mandating IFRS adoption. Focusing on the effects of IFRS adoption on under-pricing in IPOs, Hong et al. (2014) find that IPO under-pricing clearly decreases (38–82%) in countries that mandate IFRS adoption. In addition, mandatorily adopting firms seem to attract more foreign

proceeds (49–76%). Hong et al. conclude that these results are clear in countries with strong reporting and enforcement mechanisms.

After examining the literature related to IFRS adoption, Soderstrom and Sun (2007) attribute the heterogeneity in the documented results to three potential methodological issues. The first concerns sample size bias. Soderstrom and Sun note that early studies mainly examined voluntary IFRS adopters. These firms have distinctive characteristics that might have influenced the adoption decision; thus, such self-selection might have biased the results. To address this issue, researchers commonly apply two-staged least square regression. Second, the problem of omitted variables is always a methodological issue for researchers. For example, it is known that pricing mechanisms and the information environment vary across countries and firms. Third, it is common to find regression model misspecifications in studies that compare different accounting settings (e.g., before and after voluntary IFRS adoption), which makes it challenging to compare different standards.

3.6 Political Connections, Family Ownership and Earnings Quality

3.6.1 Family Ownership and Earnings Quality

As discussed earlier, the economic, political and institutional environments in which firms in developing markets operate their activities differ greatly from those in developed markets (Rottig, 2016; Muttakin et al., 2015; Zeff, 2007). Despite their relatively high GDP per capita, the GCC countries display many features of emerging economies, including ownership concentration in the shape of family-owned businesses (Arouri et al., 2014), lack of enforcement (Alfaraih & Alanezi, 2012), inadequate financial reporting and disclosure systems (Al-Zarouni et al., 2012; Al-Shayeb, 2003), thin trading, lack of liquidity, lack of informational efficiency, weak industry governance and transparency, lack of foreign investment openness (Simpson, 2007), low investor protection (Arouri et al., 2014; Al-Shammari et al., 2008), poor legal systems (Arouri et

al., 2014) and fledging and bubbly stock markets (Samaha & Khlif, 2016; Colombo, 2006).

These unique institutional features affect the behaviour of corporations in emerging economies. For example, while the insider-dominated structure of ownership (family-owned firms) is present in many economies (Hansmann & Kraakman, 2012), its existence in developing countries (Mardini et al., 2019; Arouri et al., 2014; Halawi & Davidson, 2008), including the GCC countries, is much more prevalent and noticeable. According to Abdallah and Ismail (2017), the core of the GCC economy is family businesses, which account for around 80% of GDP after excluding the oil sector.

Family-owned firms constitute around 35% of the S&P 500-listed firms in the US, while in Southeast Asian countries, family-owned firms compromise around 57–68% of listed firms (Anderson & Reeb, 2003; Claessens et al., 2000). Family-owned firms tend to be highly prevalent in economies with a poor regulatory environment (Monem, 2013), weak investor protection (La Porta et al., 1998, 1999) and weak law enforcement (La Porta et al., 1999). Therefore, family-owned firms are more predominant in developing economies, as is the case in the GCC countries.

Halawi and Davidson (2008) note that in the Gulf region, family power is more politically and economically influential than individual power. For example, in Qatar, the top 15 wealthiest families control and own more than 50% of the listed firms, while in the UAE, the top 15 wealthiest families own more than 35% of the listed firms (Halawi & Davidson, 2008). Fan et al. (2011) argue that ownership of family-owned firms in developing countries remains highly concentrated long after being listed publicly, whereas in developed jurisdictions, such as the US or the UK, ownership diffuses quickly after going public.

Family-owned firms have distinguishing characteristics that give them a competitive advantage in the market. The strong kinship between family members

stimulates high levels of motivation within the workplace, increases employee loyalty, strengthens trust (Muttakin et al., 2015; Tagiuri & Davis, 1996) and allows for advancement of the best employees (Moscatello, 1990). Family-owned firms are also known for their well-planned and long-term investments, since their aim is to pass on their success, knowledge of the market and family wealth to succeeding generations (Muttakin et al., 2015).

Family-owned firms differ from non-family firms, and these differences tend to explain the generally superior performance of family-owned firms, including higher labour productivity (Muttakin et al., 2015); greater employee loyalty and trust (Tagiuri & Davis, 1996; Ward, 1988); lower costs of human resource, transactions (Aronoff & Ward, 1995), operations (Muttakin et al., 2015) and monitoring (Daily & Dollinger, 1992); and solid reputation (Tagiuri & Davis, 1996; Ward & Aronoff, 1991).

Some scholars observe a clear variation in the agency cost of equity between family and non-family firms. Shleifer and Vishny (1986) argue that in family-owned firms, the participation of family members in management and high monitoring of management actions creates alignment of incentives between the principal (shareholders) and the agent (managers). Purkayastha and Veliyath (2016) and Ali et al. (2007) note that compared to non-family firms, family firms tend to suffer less from the 'Type I' agency problem, which arises from the separation of ownership and management. Nevertheless, family firms exhibit a higher level of 'Type II' agency problems, between controlling and non-controlling shareholders (principal-to-principal conflict).

Regarding the quality of financial reporting, there is a growing literature on the relationship between family ownership and earnings quality. Empirical research has highlighted how the quality of reported earnings differs between family and non-family firms. In this vein, Wang (2006) summarises the literature as proposing two competing theories for the effect of family ownership on earnings quality: entrenchment theory and

alignment of incentives (agency) theory. In brief, entrenchment theory suggests that concentrated family ownership leads to lower financial reporting quality (and lower earnings quality) due to the owners expropriating firms' wealth. Conversely, the competing theory, alignment of incentives (agency) theory suggests that family ownership leads to higher financial reporting quality as agents and stakeholders' interests and incentives are aligned (by dint of them being family members).

Yang (2010) examines earnings quality in Taiwan and reports a positive (negative) and significant relationship between family-owned Taiwanese firms and earnings management (quality), consistent with entrenchment theory. She notes that the Taiwanese Government is strengthening governance mechanisms to improve the quality of reported earnings. Chi et al. (2015) also document that Taiwanese family-owned firms are associated with lower earnings quality and higher earnings management based on a sample of 379 listed technological firms. They argue that this might be due to weak legal systems or ineffective corporate governance mechanisms in Taiwan.

In a recent study, Duréndez and Madrid-Guijarro (2018) investigate whether the quality of reported financial information (specifically, earnings persistence and conservatism) of 252 small- and medium-sized, Spanish, family-owned, listed firms is affected by certain distinctive characteristics (multidimensional family influence information, which are power, experience and culture 'F-PEC'). The results of the power variable reveal that in terms of earnings persistence and accounting conservatism, the quality of earnings in family-owned firms decreases. In a developed country, Paiva et al. (2019) examine earnings management and the quality of accruals of family versus non-family firms in the UK. Their findings show that, with the exception of those family firms followed by a significant number of analysts, family firms report lower accruals quality compared to non-family firms.

Conversely, many studies report results broadly consistent with alignment theory. Mengoli et al. (2019), sampling 12 listed firms in western European countries and using Ashbaugh et al.'s (2003) model of discretionary accruals, find that family-owned firms report higher earnings quality (lower accruals) compared to non-family firms. Similarly, Wang (2006) finds that, on average, family ownership affects earnings quality positively in the form of lower abnormal accruals, greater earnings informativeness and less persistence of transitory loss components in earnings.

Using a sample of 67 listed Mexican firms, Reyna (2018) concludes that earnings management tends to diminish as the level of family ownership and institutional investors increases. Boonlert-U-Thai and Sen (2019), using a sample of 1,310 observations over 2000–2007, provide evidence that the quality of reported accruals, in addition to the quality of reported earnings (i.e., persistence), of family-owned, Thai, listed firms are superior compared to other firms. Muttakin et al. (2015) and Hashmi et al. (2018) report consistent robust results from Bangladesh and Pakistan, respectively, that family-owned firms perform better than non-family firms in terms of earnings persistence and discretionary accruals, respectively. Che-Ahmad et al. (2020) draw inferences about the relationship between earnings quality and ownership structure based on a sample of 190 family-owned, Bursa Malaysia-list firms from 2005–2016. They document that where the chief executive officer (CEO) of a family-owned firm is a controlling family member, the reported earnings of that firm are of a high quality.

An (2015) investigates the effect of family ownership on earnings quality (accruals quality) using 3,054 firm-year observations from 2000–2008 in South Korea, a country considered to have one of the highest concentrated ownership levels in the world. By employing different ownership proxies (family ownership, pure family ownership and ownership control disparity), the researcher finds that concentrated ownership in the shape of family ownership increases the quality of reported accruals in sample firms. The

researcher concludes that the findings support the notion that family ownership in South Korea mitigates and reduces agency conflicts.

3.6.2 Political Connections and Earnings Quality

In addition to family ownership, political connections are a vital element in conducting business globally and particularly in emerging economies and the GCC region. Faccio (2006) confirms that politically connected firms form approximately 8% of the world's stock market capitalisation, in both democratic and non-democratic nations. Note that among the GCC countries, Kuwait scores the highest in political participation and the UAE scores the lowest (Al-Yousef, 2008).

Tracing the definition of politically connected firms in the literature, a firm is deemed to be politically connected if it satisfies any of the following:

- one of its major shareholders (owning at least 10% of the stocks) is politically connected through a strong relation with a political person or persons (Ding et al., 2014)
- one of its board members (Al-Hadi et al., 2016) or executives is from the ruling royal family (Polsiri & Jiraporn, 2012)
- one of its board members or executives is a member of the national parliament (Chaney et al., 2011; Faccio, 2006)
- its founder is affiliated or involved in management, or it is state owned (Ding et al., 2014)
- one of its board members or executives is a member of the local municipal council (Amore & Bennedsen, 2013)
- one of its board members or executives is a high-ranked military official (Fan et al., 2007)
- one of its board members or executives is a close relative of a political person or persons (Al-Hadi et al., 2016).

Amenta (2000) asserts that the political and monarchical regimes in the GCC purposely serve specific social classes, as mutual interest and political connections bind government officials, rich/old trading local families and royal families (Kshetri & Ajami, 2008). Political regimes in the GCC region are also affected by favouring personal and family connections (Atiyyah, 1992). Hertog (2012) observes that the selection criteria for board members in a number of top state-owned listed firms in the GCC are mainly based on seniority in a fairly small circle of elites who often have little spare time.

Despite their powerful and deep political connections, many of these appointed directors lack the required technical knowledge to work in the firm's field or sector. There are cases where the boards of some firms appoint or recruit members who are not considered independent directors but who nevertheless practice their job using the functionality of independent directorship. For example, in Bahrain, Joshi and Wakil (2004) note that fully independent directors are rare and this may affect firms' accountability and governance mechanisms, which are directly related to disclosure of important information.

Prior research shows that firms tend to use political connections for several reasons, including prioritisation for government contracts (Goldman et al., 2013), restricting competitors and obstructing them from entering the market (Bunkanwanicha & Wiwattanakantang, 2009), securing preferential tax treatment (Faccio, 2006; De Soto, 1989), easier access to loans under special and favourable lending terms (Claessens et al., 2008; Khwaja & Mian, 2005), access to bail outs during any financial distress (Faccio et al., 2006), lowered cost of capital (Boubakri et al., 2012), enhancing firm performance (Xu et al., 2015), less free cash flow difficulties and alleviating underinvestment (Xu et al., 2013). A number of studies provide evidence that politically connected firms face less financial risk and demonstrate superior performance compared to other firms (Boubakri et al., 2012; Li et al., 2008; Khanna & Palepu, 2000; Khanna & Rivkin, 2001). In the

GCC markets, Hertog (2012) documents that politically connected persons and board members may act as a shield against any external (government) pressures or interventions that might hinder firms' economic expansion or operations. Moreover, Charumilind et al. (2006), Cull and Xu (2005) and Johnson and Mitton (2003) show that politically connected firms are granted special access to bank lending while posting less collateral.

Hillman (2005) uses the resource dependence theory to posit that appointing politically connected and experienced directors can offer firms valuable information and comprehension regarding complicated public policy processes. Such persons are also able to provide a direct channel to an external network of politicians, policymakers and decision-makers. Finally, they offer legitimacy to the firm. These benefits should in turn improve a firm's performance. Empirically, Hillman (2005) shows that politically connected directors are more prevalent in firms in regulated industries (such as telecommunications, biotechnology, tobacco, alcohol and gambling). Likewise, Agrawal and Knoeber (2001), using a sample of US manufacturing firms and electric utilities, report that firms that are preferentially treated by the government (in the form of granted governmental contracts) or lobby the government have a high proportion of politically connected directors and are in regulated industries. Goldman et al. (2013) find that politically connected firms receive preferential treatment in the awarding of government contracts.

A stream of other studies opposes these findings. For example, Faccio (2010) highlights that despite the advantages politically connected firms obtain from their connection with politicians or politically connected persons, their accounting performance is worse than non-connected firms. Similarly, Bertrand et al. (2007) observe that politically connected French firms spend a lot on CEO wages, which negatively affects their profits.

In the Chinese context, Fan et al. (2007) indicate that recently privatised politically connected firms exhibit poorer accounting and stock price performance than non-connected firms. Similarly, in a study of 245 privatised firms in 27 developing and 14 developed countries over the period 1980–2002, Boubakri et al. (2008) document similar results that politically connected firms have comparatively worse accounting performance. Evidence from the financial sector shows that during national election periods, politically connected government banks charge lower interest rates (Sapienza, 2004) and increase their lending capacity (Dinç, 2005), which would negatively affect their performance. Similarly, Chaney et al. (2011) documents that politically connected firms are known for having lower reporting and accounting transparency compared to their non-connected peers.

The variation in corporate performance between politically connected and non-connected firms is believed to be more prominent due to strong and deep political connections and the operation of politically connected firms in jurisdictions with relatively high rates of corruption (Faccio, 2006), such as in the GCC countries (for review, see Dudley, 2017).

For instance, the 2020 global Corruption Perceptions Index (0 = completely corrupt to 100 = very clean) (CPI) released by Transparency International (TI) lists New Zealand (88), the Netherlands (82), Canada (77), the UK (77), Germany (80) and most of the Scandinavian countries (Norway [84], Denmark [88], Sweden [85] and Finland [85]) as the least corrupt jurisdictions. Conversely, most of the GCC countries are considered highly corrupt—Kuwait (42), Bahrain (42), Oman (54), the KSA (53), the UAE (71) and Qatar (63)—as are most of their geographically proximate neighbours—including Yemen (15), Iraq (21), Iran (25) and Jordan (49) (TI, 2020).

In developing economies, such as the GCC, political connection is a competitive advantage that can lead to superior corporate performance (Muttakin et al., 2015).

Politically connected firms can exploit loopholes in institutional frameworks and the economic environment to protect their interests while gaining various economic benefits in the form of preferential tax treatment, being prioritised in case of signing governmental contracts, easier access to loans, and being bailed out during any financial distress.

Ultimately, in a weak regulatory environment where selective enforcement of laws is the predominant behaviour, listed, politically connected, family-owned firms in the GCC can easily exploit the weaknesses of the institutional environment since there is strong incentive uniformity between the firms' principals and agents. Hence, politically connected family-owned firms are expected to perform better economically than politically non-connected family firms.

Politically connected non-family firms might experience adverse consequences on their corporate performance. This is pertinent for developing countries, particularly the GCC region, where selective enforcement of laws, high corruption, lack of monitoring and feeble regulatory enforcement and mechanisms enable rent-seeking behaviour by politically connected managers and shareholders. In this vein, Muttakin et al. (2015) and Chen et al. (2011) provide several possible reasons for adverse consequences.

First, since the ownership in politically connected non-family firms is fragmented and diffused, it is expected that the effect of enhanced firm performance on the personal wealth-maximisation of politically connected shareholders is minimal. Second, a number of studies argue that there is an inverse correlation between diffused ownership (in addition to separation of ownership from control, such as in non-family firms) and firm performance (e.g., Berle & Means, 1991; McConnell & Servaes, 1990; Shleifer & Vishny, 1986; Jensen & Meckling, 1976). Their justification is that agents' interests are not aligned with principals' interests in the sense that internal resources are not utilised to maximise the principals' wealth. Thus, politically connected non-family firms will likely incur higher Type I agency costs resultant from the conflict of interest between

principals and agents, compared to family-owned firms (Purkayastha & Veliyath, 2016; Chen et al., 2010).

Third, corporate governance provisions play a pivotal role in reducing the cost of rent-seeking behaviour and activities (Chen et al., 2011). As discussed earlier, politically connected firms are more common in jurisdictions with weak enforcement, governance mechanisms and regulatory environment (Muttakin et al., 2015; Lin, 2012). Klapper and Love (2004) claim that corporate governance codes and laws are more important and effective in weak institutional and legal environments as these laws can somehow compensate for loopholes in the legal systems. Therefore, keeping in mind that rent-seeking activities are associated with institutional inefficiency (Acemoglu et al., 2005; Mauro, 1995), it is in the interest of politically connected members of non-family firms to weaken the internal corporate governance structure and hide any information that would expose their rent-seeking behaviour or activities to the public. To reduce and limit managers' rent-seeking behaviour, Stiglitz and Edlin (1992) suggest requiring managers to own shares from the firm to share the risk.

Finally, Chen et al. (2011) state that coordinating between different groups with different interests is a costly process, especially when engaging in rent-seeking behaviour. Unlike family-owned firms, non-family firms find it hard to assess different controlling shareholders to reduce the cost of aligning their interests. Given the institutional settings of developing countries, politically connected members of non-family firms are likely to engage in rent-seeking behaviour. Such behaviour is unlikely from members of politically non-connected non-family firms.

Since the early 2000s, a number of studies have examined in general the effects of political connections and family ownership on accounting practices, quality of financial information, transparency and disclosure, corporate governance and its characteristics, and the business environment, either on a firm or country level (e.g., Tee

& Rasiah, 2020; Belghitar et al., 2019; Harymawan & Nowland, 2016, 2019; Nasser, 2019; Hashmi et al., 2018; Cho & Song, 2017; Liu et al., 2017; Sadiq & Othman, 2017; Gray et al., 2016; Al-Hadi et al., 2016; Wang et al., 2016; Al-dhamari & Ismail, 2015; Muttakin et al., 2015; Braam et al., 2015; Abdul Wahab et al., 2015; Guedhami et al., 2014; Goldman et al., 2013; Bunkanwanicha et al., 2013; Bliss & Gul, 2012a, 2012b; Boubakri et al., 2012; Fan et al., 2011; Dombrovsky, 2011; Chaney et al., 2011; Chen et al., 2011; Niessen & Ruenzi, 2010; Ramanna & Roychowdhury, 2010; Faccio, 2010; Niessen & Ruenzi, 2009; Boubakri et al., 2008; Dombrovsky, 2008; Chen & Sami, 2008; Claessens et al., 2008; Fan et al., 2007; Adhikari et al., 2006; Faccio, 2006; Faccio et al., 2006; Leuz & Oberholzer-Gee, 2006; Gul, 2006; Cull & Xu, 2005; Khwaja & Mian, 2005; Hillman, 2005).

Several studies have investigated the general implications of political connections. For example, Faccio (2006) finds that 541 firms (607 connections, distributed as 59.9% with top officers and 40.5% with shareholders) are politically connected, representing nearly 8% of the world's market capitalisation. In addition, the connections are not equally common among the examined countries, with political connections more common in countries where there is a high level of corruption, low foreign investment and lack of transparency. Political connections are low in countries where there are strict laws limiting political conflicts of interests. Finally, the value of political connections varies among the different relationships between politicians and business figures, as these connections only increase corporate (equity) value when business figures enter politics or when politicians enter business. Also, stock prices are only largely affected when a business figure is elected as a country leader (prime minister, president, etc.) or a large shareholder enters politics (Faccio, 2006).

Faccio et al. (2006) revisited the topic by exploring why politically connected firms are highly dependent on leverage and loans. Their results show that 11.3% of

politically connected firms in their sample receive preferential treatment from their governments through ‘aid packages’ during financial stress. Conversely, only 4.4% of the sampled non-connected firms receive such treatment. The authors document that politically connected firms borrow more than their non-connected peers, and that lenders assume that politically connected firms will experience financial distress later on but expect that these firms will receive bail outs from their home governments in such cases.

A number of studies support Faccio et al.’s (2006) findings regarding lenient lending policies for politically connected firms. For instance, Johnson and Mitton (2003) report that politically connected listed firms in Malaysia have greater access to debt financing. Khwaja and Mian (2005) report that between 1996 and 2002, politically connected listed firms in Pakistan borrowed 45% more from government banks than their non-connected peers and had 50% higher default rates while paying the same interest rates as non-connected borrowers.

Cull and Xu (2005), based on analysis of 1,651 firms and 9,432 firm-year observations for 2003–2014, find that Chinese listed firms that make informal payments to Chinese government officials borrow more from banks. During the Suharto presidential period in Indonesia, Leuz and Oberholzer-Gee (2006) investigate 130 listed firms in Indonesia (representing 80% of the Indonesian capital market) for the year 1996 and state that politically connected firms that were close to then-President Suharto had easier access to loans and were less likely to have publicly traded securities. Li et al. (2008) find that Chinese private entrepreneurs use their political connections to enhance their firms’ performance through obtaining loans from major Chinese lenders.

Some scholars assert that marriages between tycoons and politically connected families might also be a vital variable affecting corporation valueness and even stock markets. For example, in an extensive study, Bunkanwanicha et al. (2013) trace the members of notable Thai founding business families and observe stock market responses

to weddings news.³ They provide unique evidence that when a member of a notable Thai business family (involved in a family-owned listed firm) marries a partner from a politically connected family, the value of the family-owned listed firm (stock price) increases. They conclude that such marriages in Thai society smooth the exchange of valuable information and resources, in addition to encouraging corporate collaboration among family-owned families. Marriages can also create new alliance opportunities between other family-owned and politically connected firms. As a result, this form of business alliance might reduce competition between big firms in the market.

Other studies have conflicting findings regarding the benefits of political connections. For example, Bunkanwanicha and Wiwattanakantang (2009) report that politically connected Thai firms do not rely on loans and do not use their political connections to secure these. Fan et al. (2007), using a sample of Chinese state-owned enterprises (SOE's) from 1993–2001, conclude that political connections are a destructive and prejudicial mechanism to the value of any firm since governments will likely want to extract more rents from firms that rely on this mechanism. Dombrovsky (2008) finds no significant effect of political connections, ex-politicians or politically connected persons on Latvian firms' performance during 1996–2005.

Chen et al. (2011) select a sample of Chinese, non-state controlled, listed firms from either the Shanghai Stock Exchange or Shenzhen Stock Exchange (N = 276 post-IPO firms between 1993 and 2008) to examine how the rent-seeking incentives of the Chinese Government motivate firms listed in the private sector to build political connections, and whether these connections lead to more concentrated corporate control structures. They observe that firms tend to establish political connections when they are

³ The authors hand collect information from cremation documents regarding each family member's specific position in the family tree, gather wedding news from *Thairath* (the Thai national newspaper) for a total of 2,225 weddings from 1991–2006 (131 weddings met the criteria that at least one of the couple belonged to a big business family or was politically connected) and use the Stock Exchange of Thailand (SET) database to extract annual reports that contain information about stock prices.

located within geographical proximity of a local rent-seeking government (i.e., a government that uses its rent-seeking behaviour to allocate the economic resources), or when they are located in a region in which the local economy is less developed (i.e., less market oriented). In addition, they find that politically connected firms in China have a more controlled structure compared to their non-connected peers, either by hiring a family member as chairman or as CEO. This ensures that any decisions regarding deals with the government are made confidentially. Finally, their results show a positive relationship between political connections and cumulative IPS abnormal returns for family-owned firms. These findings are backed by the conception that high family ownership smooths rent-seeking behaviour, not only because it maintains strong and deep relationship with politically connected persons but also because it encloses and limits the benefits engendered from such connections within the owning family.

Another stream of research in this area investigates the way political connections affect the audit field, specifically, the choice of auditor among both politically connected and non-connected firms. For example, Liu et al. (2017) explore the conditions under which firm's insiders in China are either 1) incentivised to employ their political connections, reap personal benefits through them to recover the costs of building such connections and thus demand low-quality audits and transparency, or 2) incentivised to reduce agency costs and information asymmetry and thus require high-quality audits. The first position builds on Piotroski and Wong (2009), who find that politically well connected firms face less demand or pressure to share information, so as to avoid revealing the source and identity of their connections. The second position builds on Guedhami et al. (2014), who find that firm's insiders in politically connected corporations deliberately signal the investors that they will not violate minority shareholders' rights by hiring high-quality auditors, as such audits will assure and enhance financial transparency. Liu et al. (2017) use the sample period January 2004 – December 2012,

resulting in 3,640 firm-year observations from Chinese listed A-share private firms (excluding privatised SOE's). They reach a unique conclusion that less powerful politically connected firms are more likely to hire a high-qualified auditor, and vice versa.

Abdul Wahab et al. (2015) investigate whether political connections threaten auditor independence in Malaysia by examining the association between audit and non-audit fees and whether political connections moderate such association. It is worth noting that the selection of Malaysia by the authors is due to its very distinctive and unique economic, institutional and political environment. Malaysia is a multicultural/multiracial country with Bumiputras (original Malay ethnic groups) as the dominant group, followed by the Chinese, Indians and indigenous minorities from East Malaysia. As political connections and family-owned firms are very pronounced in this country, political favouritism is rife.

According to the authors, Bumiputras control the political administration, while the Chinese significantly influence the economic and corporate environments. They contend that, as a multiracial country, the fundamentals of the Malaysian capital market are based on racial grounds and this would surely influence many issues related to auditor choice and independence. As several prior studies argue (see, e.g., Gul, 2006; Johnson & Mitton, 2003), the firms controlled or owned by the dominant ethnic group (Bumiputras) receive preferential treatment and are characterised by poor corporate governance, high risk and high agency costs. Such high risk is mainly seen in highly politically connected firms, which subsequently leads to higher monitoring costs—explicitly, audit fees.

Abdul Wahab et al. (2015) extract 379 firm-year observations for Malaysian Bursa-listed firms for the period 2001–2003 and report that politically connected firms pay significantly higher non-audit fees than non-connected firms. Also, political connections moderate the association between audit and non-audit fees (the authors

document a weak association for politically connected firms), suggesting that political connections threaten auditors' independence.

A handful of studies (Nasser, 2019; Al-Hadi et al., 2018; Al-Hadi et al., 2016) shed light on the effects of political connections on firm performance, corporate governance and market risk disclosure in the GCC region. In the context of a single GCC country, the KSA, Nasser (2019) samples 491 firm-year observations (99 Tadawul-listed non-financial firms between 2009 and 2013) to empirically investigate the effects of political connections on KSA firms' performance and corporate governance attributes (CEO duality, board meetings, board independence, etc.). Based on the dynamic panel estimators, the author provides considerable evidence that 1) the presence of politically connected members at board meetings negatively affects firm performance, 2) KSA firms with a higher percentage of independent politically connected members on their boards perform better, and 3) KSA firms with a higher proportion of politically connected members on their boards perform better.

Turning to the relationships between political connections, corporate governance and market risk disclosure, Al-Hadi et al. (2018) test whether the joint effects of political connections (measured by the presence of royal family members on a firm's board) and corporate governance structure affect the risk disclosure of Gulf listed financial firms between 2007 and 2011. They predict that a better corporate governance structure might diminish the negative effect of political connections on a firm's transparency. Consistent with their predictions, the authors find that political connections are negatively associated with market risk disclosure, but their results also show that the interaction variable between political connections and corporate governance has a positive effect on market risk disclosure.

By using a sample of only listed financial firms in the GCC capital markets, Al-Hadi et al. (2016) investigate whether political connections influence the quality and

extent of financial risk reporting. Based on 667 firm-year observations from 2007–2011, their results suggest that political connections (defined by the presence of royal family members on a firm's board of directors) are significantly and negatively correlated with financial and market risk disclosures provided in annual reports. In addition, during times of financial distress and higher levels of risk, politically connected firms disclose significantly less to the public. The authors argue that such behaviour might be due to the protection that politically connected persons on firms' boards provide to their firms. Under agency theory, the researchers conclude that in politically connected firms, politically connected board members engage in opportunistic behaviour to secure private benefits, at the expense of shareholders.

Nevertheless, studies on the relationship between political connections and earnings quality are tremendously scarce. To the best of this researcher's knowledge, no study has directly or indirectly examined the relationship between political connection, family ownership and earnings quality in the GCC region.

The prominence and presence of political connections and familism in the South Asian context is highlighted in the literature. In one of the few theoretical studies to directly examine the role of political connections in the performance of Bangladeshi family-owned firms, Muttakin et al. (2015) use a sample of 654 firm-year observations for 141 Dhaka Stock Exchange-listed firms (DSE) for the period 2005–2009, confirming that, in general, family-owned firms outperform non-family firms, and politically connected family-owned firms outperform politically connected non-family firms. Likewise, by using discretionary accruals (measured by Jones's [1991] model of accruals) as a proxy for earnings quality, Harymawan and Nowland (2019) provide evidence that politically connected family-owned Indonesian firms perform better than other firms, and that family-owned firms with no political connections perform worse than politically connected firms.

In relation to the quality of financial reports, Hashmi et al. (2018) examine the influence of political connections and family ownership on earnings quality in Pakistan, using a sample of 238 listed non-financial firms for the period 2009–2015. They find a negative effect of political influence on earnings quality and, based on agency theory, posit that political connections tend to deteriorate earnings quality, as politically connected firms inherently have agency conflicts. However, their results show that when family ownership moderates the effect of political connections on earnings quality, earnings quality increases. They thus state that family ownership reduces political connections costs and enhances the quality of reported earnings. Consistent with these findings, Belghitar et al. (2019) and Al-dhamari and Ismail (2015) use accruals quality (employing Kothari et al.'s [2005] and Dechow and Dichev's [2002] models of accruals, respectively) as a proxy for earnings quality and find that the earnings of politically connected firms in Pakistan and Malaysia are of low quality compared to politically unconnected firms.

Conversely, using a sample of 1,092 firm-years observations from the Korea Composite Stock Price Index (KOSPI; previously, the Korean Stock Exchange) from 2000–2012, Cho and Song (2017) find that South Korean firms with politically connected members on their audit committee boards report higher earnings quality than firms without political connections. Similarly, using earnings persistence as measure of earnings quality, Tee and Rasiah (2020) find that certain aspects of political connections in Malaysia (e.g., longer duration of political ties) are associated with higher earnings persistence and, therefore, higher earnings quality.

The literature on corporate–political connections generally finds that they are a ‘double edged’ mechanism. While the majority of studies argue that political connections are a valuable mechanism for family-owned firms, and that the loss of this mechanism would have unfavourable consequences for a firm's value or performance, other studies

see political connections as a threat to a firm's transparency and valueness. Taken together, the results from studies on political connections and familism provide a picture that, generally, family-owned firms can use political connections to gain numerous benefits, such as preferential tax treatment, easier access to loans and favourable lending terms, and bail outs during times of financial distress.

Studies conducted in developed countries have advanced our understanding of the topics explored in this chapter, but empirical analysis of these in developing countries, the MENA region and the GCC in particular is still nascent. Further extensive research is needed on the relationship between political connections, IFRS adoption, family ownership and earnings quality in the GCC region.

Chapter 4: Theoretical Framework and Hypothesis Development

4.1 Introduction

The previous chapter outlined and discussed IFRS adoption, including arguments for and against adoption and factors causing the variations in accounting systems and financial reporting standards. Also, the previous chapter provided a systematic demonstration of international and national empirical evidence related to IFRS adoption, and the effect of corporate–political connections and family ownership on earnings quality in developed and developing countries. This chapter now focuses the discussion on theories related to IFRS adoption (Section 4.1), and the reasons and the consequences of IFRS adoption in the GCC countries (Section 4.2). Based on the preceding discussion, this chapter then clarifies the variables and formulates the hypotheses of the present research (Section 4.3).

4.2 Incentives for IFRS Adoption: A Theoretical Framework

4.2.1 Theory of Networks

The theory of networks is a potential explanation for IFRS adoption in emerging economies in general and the GCC countries in particular. From the theory of networks perspective, the IFRS can be considered a ‘product’ with network effects (Emeni & Urhoghide, 2014). We, as human beings, are continuously making decisions and choices in our daily lives, and when we make such choices, we naturally consider how our choices will affect others surrounding us and vice versa (Emeni & Urhoghide, 2014). As many of our choices share some network dimensions, economists have observed the consequences of our choices and identified a phenomenon known as the network effect or network externality (Liebowitz & Margolis, 1994).

Katz and Shapiro (1985) claim that the core idea of networks effect is that a certain product (e.g., the IFRS) becomes more valuable, beneficial and significant as more people

(or countries) use it. In other words, the significance of a product depends on the number of users (or the network of users) buying or using it. Katz and Shapiro (1985) simplify this theory by saying that ‘there are many products for which the utility that user derives from consumption of the good increases with the number of other agents consuming the good’ (p. 424).

Katz and Shapiro (1985) highlight the importance of differentiating between two main benefits, effects, or values, ‘the direct benefit/effect/value of the product’ and ‘the network-related benefit/effect/value’. Liebowitz and Margolis (1994) point out that in the economics literature, researchers at times refer to the direct effect/value of the product as the ‘autarky value’ and the network-related effect/value as the ‘synchronisation value’. Katz and Shapiro (1985) and Liebowitz and Margolis (1994) further discuss the distinction between the two effects/values by explaining that the direct effects/values are those gained through physical effects (the quality of the product itself). The network-related effect/values are gained in cases in which complimentary goods (e.g., ink cartridges) are more available and cheaper once the number of users or purchasers of the original product (e.g., printers) increases.

A number of studies examine network effect behaviour and provide separate examples, including computer software, video games and Facebook (for review, see Ramanna & Sletten, 2008, 2009, 2014; Liebowitz & Margolis, 1994, 1998; Katz & Shapiro, 1985). In this sense, Ramanna and Sletten (2014) use the example of the social network product Facebook as a standard network-dependent product to understand the role of network benefits in IFRS adoption. They claim that the benefits that any internet user reaps from using Facebook are contingent to two main values: 1) the direct effect/value of Facebook, values that are linked to its physical benefits such as demand for social communicating app, in addition to its features, and 2) the values linked to the

network of Facebook users, such as the alleged lower costs due to the increasing number of Facebook users.

Liebowitz and Margolis (1998) use the example of the Mac computer to support the idea that potential user decision to buy a Mac computer depends on 1) the autarky value (the main features of the computer, such as superior graphics and high-speed processor) and the synchronisation value (the user-friendly infrastructure that allows for easy sharing of files).

Ramanna and Sletten (2009, 2014) use economic network theory to claim that any emerging economy (e.g., the GCC countries) is expected to adopt the IFRS if their geographic neighbours have adopted the IFRS. As other research (Sarkissian & Schill, 2004) document that geographic proximity affects firms' cross-listing behaviour, Ramanna and Sletten (2014) use this to argue that network effects might also arise from geographic proximity. Their argument is based on the notion that the IFRS are expected to minimise transaction costs through commonality of accounting and reporting standards. Simply put, a country's decision to adopt the IFRS may be influenced by the size (value of the IFRS network) of its economic relations with nearby jurisdictions that have already adopted the IFRS. As of 2017, all the GCC countries have adopted and mandated the IAS/IFRS for listed firms operating in their jurisdictions (Oman in 1986, Kuwait in 1991, Qatar in 1999, Bahrain in 2001, the UAE in 2015 and the KSA 2016).

Ramanna and Sletten (2009) subdivide the direct benefits of IFRS adoption into two main values (control variables): net economic value and net political value (see Figure 4.1). Net economic benefits mainly represent a country's financial or pecuniary benefits after adopting new accounting standards (e.g., increasing FDI or lowered costs of capital). Net political benefits refer to those benefits arising from the political nature of the IFRS, (e.g., the ability of the IFRS setting to affect the political lobbying in a given country).

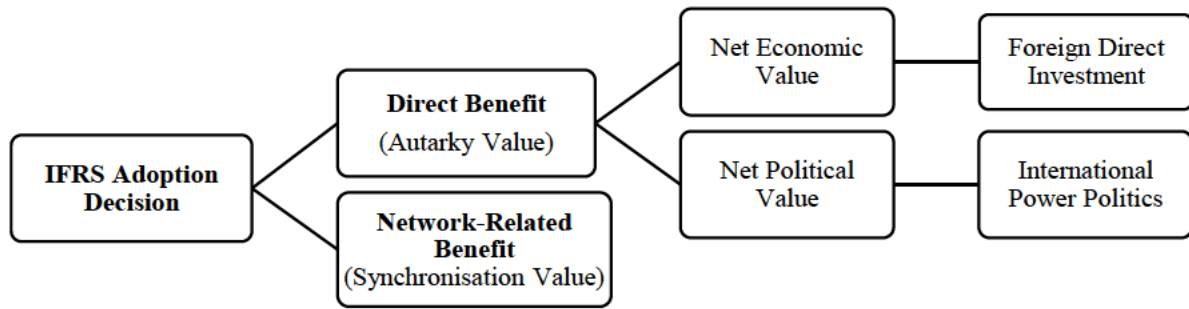


Figure 4.1. Theory of network. Adapted from Emeni and Urhoghide (2014).

4.2.2 Signalling Theory

An alternative theory that can explain IFRS adoption at the country level is signalling theory. Based on Akerlof's (1970) article 'The market for lemons: Quality uncertainty and the market mechanism', signalling theory (as set forth by Spence [1973]) explains information asymmetry in any capital market between principals and agents and the costs associated with this (Morris, 1987). When a firm has weak ethical and behavioural codes, the firm's management might take advantage of this and act in its own interests through concealing valuable financial and non-financial data from outsiders (Jensen & Meckling, 1976), which may include selecting certain accounting methods or estimations (Sun et al., 2010) to hide the true economic value of the firm. Relating to the latter, Prior et al. (2008) contend that managers may adopt specific discretionary accounting procedures to alter earnings values in financial reports. Such manipulation of earnings may convince current and potential investors that the firm will have better cash flows and earnings in the future.

Signalling theory mainly discusses how the aforementioned information asymmetry can be reduced. According to Morris (1987), Bebchuk and Weisbach (2010), Jensen and Meckling (1976) and Tarca (2004), information asymmetry is reduced when insiders or the party (managers) holding more valuable corporate information 'signal' this information to outsiders (stakeholders), or when firms decide to use the adoption of new

high-quality accounting standards (e.g., the IFRS) as a signal to outsiders. In relation to IFRS adoption, signalling theory suggests that management can use financial reports to signal their good intentions and future expectations (Samaha & Khlif, 2016; Hunt, 1985). The news of adopting and complying with the IFRS might send a positive signal to outsiders (e.g., stakeholders and potential investors) that the firm is willing to disclose more reliable and valuable financial and non-financial information (Masoud, 2017), or adopt and employ more restrictive financial regulations, codes and standards (Tarca, 2004). This signal helps management to strengthen its relationship with existing investors, attract potential stakeholders and improve corporate image.

Many studies have found that adopting the IFRS is likely to reduce information asymmetry between insiders and outsiders and thereby affect capital markets in several ways: 1) signalling firms giving equal access to firm-level information to both informed and uninformed outsiders, in addition to major and minor shareholders; 2) signalling firms will gain a reputation for reliability from the public, capital and debt markets, 3) signalling firms will attract more foreign investors; and 4) signalling firms will more easily raise equity capital (Sharma, 2013; Chung & Zhang, 2011; Sun et al., 2010; Klein et al., 2005; Ashbaugh, 2001).

4.3 Theories Related to Family Firms and Political Connections

4.3.1 The Resource Based View (RBV)

Pioneered by Pfeffer and Salancik's (1978), Wernerfelt's (1984), and Barney's (1991) work in the field of strategic management, RBV has found considerable support in the business literature for offering a compelling rationale for why some firms outperform others. The RBV theory contends that firms are heterogeneous, and seen as a collection of tangible and intangible strategic corporate resources and capabilities (e.g., managerial abilities, brand reputation, etc). The possession of such bundle of resources and capabilities presents a firm with an opportunity to develop competitive advantages

over its rivals. Therefore, corporate competitive advantage is a function of firm's corporate resources and capabilities.

The RBV theory has evolved to offer a new path to understand how strategic corporate resources and capabilities allow family owned and politically connected firms enjoy long-term success and superior performance. Based on the above discussion, the following subsections discusses how family owned and politically connected firms capitalise on their uniqueness to create competitive advantage and outperform other firms.

4.3.2 RBV and Family Firms

In this thesis, the RBV theory offers the researcher an established theoretical model to analyse the differences among family and non-family owned firms through their firm-level strategy, performance, and sustainable competitive advantage. The theory assumes that family-owned firms are a unique case of ownership concentration, described as unusually complex, dynamic, and rich in tangible and intangible corporate resources. Also, any corporate resources stemming from a given distinct family firm are also distinct. Further, the family itself is seen as the source of these corporate resources, which are frequently been described as rare, valuable, inimitable, and non-substitutable. Therefore, family firms tend to employ these unique corporate resources in a way that secures competitive advantage (Habbershon & Williams, 1999).

As thoroughly discussed in Chapter 2, among the exclusive bundle of corporate characteristics that secure family firms with competitive advantage are (i) creating family-oriented and motivational workplace that increases labour productivity, (ii) paying higher wages that inspire and cement employees' loyalty, (iii) having lower monitoring, transaction, and agency costs of equity, and (iv) having greater access to specific information about the future value of corporate resources in comparison to their competitors (for review, see Muttakin et al., 2015; Chrisman & Patel, 2012; Habbershon

& Williams, 1999; Tagiuri & Davis, 1996; Aronoff & Ward, 1995; Moscatello, 1990; Ward, 1988).

With regards their financial performance, some scholars assert that family firms are financially healthier than their counterparts, and less likely to declare bankruptcy (Ntoug et al., 2020). Other researchers affirm that family firms are known for having long-run return investment horizons, with the interest of passing their success and solid reputation to the succeeding generations (Stein, 1988). Based on their long-term investment strategies, family firms tend to be less reactive to the economic cycle and having lower cost of capital (Aronoff & Ward, 1995). Also, family firms tend to have higher earnings quality (Mengoli et al., 2019). Taken together, the combination of these corporate competitive advantage attributes clearly contributes and leads to wealth creating performance, investment efficiency, and superiority of family firms' performance compared to non-family firms.

4.3.3 RBV and Political Connections

In addition to explaining how the heterogeneity of corporate resources might differentiate family firms from their competitors, RBV provides also a grounded conceptual framework for why some firms establish connections (i.e., political connections) with governments. The theory highlights that firms tend to depend on external entities. However, this type of dependency creates uncertainty that affects firms' performance (Pfeffer and Salancik, 1978). In addition to reduce such uncertainty, Pfeffer (1972) confirms that firms build channels with source of external dependencies and use these external alliances also to (i) access unique corporate resources and earn abnormal rents that are beyond firm's boundaries, (ii) lower transaction costs, and (iii) increase corporate survival chances.

In this scenario, firm performance and success is not only a function of the interaction between within-firm resources, but also the external public policy

environment (e.g., governmental regulations and enforcement) (Conner, 1991). Public policy has immense uncertain influence on firm's operation, and these policies change regularly in response to business environment changes. As these governmental policies create a gap of uncertainty, firms pursued to find a 'corporate political strategy' that allows them to adapt to these uncertain changes, and turnings public policy environment in their favour (Baysinger, 1984).

One of these strategies is forming and establishing links or pathways with influential politicians who can access governmental resources. This process every so often happens in the shape of employing a politician on firm's board of directors (Hillman, 2005). Recruiting an experience politician to the board can (a) facilitate acquiring unique data about a certain public policy that is expensive for a given firm to obtain, and (b) establish a new channel to recruit other influential and experience politically connected members (for reviewing other preferential treatments, see subsection 4.4.2.2) (Hillman, 2005). Though, in heavily regulated industries (e.g., banking sector), firms are acutely affected by governmental policies and enforcement regulations. Therefore, these links with politicians will be even more crucial and beneficial for some firms than others.

In sum, the logic of RBV suggests that firms that invite and appointment directors with political experience on their boards seek uncertainty avoidance. In these firms, politically connected directors act as a shield that absorbs governmental uncertainty, in addition to providing benefits that significantly improve firm performance. Thus, politically connected firms are expected to outperform firms that are not connected.

4.4 Study Variables and Hypotheses Development

This thesis formulates four hypotheses related to the three research questions. These questions examine the effects of the length of IFRS experience on earnings quality (second research question), family ownership on earnings quality (third research

question), and corporate–political connections on earnings quality (fourth research question), all in the context of the GCC region. The fourth study is conducted to investigate (a) the quality of reported earnings in politically connected firms in GCC capital markets and (b) the moderating role of firm-level political connections on the association between family-owned firms and earnings quality.

4.4.1 Length of IFRS Experience (IFRS_EXP) and Earnings Quality (EQ)

Most countries have developed their own set of accounting and reporting standards. Such variation in standards (in terms of presentation, formulation and quality) meant incomparable financial statements and caused confusion and increased transaction costs during international transactions (Hines, 2007). In the early 2000s, the IASB (which replaced the IASC in 2001) reviewed all standards and developed a uniform set of high-quality accounting and reporting standards, known today as the IFRS. The increasing amount of investment activities on an international level necessitated a uniform set of account standards, and the IASB promoted the use and application of the IFRS to achieve this. The IFRS are a set of high-quality reporting standards, generally considered superior to any local reporting standards or GAAP (Palea, 2013; Li, 2010), and many countries have mandated that firms in their jurisdictions use the IFRS due to their direct effect on earnings quality (Tweedie, 2006).

Cai et al. (2014) claim that many of the emerging economies that have adopted the IFRS previously had poor or non-existent accounting standards. They compare two groups of countries—countries with existing accounting standards analogous to the IFRS and countries with poor or non-existent accounting standards—pre- and post-IFRS adoption and find that the first group of countries benefited less from adopting the IFRS compared to the second group.

One of the distinguishing attributes of the IFRS is that abiding by such standards requires extensive disclosure and greater emphasis on using fair value by adopting firms

(Ismail et al., 2013), which increases transparency (Houque et al., 2016) and affects earnings quality. For instance, FRS 136 'Impairment of Assets' entails clear and detailed disclosure on the allocation of intangibles such as goodwill to cash-generating units and impairment testing (Ismail et al., 2013). Another important characteristic of the IFRS is that they are principles-based accounting standards in their derivation and content (Jackling et al., 2012); the IFRS are fewer in number and general in their meaning, leaving greater room for professional judgement in their application (Sunder, 2011). The IFRS rely chiefly on principles and regulatory outcomes rather than prescriptive rules (Liu & Sun, 2015).

The choice of accounting standards partly determines earnings quality (Kirschenheiter & Melumad, 2004). The IFRS are a strict and tight set of standards that, upon adoption, overrule and supersede other alternative standards and accounting measurements (Barth et al., 2008; Ashbaugh & Pincus, 2001). Such a strict set of standards minimise managerial discretion and increase earnings quality (Ismail et al., 2013). Minimising managerial discretion might inhibit managers' opportunistic behaviour in terms manipulating financial figures and the extent of opportunistic earnings management, which leads to increased earnings quality and the real economic value of the firm being reflected in financial statements (Ewert & Wagenhofer, 2005). Therefore, adoption of the IFRS may increase the earnings quality of listed firms in the GCC region.

However, there is a counterargument that eliminating other accounting alternatives might prevent a firm from reporting accurate financial figures that reflect its real economic condition and performance (Barth et al., 2008). In addition, the principles-based nature of the IFRS might offer an opportunity for management to manipulate financial figures and impair earnings quality (Daske et al., 2008). Other factors must also be taken into consideration when explaining increase or decrease in earnings quality.

According to Soderstrom and Sun (2007), enhancing earnings quality depends on two main elements: adopting a set of high-quality accounting standards and a country's overall investor protection. Moreover, the level of standards enforcement in a country affects the accuracy of financial statements and reports (Cai et al., 2012). In this vein, Ewert and Wagenhofer (2005) report that increasing the enforcement level of accounting and reporting standards would decrease earnings management and increase reporting quality.

The notion that IFRS adoption is linked to earnings quality has been documented in prior studies. Goncharov and Zimmermann (2006) confirm that different accounting standards offer different levels of accounting choices and, thus, selection of certain accounting standards will affect earnings quality. A number of empirical investigations report an increase in earnings quality post-IFRS adoption (Liu & Sun, 2015; Christensen et al., 2015; Ismail et al., 2013; Aubert & Grudnitski, 2011; Balsari et al., 2010; Iatridis & Rouvolis, 2010; Cai et al., 2008; Gassen & Sellhorn, 2006), very limited or no improvement in earnings quality post-IFRS adoption (Houque et al., 2012; Jarva & Lantto, 2010; Günther et al., 2009; Paglietti, 2009; Zhou et al., 2009), or a decrease in earnings quality post-IFRS adoption (Ahmed et al., 2013; Capkun et al., 2011; Callao & Jarne, 2010).

Empirically, Ewert and Wagenhofer (2005) examine the purely economic effects of stricter accounting standards on earnings quality and conclude that stricter accounting standards improve earnings quality (measured by value relevance and variability of reported earnings), but with an increase in other variables (earnings management) that would overweight the benefit of increased earnings quality. Gassen and Sellhorn (2006) suggest that in the German context, IFRS-adopting firms have higher persistent earnings. Liu and Sun (2015) find that mandatory adoption of the IFRS in Canada has led to higher earnings quality. From a sample of listed firms in 21 countries, Barth et al. (2008) find

that IAS-adopting firms experience less earnings smoothing, less managing of earnings towards a target and more timely recognition of losses. Sun et al. (2011) show that the earnings quality of US firms cross-listed with IFRS-adopting home countries increased after IFRS adoption.

However, Houque et al. (2012) document that IFRS adoption per se does not lead to improvement in earnings quality. They find that earnings quality increases post-IFRS adoption in countries that provide higher investor protection. Related studies provide similar results that adopting the IFRS is not itself a guarantee or a major vector of acquiring high-quality information, as investor protection, enforcement level and other institutional factors have a vital role in promoting earnings quality (Halabi & Yi, 2015; Armstrong et al., 2010; Jeanjean & Stolowy, 2008; Francis & Wang, 2008; Leuz et al., 2003; Ball et al., 2003; La Porta et al., 1998, 2000).

Paananen (2008) explores whether the financial reporting quality (measured by the value relevance of information, timely loss recognition and the degree of smoothing of earnings) of listed Swedish firms increased after IFRS adoption in 2005. She finds that financial reporting quality decreased after IFRS adoption. In relation to the effects of IFRS adoption on firms in European countries, Callao and Jarne (2010) reveal that IFRS adoption encourages managers' discretionary accounting and opportunistic behaviour that would directly affect the quality of reported financial information. In a comparison between the IFRS and US GAAP, Leuz (2003) and Bartov et al. (2005) find that there is no significant difference in reported earnings.

The above mixed results can be clarified by the influence of factors other than IFRS adoption, such as country-specific factors. Each country has its own unique institutional settings that directly affect the quality of reported financial information, reporting behaviour and earnings quality via financial reporting incentives, legal systems, political schemes and governance structure (Soderstrom & Sun, 2007; Ball, 2001). Thus,

adopting a set of higher quality reporting standards may not in itself be sufficient to improve reporting quality. Noting the experience of other countries (developed and developing), it is expected that the GCC countries will be affected by the 'learning curve'; that is, GCC countries will take longer and require more experience to 1) learn how to fully adopt the IFRS, 2) enforce financial reporting regulations and 3) build regulatory bodies that will exert their influence on listed firms. This is supported by the GCC countries suffering from certain cultural dimensions (e.g., secrecy) and weak institutional settings (e.g., a shortage of qualified accountants and weak enforcement mechanisms).

Earlier and recent evidence shows that the overall disclosure behaviour of listed firms in developed countries is higher than those in developing countries/emerging economies. In relation to the institutional systems of developing and emerging economies, the GCC region is not an exception, as prior evidence shows that the GCC countries and surrounding countries suffer from weak institutions (Bova & Pereira, 2012), weak investor protection and low-quality government (La Porta et al., 2000), weak enforcement and governance mechanisms (Alfaraih & Alanezi, 2012; Lin, 2012), inadequate financial reporting and disclosure systems (Al-Zarouni et al., 2012) and low investor protection (Arouri et al., 2014; Al-Shammari et al., 2008). Such factors raise doubts within the academic field as to whether adopting the IFRS in developing countries, such as the GCC countries, will increase earnings quality.

Kuwait provides a clear example of the above. Prior to the adoption of the IFRS, Kuwaiti listed firms used different reporting standards as there was no stipulation for them to use any particular standards (Al-Bannay, 2002). As previously mentioned (in Chapter 2), the Kuwaiti Government attempted to establish its own accounting standards in 1981 but these were heavily criticised. The absence of supervisory bodies, regulations and quality accounting and reporting standards are considered the main causes of the Al-Manakh market crash and subsequent financial crises (Al-Wasmi, 2011). Al-Shammari

et al. (2008) find that IFRS adoption across the Gulf countries is *de jure* rather than *de facto*—that is, firms in the GCC region are mandated to use the IFRS but non-compliance with the standards is widespread.

As mentioned earlier, COE may be relevant in the GCC context. As developing countries and consumers, the six GCC nations may perceive products produced and used in developed countries—such as the IFRS—positively, with the assumption that these are of a higher quality compared to products produced in developing countries (Houqe & Monem, 2016; Ball, 2006; Agbonifoh & Elimimian, 1999). COE having a clear and substantial effect on consumers' evaluation and perception of products and services has been reported in prior marketing studies (for review, see Adina et al., 2015; Agbonifoh & Elimimian, 1999).

As previously discussed, the EU's decision of IFRS adoption and subsequent adoption wave in developed and developing countries signalled the credibility and quality of these standards, particularly for developing countries. Since most developing countries suffer from weak local accounting and reporting standards, some studies have shown that such countries benefited more from IFRS adoption (e.g., Cai et al., 2014; Morris et al., 2012; Ding et al., 2007).

As the IFRS require greater disclosure (Ismail et al., 2013; Ashbaugh & Pincus, 2001) and emphasise the use of fair value (Ismail et al., 2013), GCC countries and other developing economies have adopted the IFRS with the belief that adoption itself is necessary to improve disclosure behaviour, achieve an economically efficient reporting system (Ball, 2001) and enhance earnings quality. The literature shows that developing countries that adopt the IFRS experience a significant drop in earnings management and benefit from higher quality accounting standards (Cai et al., 2014), with positive consequences for earnings quality. Thus, it is expected that firms in the GCC countries will have experienced increased earnings quality post-IFRS adoption.

However, given the weak regulatory frameworks, enforcement mechanisms and institutional environments of the GCC countries, relying solely on IFRS adoption to create an efficient public accounting disclosure environment seems ill-considered. Whether IFRS adoption can improve earnings quality in the GCC region is an empirical matter. Therefore, the following null hypothesis is established:

H_1 : There is no significant relationship between reported earnings quality in the GCC countries and the length of IFRS experience.

4.4.2 Family Ownership (OWN), Political Connections (PC) and EQ

4.4.2.1 OWN and EQ

Family and non-family ownership are two important ownership structures. Scholarly interest in family-owned firms, reporting choices and earnings quality has been growing in recent years (Salvato & Moores, 2010). Wang (2006) defines family-owned firms as firms whose common stocks are held by individuals from the same family, or firms where members of the same family remain actively involved in the firm's management or board of directors.

As previously discussed, family-owned businesses are prevalent worldwide (Rasheed & Yoshikawa, 2012; Burkart et al., 2003). According to Faccio and Lang (2002), over 40% of large European firms are controlled by families. In addition, family-owned firms constitute around 35% of the S&P 500-listed firms in the US, 68% of listed firms in Indonesia, 57% of listed firms in Thailand and 67% of listed firms in Malaysia (Ibrahim & Abdul Samad, 2010; Anderson & Reeb, 2003; Claessens et al., 2000). In the GCC region, family-owned firms account for around 80% of GDP (excluding the oil sector).

Family ownership affects the quality of financial reporting and earnings, explained via the competing theories of the entrenchment effect or the alignment effect (for review, see Wang, 2006; Shleifer & Vishny, 1989; Morck et al., 1988). The

entrenchment effect is based on the argument that financial statement suppliers (firms) manage their earnings opportunistically. The opportunistic behaviour is aligned with and can be interpreted through the traditional opinion among academics that family-owned firms are less efficient since the concentration of ownership motivates family members and controlling shareholders to extract personal or private benefit at the cost of other shareholders (i.e., minority shareholders) (Shleifer & Vishny, 1997).

Protection of minority shareholders' rights requires sound corporate governance practices and effective enforcement (Puig & Al-Haddab, 2013). These are absent in most developing countries in general and the GCC countries in particular (Lin, 2012; Simpson, 2007). Family-owned firms might take advantage of such weaknesses to breach minority shareholders' rights by publishing less transparent financial reports and/or manipulating earnings for their private rents. This, in turn, increases the cost of capital (Timmerman & Doorman, 2002).

Moreover, the entrenchment effect argues that family-owned firms tend to suffer from higher information asymmetry and Type II agency problems between founding family members and non-controlling shareholders or outside investors (Wang, 2006). Fan and Wong (2002) assert that family-owned firms control and limit financial information flows to outsiders, as higher information asymmetry affects disclosure and transparency negatively and lowers them (Francis et al., 2005). Family-owned firms have the incentive to manipulate earnings for the controlling family's benefit. Drawing from these arguments, the entrenchment effect predicts that familism and ownership concentration are associated with lower earnings quality.

Conversely, the alignment effect suggests that family-owned firms are less likely to seek private benefits at the cost of minority shareholders and investors; instead, family-owned firms have the incentive to report their earnings in good faith, as concentrated ownership is an effective tool for greater monitoring by family members (Shleifer &

Vishny, 1997). As an example, Weber et al. (2003) argue that, in contrast to firms with diffused ownership, family-owned firms set long-term goals and plans. In addition, they have the incentive to motivate their employees to maintain their long-term loyalty. Family-owned firms also care about the family's name and corporate reputation, and tend to aim to pass on their success to future generations. In pursuit of this, they report high-quality earnings and forgo short-term objectives or opportunities (e.g., manipulating the earnings), since doing so might damage the firm's reputation, employees' loyalty, corporate performance and the family's name.

Empirically, the arguments from the two competing theories suggest that the effect of family ownership on earnings quality remains an empirical issue. Consistent with the alignment effect, for example, Wang (2006) reports that, on average, family-owned firms have higher quality earnings informativeness, lower abnormal accruals and less persistence of transitory loss components in earnings (based on a sample drawn from S&P 500 firms for the years 1994–2002). Similarly, Ebihara et al. (2015) report higher quality of earnings in family-owned Japanese firms compared to non-family firms.

An (2015) documents that concentrated ownership (in the form of family ownership) in listed South Korean firms is positively associated with higher quality of reported earnings and argues that this is a result of family ownership mitigating agency problems. Tiscini and Di Donato (2012) provide evidence that in the Italian context, listed firms with higher family involvement in the board of directors (while the position of CEO is not held by a member of the controlling family) report high-quality earnings.

On the other hand, some studies report empirical results that are consistent with the entrenchment effect. In seven East Asian countries, Fan and Wong (2002) find that family ownership is associated with reporting lower quality of earnings in 977 listed firms from 1991 to 1995. Similarly, Francis et al. (2005), using a sample of 1,203 firm-year observations from 1990–1999, conclude that firms with dual-class equity structure (which

tend to be owned by family members and have weak corporate governance structures) are less informative and report lower quality earnings compared to single-class equity structured firms.

In the Brazilian context, de Sousa and Galdi (2016) examine whether family ownership and familism have any influence on firm performance and reported earnings quality. They find that São Paulo Stock Exchange-listed firms with diffused ownership during the period 1999–2014 report higher quality earnings than family-owned firms. Aksu et al. (2013) provide unique evidence of the association between IFRS adoption, corporate governance, earnings quality and family ownership by examining all Borsa Istanbul-listed public firms in Turkey (316 listed firms and 2,215 firm-year observations) for 2002–2008. The authors find that earnings quality is lower in firms controlled mainly by family members, as family control is considered to be a threat to minority shareholders' rights, though IFRS adoption was found to minimise this threat.

Overall, the uniqueness of the GCC region's corporate environment and distinctive ownership structure (overwhelmingly family owned⁴) makes it an ideal context in which to examine the effects of family ownership on reported earnings and earnings quality. In addition, results obtained from the GCC region might be generalisable to other developing jurisdictions and emerging markets. Given the competing theories and the empirical evidence in support of them, it is difficult to provide a directional hypothesis on the effect of family ownership in the GCC region on the quality of reported earnings. Hence, the following null hypothesis is proposed:

H_2 : There is no significant relationship between family ownership and quality of reported earnings for listed firms in the GCC countries.

⁴ As previously stated (see Section 3.6), the core of the GCC economy is family businesses, which account for around 80% of GDP after excluding the oil sector (Abdallah & Ismail, 2017). Around 70% of businesses in the GCC region are family-owned firms and the ownership structure is the heart of regional corporate activities and economic transactions (Pedersen and Partners, 2014). Large blockholders (families) represent approximately 45–56% of the mean of shares in all GCC countries (Santos, 2015; Amico, 2014).

4.4.2.2 PC and EQ

The involvement of politicians or politically connected persons in corporations and the participation of business owners and/or institutions in political activities (e.g., contributing donations for elections) have highlighted the vital role of political connections in business transactions (Narayanaswamy, 2013). As the corporate environment in the GCC region is characterised by the prevalence of family-owned firms, the presence and maintenance of this ownership type does not necessarily rely only on cultural preferences (i.e., family ties and traditions), as this ownership type can exploit political connections (Pedersen and Partners, 2014).

Among many institutional factors (for review, see Al-dhamari & Ismail, 2015; Ball et al., 2000), political connections have a significant influence on managers' incentives to prepare and release financial and accounting reports. The quality of information published in financial reports is dependent on the existing political connections of the reporting firm (Chaney et al., 2011; Ball et al., 2003; Ball et al., 2000). For instance, as politically connected firms tend to receive preferential treatment from governments, they can avoid external capital market pressures, which results in them preparing and publishing low-quality earnings and financial reports (Harymawan & Nowland, 2016).

As previously discussed in Chapter 3, prior studies show that governments prefer politically connected firms over non-connected firms and they are treated differently in the market. Politically connected firms may obtain extensive economic benefits due to their close ties with politicians, including prioritisation for government contracts (Goldman et al., 2013; Baysinger, 1984), restriction of competitors from entering the market (Bunkanwanicha & Wiwattanakantang, 2009), preferential tax treatment (e.g., lower corporate tax rates or tax discounts) (Faccio, 2006; De Soto, 1989), easier access

to loans and favourable lending terms (Khwaja & Mian, 2005; Claessens et al., 2008) and bail outs during times of financial distress (Faccio et al., 2006).

Politically connected firms and politicians have a symbiotic relationship. First, politically connected firms are prominent in jurisdictions with high rates of corruption (Faccio, 2006), such as the GCC countries (for review, see Dudley, 2017). As firms may gain many benefits through their political ties (Fan et al., 2007; Bertrand et al., 2004; Hellman et al., 2003), insiders have the potential to succumb to their rent-seeking behaviour and intentionally hide or manipulate financial information (earnings) or delay publishing reports to mislead outsiders and gain private benefits (Leuz et al., 2003). Second, politically connected firms are protected by politically connected persons on their boards from being penalised, as they cover management from the fallout of not fully disclosing important financial or managerial information to outsiders and stakeholders (Chaney et al., 2011). Consequently, politically connected firms may be careless about the quality of the accounting information they publish.

While the literature on the effect of political connections on earnings quality is steadily growing, it has provided mixed results. For example, based on a sample of over 4,500 listed firms in 19 countries, Chaney et al. (2011) find that politically connected firms suffer from low earnings quality. Consistent with this, Narayanaswamy (2013) concludes that politically connected Indian firms have poor earnings quality. Similarly, Belkaoui (2004) examines earning opacity in 32 countries and shows that this increases as political connections increase. In the Indonesian context, Harymawan and Nowland (2016) document that when politically connected firms are confident in the continuation of the government they have connections with, they are less concerned about the quality of reported earnings but invest more in their connections to derive greater benefits.

In the field of auditing, Gul (2006) uses Malaysian data and provides evidence that the audit fees of politically connected firms are higher than those of non-connected

firms since politically connected firms are more prone to the risk of manipulating their earnings. Ball et al. (2003) use data from four East Asian countries (Hong Kong, Malaysia, Singapore and Thailand) to demonstrate that reported earnings are primarily determined by the underlying economic and political factors influencing preparers' objectives rather than the quality of accounting standards. However, in the Chinese context, Song et al. (2011) find that politically connections have a positive influence on firms' earnings quality and argue that political connections improve the market reaction to earnings and significantly reduce earnings management.

In view of the foregoing, the socio-political and economic environments of the GCC countries make the region an interesting setting in which to investigate the effect of political connections on financial reporting components, mainly earnings quality. Political connections are a vital element of conducting business in emerging economies, including the GCC countries. The basis of the corporate environment in this region is a long history of common interests, including solid relationships with the ruling families and other businesses (see Chapter 2) (Garboise et al., 2010).

Gulf political regimes favour personal and family connections (Atiyyah, 1992). In addition, most chairs of boards in the GCC region are handpicked by the political leadership, who have direct and privileged access (Hertog, 2012). Families associated with leadership of a country within the GCC region are also often represented on public firms' boards (Halawi & Davidson, 2008) and the position of board chairman is frequently held by a royal family member (Hertog, 2012). Mazaheri (2013) and Tulloc (1987) highlight the role of 'regime-tied elites' (who might be family business elites, often not related to the ruling family but have strong bonds with it) in the GCC region. Regime-tied elites in the GCC region can influence political regimes, monarchies and elite/wealthy families in economic reforms and policy decisions. In return, regime-tied

elites support the government and ensure the royal families maintain their relative power within the country.

Taken together, it is reported that politically connected firms use their political connections to protect them from being penalised for management's negligence or manipulation. In such cases, politically connected persons on the boards of directors act as a shield, protecting management from outsiders and market pressures (Chaney et al., 2011). Political connections are generally reported to have an adverse or negative effect on firm's earnings, as politically connected firms have less incentive to pay attention to earnings quality, and may act carelessly, publish low-quality accounting information or spend less time accurately representing their earnings. However, other empirical studies have also documented a positive relationship between politically connected firms and the quality of earnings. Thus, the following hypothesis is proposed:

H₃: There is no significant relationship between politically connected firms and quality of reported earnings for listed firms in the GCC countries.

4.4.2.2.1 EQ of Politically Connected Family Firms

As previously mentioned in Section 4.3.2.1 and consistent with the alignment effect, prior evidence shows that, on average, family-owned firms have higher reporting quality (Ebihara et al., 2015; An, 2015; Tiscini & Di Donato, 2012, Wang, 2006). Specifically, family-owned firms are less likely to extract private benefits at the expense of other shareholders via manipulating reported earnings. In addition, family-owned firms tend to suffer less from Type I agency problems. Therefore, family-owned firms and their managements report high-quality earnings since they are concerned about their reputation, prestige and the firm's long-term performance (Ebihara et al., 2015).

However, firms tend to benefit more from political connections in markets that are less developed and have higher corruption levels (Faccio, 2010, 2006). Prior literature indicates that politically connected firms report poorer quality of reported earnings

compared to their non-connected peers (e.g., Chaney et al., 2011). These results suggest that politically connected firms extract benefits by strengthening their ties with politically connected persons, and these companies have less of a need to respond to external pressures (i.e., market pressures) to report high-quality information. They are at little to no risk of punishment for publishing low-quality financial reports as politically connected members shield the company from any government penalties.

Given the conflicting findings in prior studies regarding the effects of political connections and family ownership on earnings quality, this matter is unclear. Hence, the following null hypothesis is proposed:

H_4 : There is no difference in reported earnings quality between politically connected family-owned firms and politically connected non-family firms in the GCC countries.

Chapter 5: Methods and Methodology

5.1 Introduction

In Chapter 4, four hypotheses were formulated to answer the three research questions. These questions are (1) what is the relationship between the length of IFRS experience and earnings quality in the GCC region? (2) what is the relationship between family ownership and the quality of reported earnings for listed firms in the GCC region? and (3) what is the relationship between politically connected firms and the quality of reported earnings for listed firms in the GCC region?

Chapter 5 provides a multi-theoretical framework linked to the four main concepts in this thesis—IFRS adoption, political connections, family firms and earnings quality. This chapter presents the research methodology for testing the hypotheses and discusses the variables, sample, data collection and data analysis techniques for testing the hypotheses. The chapter is organised as follows. Section 5.2 details the methodology used to answer the research questions and define the selected variables. Section 5.3 summarises the country selection. Section 5.4 presents and discusses the firm sample and sample period. Section 5.5 provides a brief description of the sampling technique. Section 5.6 explains the data sources, Section 5.7 discusses the research limitations and Section 5.8 details the data analysis, diagnostic tests and estimation techniques.

5.2 Research Methodology

5.2.1 Research Method for Question 1: Measuring IFRS Implementation (IFRS_x)

Answering Q1 will require measuring IFRS implementation in the GCC region. The researcher proposes the following process for this. There are different approaches to measuring disclosure quality and extent, all of which have greatly evolved over the last 30 years (Artiach & Clarkson, 2011). The present research uses a disclosure index—

IFRSx—to accomplish this, constructing an index to evaluate the extent of IFRS implementation in the GCC region. The process of constructing this index consists of four stages: 1) selection of disclosure index measurement, 2) selection of specific standards from the IFRS for the sample countries, 3) selection of a scoring method for IFRSx and 4) calculation of IFRSx. The completion of these stages is detailed below.

5.2.1.1 Selection of Disclosure Index Measurement

Several measurements have been employed by scholars to examine IFRS adoption and implementation, all based on the supposition that the quality of disclosed items is what is being measured (Beattie et al., 2004). In the corporate disclosure research and literature, investigators predominately rely on two central methods to determine the extent of a given standard's disclosure or implementation: analysts' rating indexes or self-constructed indexes (Bozec & Bozec, 2012; Artiach & Clarkson, 2011; Urquiza et al., 2010; Beattie et al., 2004).

Analysts' rating indexes are constructed by external independent experts, professionals and advisory corporations (such as the Association of Investment Management and Research [AIMR], and S&P [Standard & Poor's Financial Services, LLC]) based on analysts' valuations. They collect the results of annual surveys from firms that are ordered or tiered in accordance with the extent of disclosed information in their annual reports and other sources such as analytical websites, press releases, firm interim reports, archival records and documented meetings with analysts themselves (Urquiza et al., 2010). The generated disclosure information is evaluated and assessed by industrial sub-committees comprised of financial analysts.

Scholars in favour of adopting analysts' rating indexes (for review, see Botosan & Plumlee, 2002; Healy et al., 1999) contend that these indexes are constructed by qualified analysts who are fully familiar with the corporate world as primary users of annual reports, whereas a self-constructed index may result in errors due to the

constructor's lack of expertise. Advocates of analysts' rate indexes also argue that the constructing experts are able to use their huge resources to generate information from numerous verified and reliable sources within a short period, which is unlikely to be possible for investigators attempting to create a self-constructed index.

Analysts' rating indexes have severe disadvantages. Ammann et al. (2013), Lang and Lundholm (1996) and Healy and Palepu (2001) argue that analysts' rating indexes are biased due to experts' subjectivity and reflect the personal perceptions of advisory persons in evaluating firms' disclosure quality or ranking firms based on their disclosure behaviour. Moreover, the generated datasets are constrained within certain time points (Artiach & Clarkson, 2011) and based mostly on large listed firms in certain sectors (Chen et al., 2009), primarily in developed countries (Ammann et al., 2013), which restricts their generalisability.

Proponents of self-constructed indexes argue that they can use a broad cross section of firms in different jurisdictions, measuring different types of disclosures from diverse-sized firms from different sectors, to construct an index, as opposed to analysts' rating indexes (Omar & Simon, 2011; Artiach & Clarkson, 2011). It is also much cheaper to create a self-constructed index, thus making this more feasible for individual researchers or groups of researchers.

Consistent with prior studies in emerging economies (e.g., Tawiah & Boolaky, 2019; Tahat et al., 2016; Santos et al., 2014; Al-Shammari et al., 2008) and developed countries (e.g., El-Mahjoub & Dicko, 2017; Popova et al., 2013), this researcher constructs a self-constructed index—IFRSx—to measure the extent of IFRS implementation in the GCC region. This method is commonly employed due to its validity and ability to measure IFRS implementation regardless of the type of selected firms and information (Urquiza et al., 2010), as well as it being a sound proxy for determining disclosure quality (Beretta & Bozzolan, 2008).

5.2.1.2 Selection of Specific Standards from the IFRS

As of 2017, all the GCC countries have adopted the IFRS, although the KSA has not fully adopted them (IFRS, 2018). This thesis measures and examines the extent of IFRS implementation by constructing a disclosure index based on a selected set of IFRS/IAS standards and after reviewing every annual report of every sampled firm for the sample period and countries. The constructed index—IFRSx—precisely measures the mandatory standards for disclosure in annual reports under the IFRS/IAS; voluntary disclosure requirements are omitted from the selected sample of standards.

From 45 officially published standards (as of December 2017), 24 standards (seven IFRS and 17 IAS) with 219 disclosure items are selected for constructing IFRSx (see Table 5.1). The IASB's official volume of the IFRS is available on their website (covering 2012–2017) and details each standard. A number of IAS and IFRS were not included in the final sample. Selection decision was based on certain conditions, mainly:

- **The appropriateness and applicability of a standard to the GCC region's corporate settings, the sample period, the nature of the sampled countries and the sample firms' operations.** The researcher contacts several academics and accountancy practitioners from each sample country to discuss the applicability and suitability of each standard. The researcher also reviews publications on IFRS/IAS adoption for recent interpretations and changes of IFRS implementation in the GCC region.
- **The availability and sufficiency of data in firms' annual reports, which express whether firms are compliant or non-compliant with a standard.** The researcher follows Al-Shammari et al. (2008) and conducts a pilot study to determine the availability and sufficiency of data related to each standard. The pilot study covers covered around 22.5% (50 of 222) of the sample firms in different sectors across the four sample countries. In each country, at least

10 firms' annual reports from different sample years were randomly selected and checked for the necessary data. If there is 1) no variation in the disclosed information or 2) missing, limited, or non-disclosed data in regard to a standard, then that standard is deselected.

Table 5.1
Summary of Selected Standards from the IFRS and IAS for Self-Constructed Disclosure Index (IFRSx)

Standard	Title
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IFRS 3	Business Combinations
IAS 7	Statement of Cash Flows
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations
IFRS 8	Operating Segments
IAS 16	Property, Plant and Equipment (PPE)
IAS 17	Leases
IFRS 10	Consolidated Financial Statements
IAS 18	Revenue
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures

Standard	Title
IAS 27 (2011)	Separate Financial Statements
IAS 28 (2011)	Investments in Associates and Joint Ventures
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 40	Investment Property

After reviewing prior studies on IAS/IFRS adoption in the GCC region (e.g., Dawd, 2018; Alfraih & Alanezi, 2015; Al-Shammari et al., 2008) and using the aforementioned selection criteria, the following standards are excluded:

- IAS 10 ‘Event After the Reporting Period’
- IAS 11 ‘Construction Contracts’
- IAS 12 ‘Income Taxes’
- IAS 19 ‘Employee Benefits’
- IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’
- IAS 26 ‘Accounting and Reporting by Retirement Benefit Plans’
- IAS 29 ‘Financial Reporting in Hyperinflationary Economies’
- IAS 32 ‘Financial Instruments: Presentation’
- IAS 34 ‘Interim Financial Reporting’
- IAS 39 ‘Financial Instruments: Recognition and Measurement’
- IAS 41 ‘Agriculture’
- IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’

- IFRS 2 ‘Share-based Payment’
- IFRS 4 ‘Insurance Contracts’
- IFRS 6 ‘Exploration for and Evaluation of Mineral Resources’
- IFRS 7 ‘Financial Instruments: Disclosures’
- IFRS 9 ‘Financial Instruments’
- IFRS 14 ‘Regulatory Deferral Accounts’
- IFRS 15 ‘Revenue from Contracts with Customers’
- IFRS 16 ‘Leases’
- IFRS 17 ‘Insurance Contracts’.

The GCC region is a unique socio-political and economic setting with distinctive traits, of which IFRS adoption decision is a function (Ball, 2006). As previously discussed, financial reporting quality is shaped by a country’s economic and political environments. The European and North American origin of some standards (Houqe & Monem, 2016) means they may be irrelevant for or inapplicable to the GCC countries, and application of accounting and financial reporting standards in the GCC region is likely different from that in developed countries due to the region’s inadequate financial reporting practices (Al-Zarouni et al., 2012). The exclusion of certain standards from the final sample is justified based on:

- **Standards inapplicable to the GCC markets and context.**

A number of standards appear inapplicable to the GCC markets and context. This decision is made after reviewing prior research on IFRS adoption status in the GCC region and contacting several accounting practitioners from each sample GCC country. For example, IAS 12 ‘Income Taxes’ is not applicable or relevant to the GCC context since, with the exception of Oman (not included in the sample) (Al-Shammari et al., 2008), GCC governments have not introduced any law to regulate income taxes in general or oblige individuals or firms to pay income taxes.

IAS 19 ‘Employee Benefits’ and IAS 26 ‘Accounting and Reporting by Retirement Benefit Plans’ are also deselected because in one sample country (Kuwait), listed firms must follow local labour and social security laws in relation to employee benefits and retirement plans (Alfraih & Alanezi, 2015). IAS 29 ‘Financial Reporting in Hyperinflationary Economies’ is not applicable to the GCC context since the inflation rate in each sample country is moderately low, ranging from 4.1% in the UAE to 0.4% in Qatar during the sample period (World Bank, 2020).⁵

- **Standards irrelevant to the scope of the study.**

A few standards are excluded due to their irrelevance to this study’s sample and scope. For instance, IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ is excluded since all sample firms have used the IFRS since 2015 at the latest. According to commercial law in most GCC countries, to be listed on the stock market, firms must provide two years of audited financial statements prepared under the IFRS prior to submitting their listing request. IAS 34 ‘Interim Financial Reporting’ is also excluded since the scope of this research is to examine and analyse the annual financial reports of sample firms, not interim financial reports.

IAS 32 ‘Financial Instruments: Presentation’, IAS 39 ‘Financial Instruments: Recognition and Measurement’, IFRS 4 ‘Insurance Contracts’, IFRS 7 ‘Financial Instruments: Disclosures’, IFRS 9 ‘Financial Instruments’ and IFRS 17 ‘Insurance Contracts’ are deselected from the final sample because this research examines the annual reports of non-financial listed firms, while these standards require recognition, measurement and disclosure of specific financial information related to insurance, financial institutions and instruments (banks).

- **Standards inapplicable to the sample period.**

⁵ The IFRS and IASPlus websites do not precisely suggest when or how hyperinflation arises, although they briefly mention that it is indicated by a number of factors (chiefly, if a country’s cumulative inflation rate over three years reaches or exceeds 100%) (IFRS, 2020; IASPlus, 2020). None of the GCC countries have experienced these factors.

Two standards are excluded due to their inapplicability to the sample period (2012–2017): IFRS 15 ‘Revenue from Contracts with Customers’ and IFRS 16 ‘Leases’. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018 and IFRS 16 for annual reporting periods beginning on or after 1 January 2019 (IFRS, 2020). Thus, it is impossible to examine the extent of implementation on these standards.

- **Standards excluded for other reasons (supersession, impracticality, limited or non-disclosure practices).**

The pilot study (covering around 22.5% of the sample firms) confirmed that seven standards are only mentioned in a few annual reports. This is due to a number of reasons. For instance, the pilot study results show that only one sample firm is associated with agricultural activities. Therefore, IAS 41 ‘Agriculture’ is excluded due to extremely limited disclosure practices and data invariance. Similarly, IAS 10 ‘Event After the Reporting Period’ (four firms), IAS 20 ‘Accounting for Government Grants and Disclosure of Government Assistance’ (one firm), IFRS 2 ‘Share-based Payment’ (four firms) and IFRS 14 ‘Regulatory Deferral Accounts’ (two firms) are excluded due to limited or non-disclosure practices.

The pilot study results show that no sample firms are enlisted in the mining sector or have any operations related to this sector. Accordingly, IFRS 6 ‘Exploration for and Evaluation of Mineral Resources’ is excluded due to impracticality. Finally, IAS 11 ‘Construction Contracts’ is superseded by IFRS 15 ‘Revenue from Contracts with Customers’, which, as previously mentioned, is effective for annual reporting periods beginning on or after 1 January 2018 (i.e., after the sample period) and thus excluded. Therefore, IAS 11 is excluded due to its obsolescence.

After excluding 21 of 45 IAS/IFRS, 24 standards (seven IFRS and 17 IAS) are selected for constructing IFRSx. Based on the 24 selected IAS/IFRS, the researcher prepared and developed a checklist. This procedure has been used in recent studies

(Tawiah & Boolaky, 2019; Alfaraih & Alanezi, 2015; Santos et al., 2014; Gorgan & Gorgan, 2014; Al-Shammari et al., 2008). The checklist was adopted to measure the level of compliance with the IFRS disclosure requirements. To compare the created checklist with other professional versions, the researcher downloaded Deloitte's 2012–2017 IFRS disclosure checklists (as workbooks in MS Excel) from the IASPlus website (IASPlus, 2017a).

This step allowed the researcher to confirm the readiness and extensiveness of the created checklist; if there are any variations between the two, the researcher will save time by amending the created checklist. This also allowed the researcher to discover other significant IFRS disclosure requirements that might be exclusive to and specified in each of the four sample countries. Finally, comparing the checklists allowed the researcher to redesign the created checklist by following the well-arranged, professional and orderly Deloitte checklist. After going through this procedure, the researcher consulted two people (one academic and one accounting practitioner) to review and validate the created checklist.

5.2.1.3 Selection of Scoring Method for IFRSx

In this stage, the researcher decided on the relative significance of each disclosure requirement in the IFRSx by assigning an appropriate weight (score) for each requirement (Artiach & Clarkson, 2011). In a general sense, Marston and Shrives (1991) assert that the process of scoring any index involves an element of personal judgement. Literature on the IFRS disclosure and disclosure index scoring is centred around two methods: the binary (unweighted) method and the ordinal (weighted) method (Cooke, 1989).

After examining firms' annual reports, the researcher opted to use the binary (unweighted) method by assigning a dichotomous scoring of '1' (if any disclosed IFRS item or requirement was located in the annual report) or '0' (if no disclosed IFRS item or requirement was located in the annual report). Alternatively, scholars who use the ordinal

approach construct a point scale and assign different weights (e.g., a scale of '0', '0.5' and '1') to items based on the degree of information importance in the annual report. The main criticism of the weighted approach is that assigning different weights to disclosure items might lead to scoring bias, since these given weights are based on personal perceptions of specific information user groups (Cooke, 1989). In a similar vein, the main issue with the unweighted approach is that the researcher might assign the same score to less important items (from the viewpoint of information users) in the index, which might reduce the quality of the self-constructed disclosure index.

Nevertheless, the unweighted approach has many advantages. For example, a number of studies (e.g., Tower et al., 2011; Owusu-Ansah & Yeoh, 2005; Cooke, 1989) confirm that compared to the ordinal approach, employing the unweighted approach can drastically reduce researcher bias and subjectivity of scoring the index. The unweighted approach is also perfectly suitable for cross-country studies (Ngangan et al., 2005) and appropriate for disclosure studies that focus on providing an assessment for all information user groups of annual reports, rather than a specific segment of users (Cooke, 1989).

Urquiza et al. (2010), Aly et al. (2010) and Tsalavoutas et al. (2010) note that the vast majority of studies on disclosure and the IFRS have employed the unweighted (binary) scoring method for constructing their disclosure indexes. The present study adopts the binary (unweighted) approach for several reasons:

- This research investigates a phenomenon across four countries and there is empirical evidence that the unweighted approach is more suitable for cross-country studies (Ngangan et al., 2005)
- Previous empirical studies (e.g., Hossain, 2008) show that there are few or no differences in the final results generated by using either approach.

- This research examines the presence and absence of certain IFRS disclosure requirements in firms' annual reports; hence, dichotomous scoring is more appropriate than ordinal scoring.
- Applying the weighted scoring scheme would necessitate assessment by a analytics professional (Beattie et al., 2004), which is unfeasible for this thesis given the financial and time constraints.
- Adopting the unweighted method to score the index reduces researcher bias in assigning scores for each IFRS disclosure requirement.
- A number of studies (e.g., Urquiza et al., 2010; Aly et al., 2010; Tsalavoutas et al., 2010) confirm that most IFRS disclosure studies use the unweighted scoring scheme to calculate their self-constructed disclosure indexes. Therefore, adopting this approach improves the comparability of this research's results with those of prior studies on IFRS disclosure.

To mitigate personal bias during application of the unweighted scoring method, the researcher followed the suggestion of prior studies to read annual reports carefully and entirely at least twice before commencing the scoring process. This step allowed the researcher to comprehend the nature and complexity of the firms' operations and sectors (Cooke, 1993). Any IFRS requirement that is not applicable to a given firm received a score of 'not applicable' or 'N/A' (Alfaraih & Alanezi, 2012). This procedure ensured that firms were not penalised for not disclosing any information related to that specific, inapplicable requirement (Abdullah et al., 2012; Owusu-Ansah, 1998).

A crucial point to mention is that in this phase, the researcher coded the disclosure index (IFRSx) by looking at two cross sections of the data. In the first cross section, the researcher looked at all the standards at a headline level across the sample period (without coding the items). Since this is an unweighted index where equal importance is allocated

to each accounting standard, this technique allowed the researcher to maintain coding at a manageable level given the difficulty of obtaining the data in the GCC region.

The second cross section covered the most recent three years of the sample period by looking at and analysing in depth four accounting standards (and their disclosure items) that might have an indirect or direct effect on earnings quality: IAS 33 'Earnings per Share', IAS 36 'Impairment of Assets', IAS 37 'Provisions, Contingent Liabilities, and Contingent Assets' and IAS 38 'Intangible Assets'. These areas are indicated by prior studies as having the greatest effect on reported earnings, and this procedure allowed the researcher to have a better understanding of earnings quality in the region. After scoring each requirement, firm-level compliance scores were aggregated into country-level compliance scores.

5.2.1.4 Calculation of the Disclosure Index

After entering all the scores into the MS Excel spreadsheet and computing the total disclosed requirements score of each sample firm, IFRS_x can be constructed. IFRS_x is computed by dividing the actual total number of standards adopted by a given firm in a given year over the maximum number of standards applicable for the firm for that year, which can be expressed by the following formula:

$$I_j = \frac{\sum_{i=1}^{n_j} x_{ij}}{n_j}$$

Where:

- | | | |
|----------------------------------|---|---|
| I_j (i.e., IFRS _x) | = | the unweighted disclosure index. |
| j | = | a given firm. |
| X_{ij} | = | actual total number of standards adopted by firm j . |
| n_j | = | the maximum number of standards applicable for firm j . |

5.2.2 Research Method for Question 2: Measuring Earnings Quality (EQ) and Length of IFRS Experience (IFRS_EXP)

Answering Q2 will require measuring earnings quality and the length of IFRS experience in the GCC region. The researcher proposes the following model to answer Q2:

Equation 5.1
Proposed Model for Q2

$$EQ_{i,t} = \alpha + \beta_1 \text{IFRS_EXP}_{i,t} + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{GRW}_{i,t} + \beta_5 \text{IBOD}_{i,t} + \beta_6 \text{AUD_EXP}_{i,t} + e_t$$

5.2.2.1 Measuring the Dependent Variable Earnings Quality (EQ)

Earnings quality cannot be observed and needs to be estimated. Dechow et al.'s (2010) study is one of the most comprehensive studies on directly examining and addressing various metrics to proxy and measure earnings quality. After evaluating the totality of the evidence about each reported proxy in over 300 published studies, Dechow et al. (2010) categorise earnings quality proxies and measurements into three broad classifications: (i) properties of earnings, (ii) investor responsiveness to earnings, and (iii) external indicators of earnings misstatements (see Table 5.2).

In properties of earnings, Dechow et al. classify earnings persistence, abnormal accruals and modelling the accrual process, earnings smoothness, asymmetric timeliness and timely loss recognition, and target beating as proxies for earnings quality. In investor responsiveness to earnings, Dechow et al. classify earnings response coefficient (ERC) or the R^2 from the earnings–returns model and its specifications as a proxy for earnings quality. In external indicators of earnings misstatements, Dechow et al. list SEC enforcements (i.e., the Accounting and Auditing Enforcement Releases (AAERs)), the restatements and the weaknesses in internal control procedures stated in the *Sarbanes–Oxley Act of 2002* as proxies for earnings quality.

Table 5.2
Classification of Reported Earnings Quality Proxies

Category	Proxy
Properties of earnings	Earnings persistence
	Abnormal accruals and modelling the accrual process
	Earnings smoothness
	Asymmetric timeliness and timely loss recognition
	Target beating
Investor responsiveness to earnings	Direct evidence on ERC as a proxy for earnings quality
	Indirect evidence on ERC as a proxy for earnings quality based on determinants
	The relation between ERC and non-earnings information
External indicators of earnings misstatements	A final caution about ERC as a proxy for earnings quality
	Firms subject to SEC enforcements (the AAERs)
	Restatements
	Internal control weaknesses

Note. ERC = earnings response coefficient.
Source: Adapted from Dechow et al. (2010).

These proxies are widely used to measure earnings quality, especially earnings persistence (e.g., Tee & Rasiah, 2020; Boonlert-U-Thai & Sen, 2019; Li, 2019; Duréndez & Madrid-Guijarro, 2018; Liu & Sun, 2015; Muttakin et al., 2015; Ben-Nasr et al., 2015; Boubakri, 2012; Sun et al., 2011; Skinner & Soltes, 2011; Cascino et al., 2010; Melumad et al., 2010; Doukakis, 2010; Li, 2008; Wang, 2006; Richardson et al., 2005; Dechow & Schrand, 2004; Francis et al., 2004; Penman & Zhang, 2002) and accruals quality (e.g., Boonlert-U-Thai & Sen, 2019; Belghitar et al., 2019; Rampershad & De Villiers, 2019; Reyna, 2018; Hashmi et al., 2018; Cho & Song, 2017; Houqe et al., 2016; Harymawan & Nowland, 2016; Ahmed, 2015; Al-dhamari & Ismail, 2015; Ben-Nasr et al., 2015; Liu & Sun, 2015; den Besten et al., 2015; Li et al., 2014; Ismail et al., 2013; Kabir et al., 2010;

Cascino et al., 2010; Paananen & Lin, 2009; Francis & Wang, 2008; Wang, 2006; Van Tendeloo & Vanstraelen, 2005; Dechow & Dichev, 2002).

The present study uses properties of earnings to measure earnings quality. Specifically, this research examines the relationship between reported earnings quality and the length of IFRS experience in the GCC region using (1) earnings persistence, (2) abnormal accruals and modelling the accrual process. The theoretical justifications for selecting these two measures of earnings quality and models' specifications are provided in the following sections.

5.2.2.1.1 Earnings Persistence

Earnings persistence is the extent to which current reported earnings accurately draw a picture about future earnings (Ewert & Wagenhofer, 2011; Doukakis, 2010; Schipper & Vincent, 2003); that is, the consistency of earnings over time. Firms employ resources to ensure earnings persistence and investors are likely to consider it as an indicator of the annuity of expected future cash flows (Dechow & Schrand, 2004). Dechow et al. (2010) confirm that earnings persistence has clear effects on the capital market. For example, greater earnings persistence results in a stronger association between earnings and firm value. However, if the earnings figures do not annuitise a firm's intrinsic value, then they are of low quality.

Investors acknowledge earnings persistence as a favourable attribute of earnings (Leal et al., 2017), with the assumption that highly persistent earnings are of a higher quality and indicative of a more sustainable, predictable and low-risk earnings process (Ewert & Wagenhofer, 2011). Also, analysts believe that higher quality of earnings, and especially persistent earnings, are a focal point for analysing investment opportunities (Subramanyam & Wild, 2009). While managers tend to endeavour to present highly persistent earnings since this can enhance their reputation and improve their relationships with various stakeholders and market analysts.

Prior studies have used earnings persistence as a proxy to measure earnings quality based on three main logical suppositions. First, if firm ‘X’ has reported higher earnings persistence compared to firm ‘Y’, then 1) firm X’s current earnings are a better measure for future earnings or performance than that of firm Y; 2) annuitising firm X’s current reported earnings will deliver less valuation errors than annuitising firm Y’s current reported earnings; and 3) firm X has more sustainable cash flow streams, which will be used as a useful input for cash flow equity-based valuation models. From these three points, one can conclude that higher earnings persistence offers better information for equity valuation and is more value relevant (Dechow et al., 2010). However, Dechow et al. (2010) note that studies on earnings persistence and its components (cash flow and accruals) are limited.

The literature on earnings quality provides different models for earnings persistence measurement. The two main models are the basic earnings persistence model and the Sloan (1996) model. Following several prior empirical investigations (e.g., An, 2017; Li et al., 2014; Oei et al., 2008; Francis et al., 2004; Sloan, 1996; Kormendi & Lipe, 1987), the present research adopts the basic earnings persistence model (see Equation 5.2), which assumes that the current reported earnings are a useful tool to estimate future earnings.

Equation 5.2
Basic Model of Earnings Persistence

$\text{Earnings}_{t+1} = \alpha + \beta \text{Earnings}_{i,t} + e_t$
--

In the above model, β represents earnings persistence; the higher the coefficient of β , the stronger earnings persistence is. Sloan (1996) extends this model by decomposing total earnings into two components (cash flow component and total accruals component). Sloan’s study mainly focused on whether investors understand the differential persistence of cash flows and accruals. He provides the following estimation:

Equation 5.3
Sloan's (1996) Model of Earnings Persistence

$$\text{Earnings}_{t+1} = \alpha + \beta_1 \text{Accruals}_{i,t} + \beta_2 \text{Cashflow from operations}_{i,t} + e_t$$

This thesis follows prior studies (e.g., Asare; 2019; Liu & Sun, 2015; Holt, 2013; Richardson et al., 2005) and uses EPS and ROA to measure earnings persistence. The following models estimate the regression of future earnings value using current earnings value:

Equations 5.4 and 5.5
Measures of Earnings Persistence

Earnings per Share	$\text{EPS}_{t+1} = \alpha + \beta \text{EPS}_{i,t} + e_t$
Return on Assets	$\text{ROA}_{t+1} = \alpha + \beta \text{ROA}_{i,t} + e_t$

Where:

- Earnings_{t+1} = In alternative specifications, earnings is measured by earnings per share and return on assets for year 't+1', both divided by average total assets of firm 'X'.
- Earnings_t = In alternative specifications, earnings is measured by earnings per share and return on assets for year 't', both divided by average total assets of firm 'X'.
- β = Slope coefficient measuring persistence. If it is closer to 1, it implies highly persistent earnings. If it is closer to 0, it implies highly transitory earnings.
- e_t = The residual.

As in any estimation model, the basic model of earnings has strengths and weaknesses. While Dechow et al. (2010) express an interest in separating the effects of the two determinants on earnings, they also state that it is problematic to do this. The

strength of this model is derived from its aptness of using earnings as a metric of expected cash flows suitable for equity valuation (Graham & Dodd, 2004).

5.2.2.1.2 Abnormal Accruals and Modelling the Accrual Process

Dechow et al.'s (2010) review of over 300 studies on earnings quality finds that quality of accruals is the most adopted measure of earnings quality. A firm's accruals is a significant determinant of financial reporting quality and has implications for equity valuation (Mouselli et al., 2013). Generally, the role of accruals is to adjust the recognition of cash flows over time in order for the adjusted earnings to better measure a firm's performance (Dechow & Dichev, 2002).

In regard to the accruals component, management has a lot of discretion in choosing their accounting policies. In the process of preparing financial statements, managers and accountants have opportunities to manipulate earnings because they use numerous estimates and assumptions to perform adjustments and estimations (Kothari et al., 2005). For example, accountants and managers create provisions for bad debts; choosing a lower or higher provision for bad debts will affect accruals and reported earnings. In other words, errors may occur during the process of an estimation, will affect the quality of accruals and, thus, by default will also affect earnings quality and earnings persistence (Dechow & Dichev, 2002). Therefore, most empirical investigations examine earnings quality using accruals quality.

Accruals are easier to manipulate than cash flows and, thus, earnings management may increase the extent of errors in accruals. However, earnings management alone does not explain the existence of errors in accruals nor the associated lower persistence of accruals for future earnings—this must be taken into consideration. Also, a high percentage of accruals in earnings in a given period does not necessarily imply low earnings quality. Earnings quality would be low if these accruals are not mapped into future cash flows.

In this vein, Dechow et al. (2010) distinguish between normal and abnormal accruals by modelling the accruals process. Normal accruals are the result of a firm's scale of operations and business model. Abnormal accruals are those accruals that cannot be explained by a firm's scale of operation and its business model and instead reflect management's discretion. The proxy of Dechow and Dichev's (2002) model (where accruals are measured as the change in working capital [WC]) is adopted in this thesis in order to use accruals quality to measure earnings quality. This model is detailed in the next section.

5.2.2.1.3 Dechow and Dichev's (2002) Model of Accruals

Dechow and Dichev's (2002) model measures earnings quality by mapping the realisation of accruals into cash flows over an interval of three reporting years (total current short-term working capital accruals to lagged past, present and future cash flows). They consider that accruals are of a good quality if they match these three periods. Alternatively, they consider accruals to be of low quality if they are the result of estimation error(s).

Equations 5.6, 5.7 and A
Dechow and Dichev's (2002) Model of Accruals

Basic Model	$\Delta \text{Acc}_t = \alpha + \beta_1 \text{CFO}_{t-1} + \beta_2 \text{CFO}_t + \beta_3 \text{CFO}_{t+1} + e_t$
Dechow and Dichev (2002)	$\Delta \text{WC}_t = \alpha + \beta_1 \text{CFO}_{t-1} + \beta_2 \text{CFO}_t + \beta_3 \text{CFO}_{t+1} + e_t$
Equation A	$\text{Absolute Residuals}_{i,t} = \alpha + \beta_1 A_{i,t} + \beta_2 B_{i,t} + \beta_3 C_{i,t} + \dots \beta_x Z_{i,t} + e_t$

Where:

Acc_t = Measured by the change in working capital from year 't' to year 't-1' of firm 'X'. Working capital is computed as (ΔAR

		+ $\Delta I - \Delta AP - \Delta TP + \Delta OA$) divided by average total assets of firm 'X'.
$CFO_{t+1, t, t-1}$	=	Measured by cash flow from operations for year ' $t+1$ ', ' t ', ' $t-1$ ' of firm 'X' divided by average total assets of firm 'X'.
Absolute Residuals _{i,t}	=	Saved absolute values of the residuals resultant from Equation 4.7.
β	=	Slope coefficient. Represents the extent to which cash flows predict changes in WC.
ΔAR	=	Change in accounts receivable of firm 'X'.
ΔI	=	Change in inventory of firm 'X'.
ΔAP	=	Change in accounts payable of firm 'X'.
ΔTP	=	Change in taxes payable of firm 'X'.
ΔOA	=	Change in other assets of firm 'X'.
e_t	=	The residual that measures accruals quality.

Measuring earnings quality using Dechow and Dichev's (2002) model consists of two main steps. The first step is to run multivariate analyses on Equation 5.7 using the latest version of STATA (v. 16) and save the values of the residuals from regressions of change in working capital on last year, present and one-year-ahead cash flows from operation, based on Dechow and Dichev's (2002) model. The second step is to transform the saved residuals from Dechow and Dichev's (2002) model into absolute values of residuals and utilise them as a dependent variable in Equation A (see Equations 5.6, 5.7 and 5.8 above), then run the model using the exact same multivariate regression estimation techniques (Bravo & Reguera-Alvarado, 2018; Muttakin et al., 2015).

Leal et al. (2017) and Dechow et al. (2010) explain the logic behind Dechow and Dichev's (2002) model by confirming that Dechow and Dichev's theory centres around the fact that accruals are provisional adjustments that delay the acknowledgement of

realised cash flows. In addition, the relation between accruals and current cash flows is negative, while it is positive with past and future cash flows (Dechow et al., 2010). Finally, the error term (the standard deviation) draws a picture of the extent to which accruals are linked to cash flow realisation and is the proxy that measures earnings quality (the lower the standard deviation, the higher the quality of earnings is).

One of the advantages of Dechow and Dichev's (2002) model is that it directly maps cash flows into the accruals generating process, which is considered an improvement over what Jones (1991) offered in her model. Francis et al. (2005) emphasise that Jones's (1991) model attempted to measure accruals quality indirectly. Schipper and Vincent (2003) note that unlike Jones's (1991) model, Dechow and Dichev's (2002) model did not require suppositions about unmanaged accounting fundamentals. Dechow et al. (2010) also state that in comparison to Dechow and Dichev (2002), Jones's (1991) model suffers from low explanatory power of accruals (it explains only 10% of accruals).

Equation 5.9
Jones's (1991) Model of Accruals

$\text{Acc}_t = \alpha + \beta_1 \Delta \text{Rev}_{i,t} + \beta_2 \text{PPE}_{i,t} + e_t$
--

No model is free from model misspecification issues. Several studies (Dechow et al., 2010; Francis et al., 2005; Schipper, 2005) confirm that the main limitation of Dechow and Dichev's (2002) model is its exclusivity to current accruals only. The model is not designed to investigate long-term accruals quality (i.e., impairments of PPE and goodwill) that might reflect earnings management or any accounting distortions, which is crucial to determine and evaluate earnings quality.

5.2.2.2 Measuring the Independent Variable Length of IFRS Experience (IFRS_EXP)

This variable is an innovation by Houqe and Monem (2016). The vast majority of IFRS adoption research applies binary variable to code disclosure and compliance practices, as this type of coding ignores 1) learning process involved in disclosure and reporting after adopting a new set of accounting standards and 2) the enforcement of these standards. In other words, the various benefits of adopting the IFRS are a function of the length of IFRS experience (Houqe & Monem, 2016). Therefore, the present study follows Houqe and Monem (2016) and measures the length of IFRS experience by subtracting the adoption date from the end of each calendar year in the sample (e.g., 31 January 2012 – adoption date of Gulf country ‘*i*’).

5.2.2.3 Measuring Firm-Level Control Variables

5.2.2.3.1 Firm Size (SIZE)

Larger firms are more politically visible, have higher political costs than smaller firms and are likely to engage in earning manipulation (Alnaas & Rashid, 2019; Ismail et al., 2013) for the sake of minimising their accruals (Watts & Zimmerman, 1990). In addition, it is evident from the literature that larger firms have sophisticated financial reporting systems, which makes tracing or detecting any financial manipulations more difficult and gives management the opportunity to manipulate earnings (Ismail et al., 2013). Therefore, in line with prior research (e.g., Kapoor & Goel, 2019; Nasser, 2019; Athanasakou & Olsson, 2016; Ismail et al., 2013; Houqe et al., 2012), the present research uses firm size as a control variable. Firm size is defined in this research as the natural logarithm of total sum of assets (Demerjian et al., 2013).

5.2.2.3.2 Leverage (LEV)

Inclusion of leverage as a control variable in this study is motivated by prior investigations that found leverage to be related to earnings quality (e.g., Al-dhamari &

Ismail, 2015; Chaney et al., 2011; Bazaz & Mashayekhi, 2010; Klein, 2002). Prior studies argue that more breaking of debt covenants by a firm lowers its earnings quality, as it engages more in earnings-increasing accruals (Francis & Wang, 2008; DeAngelo et al., 1994). For highly leveraged firms to avoid breaching their debt covenants, their managers have incentives to make income-increasing discretionary accruals (Becker et al., 1998). As such, leverage is included to control for its possible effect on earnings quality and it is operationalised by dividing total debt by total assets (Nasser, 2019; Kwon et al., 2019; Ismail et al., 2013; Houque et al., 2012).

5.2.2.3.3 Firm Growth (GRW)

Skinner and Sloan (2002) posit that firms with high growth have more incentives to manipulate reported earnings, and the market tends to strictly penalise these firms if they report negative earnings. Therefore, these firms have more discretion in financial reporting to meet the higher expectations of reporting high-quality earnings (Smith & Watts, 1992). In the present research, growth is measured as the change in sales revenue between this and the previous year divided by sales revenue in the previous year (Kwon et al., 2019; Reyna, 2018; Houque et al., 2016; Al-dhamari & Ismail, 2015; Ahmed, 2015).

5.2.2.3.4 Independence of Board of Directors (IBOD)

Another important control variable linked by various studies to earnings quality and earnings management is the independence of a firm's board of directors (Lemma et al., 2013; Huse, 1994). One of the board's distinguishing functions is its ability to monitor executive managements' activities on behalf of shareholders (Fama, 1980). By exercising its roles through this function, the board is able to determine the validity of managements' accounting choices (Davidson et al., 2005).

The ability of the board to monitor managements' actions is strongly related to the board's independence (Dechow et al., 1996). It has been shown that the higher the percentage of independent directors on a board, the higher the chance that these directors

can constrain managements' opportunistic behaviour regarding manipulation of reported earnings (e.g., Peasnell et al., 2005). Based on the aforementioned discussion, this thesis follows prior studies in proposing that the independence of the board of directors can significantly affect earnings quality and managements' choices of accounting and financial policies. Following Lisboa and Costa (2020) and Kapoor and Goel (2019), the present research measures the board's independence by calculating the proportion of independent members or directors on each board. A non-executive independent member is someone who has no relation to management's activities.

5.2.2.3.5 Accounting Expertise within Audit Committee (AUD_EXP)

There is a shortage of empirical studies examining this variable in the GCC region, hence its inclusion in this research. It is believed that more experts in financial and accounting policies within the audit committee will reduce management's incentive to manipulate earnings (Abdullah & Ismail, 2016). One of the main roles of financial experts in an audit committee is to monitor and detect irregularities in financial reports, which may indicate earnings management.

As financial experts' profession requires better judgement regarding internal control and oversight (Ismail & Rahman, 2011; Bédard et al., 2004), they are better able to recognise and mitigate issues related to earnings management and financial irregularities than other committee members, thereby increasing the quality of reported earnings. In line with prior studies (e.g., Bilal et al., 2018; Abdullah & Ismail, 2016; Ismail & Rahman, 2011), this variable—accounting expertise within audit committee (AUD_EXP)—is measured by calculating the proportion of accounting experts on the audit committee who hold a qualification in accounting.

5.2.3 Research Method for Question 3: Measuring Family Ownership (OWN) and Earnings Quality (EQ)

Answering Q3 will require measuring earnings quality and family ownership in the GCC region. This study proposes the following model to answer Q3:

Equation 5.10:
Proposed Model for Q3

$$EQ_{i,t} = \alpha + \beta_1 OWN_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 GRW_{i,t} + \beta_5 IBOD_{i,t} + \beta_6 AUD_EXP_{i,t} + e_t$$

5.2.3.1 Measuring the Dependent Variable Earning Quality (EQ)

Earnings quality has been defined in Section 5.2.2.

5.2.3.2 Measuring the Independent Variable Family Ownership (OWN)

Familism is one type of ownership concentration. Large block shareholders (including those in family-owned firms) represent approximately 45–56% of the mean proportion of shares in all the GCC countries (Amico, 2014). In general, large block shareholders are more incentivised to be a part of boards of directors of firms that are known to have family ownership. Large block shareholders see joining the boards of family-owned firms as one way to improve shared and private benefits via increased control (Holderness, 2003).

Generally, managers tend to use different accounting policies to compute earnings. Family ownership might work as a corporate governance and disciplinary mechanism in the shareholder–manager relationship (de Sousa & Galdi, 2016; Silveira et al., 2008). Yet, the presence of large block shareholders can negatively affect earnings quality, as these blocks may seek their own private benefits and engage in opportunistic behaviour to control and manipulate earnings (i.e., entrenchment effect). Due to the secrecy culture in the GCC region, firms tend not to publish the precise shareholdings of directors. The official stock exchange websites and firms' official websites in each sample country disclose outdated information regarding directors' shareholdings. Therefore, the

researcher proposes a new typology for this variable. In this thesis, a firm is classified as a family-owned firm if at least two directors are from the same family (same family surname). A family-owned firm/family ownership is measured as a dummy variable.

5.2.3.3 Measuring Firm-Level Control Variables

All firm-level control variables have been defined and discussed in Section 5.2.2.3.

5.2.4 Research Method for Question 4: Measuring Political Connections (PC) and Earnings Quality (EQ)

Answering Q4 will require measuring earnings quality and corporate–political connections in the GCC region. This study proposes the following models to answer Q4:

Equation 5.11

Proposed Model for Q4 (H₃)

$$EQ_{i,t} = \alpha + \beta_1 PC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 GRW_{i,t} + \beta_5 IBOD_{i,t} + \beta_6 AUD-EXP_{i,t} + e_t$$

Equation 5.12

Effect of Political Connections and Family Ownership Interaction on Earnings Quality (H₄)

$$EQ_{i,t} = \alpha + \beta_1 PC_{i,t} + \beta_2 OWN_{i,t} + \beta_3 PC_{i,t} * OWN_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 GRW_{i,t} + \beta_7 IBOD_{i,t} + \beta_8 AUD-EXP_{i,t} + e_t$$

5.2.4.1 Measuring the Dependent Variable Earning Quality (EQ)

Earnings quality has been defined in Section 5.2.2.

5.2.4.2 Measuring the Independent Variable Political Connections (PC)

Consistent with the literature (e.g., Al-Hadi et al., 2016; Ding et al., 2014; Amore & Bennedsen, 2013; Polsiri & Jiraporn, 2012; Chaney et al., 2011; Fan et al., 2007; Faccio, 2006), a firm is considered to be politically connected if it satisfies any of the following: 1) one of its major shareholders (owning at least 10% of the firm's shares) is politically connected through a strong relation with a political person, 2) one of its board members or executives is from the royal family, 3) one of its board members or executives

is a member of the national parliament, 4) its founder is affiliated with or involved in management or it is state owned, 5) one of its board members or executives is a member of the local municipal council, 6) one of its board members or executives is a high-ranked military official, or 7) one of its board members or executives is a close relative of a political person or persons.

Considering a firm to be politically connected if one of its board members is from the royal family is a measurement that has been applied in recent studies. Notably, Al-Hadi et al. (2016) examine this variable in the GCC region. The present study will contribute to the development of this nascent measurement.

5.2.4.3 Measuring Firm-Level Control Variables

All firm-level control variables have been defined and discussed in Section 5.2.2.3.

5.3 Country and Firm Selection

The choice of the GCC region as the context for this study stems from its significance as a growing economic force and its constituent countries serving as examples of developing countries. Four GCC countries were selected for analysis—Kuwait, Bahrain, Qatar and the UAE—due to them having fully mandated IFRS adoption for all listed firms within a relatively similar period (between 1991 and 2015). This allows for controlling for other factors that could potentially influence the effect of IFRS adoption on earnings quality.

The KSA and Oman are excluded from this research for the following reasons. Throughout a five-year transitioning plan (2012–2016), the Saudi Organization for Certified Public Accountants (SOCPA) required all listed firms to report and prepare their financial statements and annual reports using the IFRS starting at 1 January 2017. Most of the KSA's listed firms are still transitioning/not wholly compliant with the IFRS, thus it is impossible to examine the effects of adoption. Oman mandated use of the IFRS in

1986; because of the long history of IFRS use in Oman, financial reporting data between Oman and other GCC countries may not be comparable.

This research samples all listed firms in the four selected countries except for firms in the insurance and financial sectors. In line with recent similar studies (e.g., Muttakin et al., 2015), this exclusion decision is due to these sectors' different regulatory environments, governance structures and disclosure requirements that potentially affect firms' earnings quality and financial reporting systems (Johl et al., 2010).

5.4 Sample Selection and Sample Period

As of 20 May 2020, the final sample consists of 222 firms listed on the stock exchanges of Kuwait, Bahrain, Qatar and the UAE (Dubai Financial Market [DFM]). Since this research examines the relationships between IFRS adoption, corporate–political connections, family ownership and earnings quality in four GCC countries, the Global Industry Classification Standard (GICS) taxonomy is used to unify the sector classifications (see Table 5.3). (The GICS taxonomy consists of 11 sectors and 24 industry groups and was constructed by Morgan Stanley Capital International (MSCI) and S&P Financial Services.

Table 5.3
GICS Taxonomy

Sector Type	Code
Energy	10
Materials	15
Industrials	20
Consumer Discretionary	25
Consumer Staples	30
Healthcare	35
Information Technology	45
Telecommunication Services	50
Utilities	55
Real Estate	60

Note. Global Industry Classification Standard (GICS) taxonomy constructed by Morgan Stanley Capital International and Standard & Poor's Financial Services, LLC in 1999.

During the preliminary phase of examining and selecting the sample, many firms were excluded for the following reasons:

- the firm's annual or financial reports (either hard or soft copies) were unavailable/inaccessible to the researcher (i.e., data is missing)
- the firm's annual or financial reports were not available for this study's selected time period
- the firm was suspended or delisted
- the firm is cross-listed in another sample country (i.e., eliminating double counting).

In cases where data were missing from a sample firm's annual or financial reports, the firm was contacted (via phone or mail) for this information. This research investigates the period 2012–2017; this period allows for examination of disclosure levels and behaviour across the sample GCC countries and the sample listed firms, and comparison of the findings with those of other recent studies. The initial research plan was to include all listed firms from the four sample countries, which resulted in a sample of over 400 listed firms from 2012–2017. Many firms were subsequently excluded due to the aforementioned reasons, after which the final sample consisted of 222 listed firms (1,332 firm-year observation) from 2012–2017 from 10 sectors across the four sample countries (see Table 5.4).

Table 5.4
GICS Taxonomy of the Sample

Sector Type	Country			
	<i>Bahrain</i>	<i>Kuwait</i>	<i>Qatar</i>	<i>UAE</i>
Energy	-	11	4	-
Materials	1	16	5	1
Industrials	2	11	3	7
Consumer Discretionary	6	9	2	2
Consumer Staples	4	6	2	5
Healthcare	-	3	2	-
Information Technology	-	1	1	-
Telecommunication Services	1	5	2	1
Utilities	-	-	1	-
Real Estate	2	90	5	11
Total (N = 222)	16	152	27	27

Real estate is the largest sector in the sample ($n = 106$) and utilities is the smallest sector ($n = 1$). The majority of sample firms are Kuwaiti firms ($n = 152$), while Bahrain has the lowest number of sample firms ($n = 16$). The majority of sample firms from Kuwait ($n = 90$), Qatar ($n = 5$) and the UAE ($n = 11$) are in the real estate sector, while the majority of sample firms from Bahrain ($n = 6$) are in the consumer discretionary sector. As shown in Table 5.4, some countries have no sample firms in certain sectors, with Qatar being the only sample country with sample firms in all sectors.

5.5 Data Sources

The main data sources for this research are IFRS adoption data—any information in firms' consolidated annual reports about IFRS adoption and their practice—and financial data—any information in firms' consolidated financial on financial performance and firm status. As previously mentioned, this research uses quantitative content analysis

technique to extract the required information from the English-language consolidated annual reports of the sample firms. Annual reports are official integrated documents published by firms covering and disclosing different aspects of their financial and non-financial performance (Pivac et al., 2017).

The English-language annual reports of the sample firms were acquired through different channels, including the archival sections of official stock market websites, firms' websites and in response to (email or telephone) requests from the researcher. The consolidated financial reports and financial statements were used to obtain specific data that can be used to analyse the dependent and independent variables (e.g., profitability measurements).

Following prior empirical studies (see Al-Hadi et al., 2016; Abdul Wahab et al., 2015; Muttakin et al., 2015; Houque et al., 2013; Ahmed & Alam, 2012; Morunga & Bradbury, 2012; Bova & Pereira, 2012; Al-Mutawaa & Hewaidy, 2010; Al-Shammari et al., 2008), this research used the extracted data from the annual reports of all the sample firms to examine the relationships between IFRS adoption, earnings quality, family ownership and corporate–political connections in the GCC region.

5.6 Sampling Technique

Much of the methodology literature stresses the significance of sampling strategy (Punch, 2005), as this distinguishes between quantitative and qualitative inquiry. In line with several prior studies (Laupe, 2018; Amanamah, 2017; Santy et al., 2016; Heykal et al., 2014), the researcher chooses purposive sampling technique in this research. Zikmund (2010) defines purposive sampling as a non-probability sampling method that requires selecting a sample from a population based on particular characteristics. This sampling strategy is designed to draw a clear conclusion and capture a deep understanding of an examined matter or topic (Neuman, 2003). Country and firm selection have been

explained in Section 5.3, and the exclusion criteria for sample firms has been provided in Section 5.4.

5.7 Data Limitation

This research's sample selection suffers from a few limitations. First, financial and reporting data for the sample firms were generally unavailable for the years prior to 2012, thus restricting the examined time period to 2012–2017. Second, the severe dearth of prior research on corporate–political connections and family ownership in the GCC region as well as the GCC region's institutional settings (secrecy, nepotism, familism, etc.) meant that the present research had to develop a typology and measurement for the variable 'family-owned firm/family ownership' (OWN) suited to the institutional settings of the GCC region. This measurement tends to be more exploratory than explanatory in design. Third, although a larger sample size would be more generalisable to and representative of other jurisdictions, this was unfeasible due to 1) the exclusion of firms in the insurance and financial sectors (see Section 5.4), 2) the exclusion of firms for other reasons (see Section 5.4) and 3) the exclusion of the KSA and Oman (and thus these countries' listed firms; see Section 5.4).

5.8 Data Analysis, Diagnostic Tests and Estimation Techniques

This section summarises the econometrical and statistical techniques used to analyse the data and test the hypotheses. The statistical analyses summarise and demonstrate the descriptive results of IFRS implementation and the levels of mandatory adoption across the four sample GCC countries. Also, the econometrical estimation techniques examine the effects of the length of IFRS experience, political connections and family ownership on earnings quality proxies.

5.8.1 Data Analysis

Recent developments in social sciences and econometric tools have seen panel data methodology extensively employed in accounting. Panel (longitudinal) data

combines and covers both cross-sectional (indicated by subscript i) and time-variant (indicated by subscript t) inferences, as it refers to pooled data that consist of a cross-section of observations (e.g., countries, firms, individuals) for which there are repeated observations over time (Grill, 2017).

As it is a richer source of information, panel data methodology has a number of appealing aspects: 1) it controls for individual heterogeneity, 2) it allows for analysis of thoroughly causal propositions and 3) it provides more accurate inferences of model parameters compared to cross-section or time-series datasets, due to its naturally large datasets that increase the degree of freedom and reduce multicollinearity among the sampled variables (Gujarati, 2019; Fernández-Val & Weidner, 2018; Grill, 2017). As this study covers four GCC countries over six years (2012–2017), the researcher adopts panel data methodology to capture both the cross-sectional and time-varying inferences for earnings quality.

5.8.1.1 Methods of Analysis

5.8.1.1.1 Univariate Analyses

The initial and fundamental step in quantitatively analysing any dataset is to describe it. The purpose of univariate analysis is to provide a preliminary summary and describe separately the central tendency (mean, median and mode) and dispersion (standard deviation, range and interquartile range) of a single/‘uni’ given variable/‘variate’ in a sample (Canova et al., 2017; Zhang, 2016). There are several univariate analyses applications and techniques, with frequency distributions and summary of descriptive statistics tables being the two most commonly used.

Frequency distributions show the number of times a result is observed in the dataset by listing the classes into which a datapoint might fall. Researchers produce frequency distributions tables since these tables compactly demonstrate a large array of condensed data in a useful and presentable format. This is beneficial for both readers (who

are provided with a descriptive statistics tables in a convenient and understandable form) and researchers (who can use the descriptive statistics tables to screen the data and search for any outliers in the distribution of the scores) (Leys et al., 2019).

This research employed univariate analysis technique, mainly descriptive statistics and frequency distributions, to 1) present and discuss descriptively the findings of mandatory IFRS compliance and implementation levels, 2) provide simple quantitative descriptions of each variable included in the regression models in a manageable form, and 3) allow the researcher to visually inspect and scan for any extreme outliers within the tables.

5.8.1.1.2 Bivariate Analyses

Unlike univariate and multivariate analysis, the main purpose of producing bivariate analysis tables is examine whether there is a statistical relationship between two sampled continuous (quantitative) variables in a model and, if so, to determine the degree of association between them (Schober et al., 2018; Sandilands. 2014). In the broadest sense, the most frequent use of bivariate analysis is for correlation analysis (Bertani et al., 2018; Sandilands. 2014), mainly the Pearson and the Spearman coefficients.

The Pearson correlation coefficient is only appropriate and relevant for datasets that are normally distributed, derived from a random and representative sample, and have no extreme outliers that might influence the coefficients in the Pearson correlation table. If the dataset has violated the normality assumption or has outliers, the Spearman correlation coefficient can be used instead, as it does not require the data to be normally distributed (Schober et al., 2018). In both bivariate correlation tables, the coefficients range from -1 to $+1$. When the coefficient has a value of 0 , this suggests there is no linear relationship between the two sampled variables, while a value closer to 1 indicates a strong linear relationship.

As a pre-multivariate regression step, researchers tend to produce Pearson and Spearman correlation matrix tables to determine any potential serious case of multicollinearity between the variables. In general, if the absolute correlation coefficient between any two variables is above 0.80 in correlation tables, then severe multicollinearity exists, which might have adverse effects on the estimated coefficients and their interpretations (Gujarati & Porter, 2017). The present research employs bivariate analyses technique (i.e., Pearson correlations) to investigate the effects of the length of IFRS experience, corporate–political connections, family ownership and other independent variables on earnings quality proxies.

5.8.1.1.3 Multivariate Analyses

Multivariate Estimation Regression Techniques.

Use of multivariate analysis in the social sciences has grown rapidly in the past 20 years. Multivariate analysis refers to a set of statistical tools that statisticians and researchers adopt to assess and test the relationship between more than two variables (Gilliver & Valveny, 2016). In other words, multivariate regression is used to analyse the change and movement in a given dependent variable by using a set of independent variables (more than two independent variables). Using multivariate analysis in the present research enables the researcher to assess the combined effect of a set of independent variables on the dependent variable. Compared to bivariate analysis, multivariate analysis provides the researcher with more robust and valid pictures of the contribution and relationship of each sampled independent variable with the dependent variable.

This research uses different panel data multivariate estimation techniques to address the four hypotheses. The researcher mainly adopts the two-way cluster-robust standard error and random effects regression estimations to investigate the relationship

between the length of IFRS experience, political connections, family firms and earnings quality in the four sample countries.

Two-way Cluster-robust Standard Errors Regression Estimation.

One of the assumptions of ordinary least squares (OLS) estimation is independence (error terms in the OLS regression model are independent when they are uncorrelated with each other). However, due to the nature of panel data structure itself, the sampled variables are in many instances cross-sectionally and serially correlated (Sun et al., 2018). In this respect, regressing panel data with only the OLS estimation might produce errors that are more presumably correlated across both firms (generated errors in firm x at year t with errors in firm z at year t) and time (generated errors in firm x at year t with errors in firm z at year $t+1$). Put simply, the existence of both cross-sectional and time-series dependence might in turn violate the independence assumption of the OLS estimation, which will produce biased standard errors from the OLS estimation model (Sun et al., 2018).

Many statisticians and researchers propose a number of quantitative and econometric solutions to solve this issue. For example, some researchers posit that adopting and using fixed effects estimation on a given panel dataset is beneficial, since it considers and eliminates the effect of the unobserved time-invariant characteristics from the sampled independent variables. In addition, fixed effects regression estimation emphasises within-firm variation and is suitable for investigating variables that vary within a given sampled firm. Yet, Cameron and Miller (2015) argue that regressing a given panel dataset with fixed effects might not produce correct, unbiased and independent standard errors since it disregards intra-cluster correlation.

Another solution is to add dummy variables for both clusters—firm and year—to consider both cross-sectional and time-series dependence (Sun et al., 2018). Depending on which dimension (firm or time) is clustered, other statisticians (e.g., Rogers, 1993)

suggest employing one-way cluster-robust standard errors to fix the probable correlations within either the cross-sectional or time-series dimensions. Other proposed statistical procedures include Fama–MacBeth and Newey–West. While the aforementioned proposed techniques might correct either cross-sectional or time-series correlations to some degree, none of them fix both firm and time dimensions simultaneously. This is due to the fact that these procedures often cluster by one dimension and presume independence across the other, while in panel data, correlations mostly appear in both dimensions.

Thus, to mitigate the pitfalls of other estimations and to capture both the cross-sectional and time-varying inferences, the present research adopts the estimation procedure of the two-way cluster-robust standard errors panel regression to analyse the panel data. This decision is due to the two-way cluster-robust standard errors panel regression considering the correlations in all three clusters (firm, time and the intersection between firm and time) (Sun et al., 2018). To the best of this researcher’s knowledge, no studies within the field of accountancy or early panel regression papers related to IFRS adoption, political connections, family firms or earnings quality have employed this technique since it was introduced by Cameron et al. (2011) and Thompson (2011).

Random Effects Regression Estimation.

This research employs random effects as a robust regression estimation. Scholars identify random effects panel regression estimation as an appropriate and prevailing econometric tool for panel data and time-series research (Bell et al., 2019). According to Bell et al. (2019), a well-specified random effects model provides more than what fixed effects models offer, making it more efficient analytical tool in practitioners’ hands. Random effects panel estimation technique identifies effects based on between-and-within units’ variations. As in the case of fixed effects, random effects panel regression estimation specifications prevent any bias on any observation level due to the omitted

variables at the group cluster level (Bell et al., 2019). This is because biases are absorbed into the between effect.

The most important assumption of random effects is based on the premise that the variation among entities is assumed to be random, and the individual specific effects are uncorrelated with the other independent variables included in the model. Therefore, in response to recent calls for use of this method (e.g., Bell et al., 2019), this research adopts and employs random effects panel regression estimation to examine the relationship between the length of IFRS experience, political connections, family firms and earnings quality in the four sample countries.

5.8.2 Diagnostic Tests

5.8.2.1 Normality and Outliers

The quality of any statistical analysis depends on the quality of data screening and cleaning. In all multivariate analyses, the process of data screening and cleaning is critical, as it is the foundation for producing meaningful quantitative findings and results that other scholars can build on. Any dataset is prone to coding/entry errors, and if such errors are identified, the dataset requires cleaning before being analysed (Woolley et al., 2020).

Normal distribution, which refers to the bell-shaped distribution of an observed dataset, is critical and a core estimation assumption (Adams et al., 2019). The assumption of normality presumes that errors (residuals) must be normally distributed around the multiple regression plane (Fox, 2016). This assumption is usually threatened due to the presence of unusual observations called outliers (i.e., data observations with extreme values). Outliers exist for various reasons, including variables omission, coding/entry errors and sampling errors.

If there are outliers within a dataset, then the distribution is largely skewed in the directions of these outliers, providing invalid statistical results. Kim (2013) and Kline

(2011) argue that skewness and kurtosis are the most common econometric identification techniques for normality. They confirm that for the normality assumption to not be violated, the absolute skewness (measures asymmetry) and kurtosis (measures of tailedness) values from descriptive statistics tables must be within the acceptable cut-off ranges, which are ± 2.0 and ± 7.0 , respectively.

In accountancy research, outliers are pervasive and problematic (Leone et al., 2019). These extreme values are a persistent concern, as they significantly affect statistical coefficient estimates and inferences due to 1) the core nature of accounting rules (some financial rules produce numbers that are premised on assumptions and discretions that are subject to change over time) and 2) broad, cross-sectional, unusual and/or infrequent economic events that are captured by financial reporting and capital market data (e.g., acquisitions and impairments) (Leone et al., 2019).

Scholars and academic use different methods to identify outliers in their datasets. As a first precautionary protocol, the researcher examines the descriptive statistics tables to identify any extreme values related to any sampled variable (for review, see, e.g., Kwak & Kim, 2017; Dittmar & Duchin, 2016). Effective examination of the descriptive tables also confirms that no errors were made during data collection and data entry.

The second step is to allocate an econometric mitigation technique to overcome the effects of this issue. Adams et al. (2019) and Leone et al. (2019) assert that almost all research studies employ winsorisation as a statistical remedy for outliers. Leone et al. (2019) review 851 studies published from 2006–2014 in A or A* journals and find that 63% (532 of 851) report using winsorisation as a statistical remedy for outliers. Essentially, the procedure of winsorisation consists of replacing the extreme values (winsorise) related to certain sampled variables with expected values, using specific cut-offs of each variable distribution (e.g., 1% and 99%, 5% and 95%, or 10% and 90%

percentiles). The present research uses winsorisation statistical technique at 95% and 5% percentiles to mitigate the potential effects of any outliers.

Table 5.5 demonstrates a diagnostic test to assess and evaluate normality assumption violation by calculating skewness and kurtosis for all variables in this research. Kim (2013) and Kline (2011) state that for the data and observations to be normally distributed, the absolute skewness and kurtosis values should be within the acceptable cut-off ranges, which are ± 2.0 and ± 7.0 , respectively. The tabulated results in Table 5.5 suggest that none of the values exceeds ± 2.0 or ± 7.0 ; thus, the residuals of the model are most probably produced by normal distribution, designating that the assumption of normality is met/not violated.

Table 5.5 <i>Skewness and Kurtosis of the Variables</i>		
Variables	Skewness	Kurtosis
EPS	-0.259	3.45
ROA	1.323	4.214
IFRS_EXP	-1.474	3.977
OWN	0.148	1.022
SIZE	-0.693	2.489
LEV	0.33	2.118
GRW	0.437	5.774
IBOD	1.395	4.268
AUD_EXP	0.579	3.868
CFO	0.337	2.548
WC	0.442	4.677
PC	1.141	2.302

5.8.2.2 Multicollinearity

The condition of collinearity (sometimes termed multicollinearity) arises when at least two predictors (independent variables) are correlated to the degree that the values of a given predictor can be predicted by the values of another predictor in a model (Johnston et al., 2018; Baird & Bieber, 2016). The main negative effect of multicollinearity is influencing the signs and standard errors of the regression coefficients of the highly correlated predictors; this produces unstable and/or biased standard errors and p -values, resulting in invalid coefficient interpretation of those collinear predictors (Johnston et al., 2018).

Calculating the variance inflation factor (VIF) and examining Pearson and Spearman correlation coefficient matrix tables are the two primary multicollinearity detection techniques (Burton, 2020; Shrestha, 2020; Thompson et al., 2017). First, the degree of multicollinearity can be assessed by calculating the VIF. The recommended cut-off values for the VIF are above 1 and below 10, where the result of $1 < \text{VIF} < 10$ for any predictor in the model indicates that the model is free from multicollinearity (Fox, 2016).

Second, as previously discussed, academics rely on the Pearson and Spearman correlation matrix tables to detect potential case of multicollinearity between predictors. Overall, if the absolute correlation coefficient between any two variables is above 0.80 in these tables, then serious multicollinearity exists (Gujarati & Porter, 2017; Thompson et al., 2017). In the present research, no serious multicollinearity was found among any of the sampled variables in any correlation table.

Chapter 6: Results and Discussion

6.1 Introduction

This chapter presents and discusses the results from the various analyses to answer the research questions related to the relationship between IFRS adoption, political connections, family firms, and earnings quality in the four GCC sample countries. This research uses several econometric analytical tools (such as descriptive statistics and correlation analysis) and two regression estimation techniques (panel data estimation with two-way cluster-robust standard errors regression and random effect regression) (see Section 5.8). This chapter is organised as follows. Section 6.2 presents and discusses the results for Q1 and Section 6.3 presents and discusses the results for Q2–Q4 (main results and robustness checks).

6.2 Empirical Results for Q1

The first research question is designed to examine the current status and level of IFRS implementation in the GCC region. The findings for Q1 are discussed below.

6.2.1 Descriptive Insights on IFRS Adoption Status in the GCC Region

Table 6.1 shows the average level of mandatory compliance with the IFRS in the four sample GCC countries. The data show that IAS 36 ‘Impairment of Assets’ has the highest number of disclosure items (60 items), while IAS 2 ‘Inventories’, IAS 23 ‘Borrowing Costs’ and IAS 40 ‘Investment Property’ have the least number of disclosure items (one item for each standard). The level and extent of compliance across the four countries slightly differs. The average level of compliance for the full sample over the sample period (2012–2017) is 34.25%, suggesting that the overall level of compliance is low.

Table 6.1
Average Level of IFRS Compliance by Country

Country	Index score (IFRSx)	Standards with the highest compliance	Standards with the least compliance	Standard with the highest number of disclosure items	Standard with the least number of disclosure items
Kuwait	32%	IAS 2, IAS 8, IAS 16, IAS 36	IFRS 3, IFRS 5, IAS 17, IAS 27, IAS 38		
UAE	34%	IFRS 8, IAS 2, IAS 8, IAS 16, IAS 23	IFRS 3, IFRS 5, IFRS 10, IAS 1, IAS 27, IAS 38	IAS 36 (60 items)	IAS 2 (1 item), IAS 23 (1 item), IAS 40 (1 item)
Qatar	37%	IAS 2, IAS 7, IAS 8, IAS 23	IFRS 3, IFRS 5, IFRS 10, IAS 27, IAS 38		
Bahrain	32%	IAS 2, IAS 8, IAS 23	IFRS 3, IFRS 5, IFRS 10, IAS 27, IAS 38		

Analyses of both cross sections of the data (i.e., headline level and the most recent three years in the sample [2015–2017], concentrating on IAS 33 ‘Earnings per Share’, IAS 36 ‘Impairment of Assets’, IAS 37 ‘Provisions, Contingent Liabilities, and Contingent Assets’ and IAS 38 ‘Intangible Assets’) show that Qatari listed firms have the highest disclosure and compliance level (37%), followed by the UAE (34%) and while Kuwait (32%) and Bahrain (32%). Contrary to Mazzi et al. (2018) but in line with Al-Shammari et al. (2008), the results confirm that no firm in the sample countries fully adopted or was fully compliant with the IAS/IFRS from 2012–2017 (highest and lowest individual firm scores were in Kuwait, at 78% and 4% respectively).

Table 6.2 provides further information that can explain the IFRSx scores presented in Table 6.1. Table 6.2 presents a summary of the investment and economic statuses of the GCC sample countries; the four sample countries—two of which are

petrostates (the UAE and Qatar)—are involved in both FDI and outward FDI (OFDI). Over the sample period, the UAE and Bahrain are more involved in FDI (on average, 4% and 2.6%, respectively), while Kuwait and Qatar are more involved in OFDI (on average, 6% and 3%, respectively). In addition, the table shows that when there is a decline in FDI percentages in a particular year, there is also an incline in OFDI percentages in that year.

Table 6.2
Summary of Investment and Economic Status for the Sample Countries

Country	Year	GDP		GDP per capita		FDI		OFDI	
		<i>Annual</i>	<i>Median</i>	<i>Annual</i>	<i>Median</i>	<i>% of GDP</i>	<i>Median</i>	<i>% of GDP</i>	<i>Median</i>
Bahrain	2012	US\$30.8bn		US\$23,654		5.0		1.7	
	2013	US\$32.5bn		US\$24,744		11.5		1.6	
	2014	US\$33.4bn	US\$33bn	US\$24,989	US\$23,729	4.6	4.0	-1.2	2.0
	2015	US\$31.1bn		US\$22,634		0.2		10.0	
	2016	US\$32.2bn		US\$22,608		0.8		-2.8	
	2017	US\$35.5bn		US\$23,743		1.5		0.7	
Kuwait	2012	US\$174.1bn		US\$51,979		1.7		4.0	
	2013	US\$174.2bn		US\$49,388		0.8		10.0	
	2014	US\$162.6bn	US\$143bn	US\$44,062	US\$38,785	0.3	0.6	8.0	6.0
	2015	US\$114.6bn		US\$29,870		0.3		4.8	
	2016	US\$109.4bn		US\$27,653		0.3		6.0	
	2017	US\$120.7bn		US\$29,759		0.1		6.0	

Qatar	2012	US\$186.8bn		US\$85,076		0.2		1.0	
	2013	US\$198.7bn		US\$85,051		-0.4		4.0	
	2014	US\$206.2bn	US\$178bn	US\$83,859	US\$72,219	0.5	0.4	3.0	3.0
	2015	US\$161.7bn		US\$63,039		0.7		2.5	
	2016	US\$151.7bn		US\$57,163		0.5		5.0	
	2017	US\$161.1bn		US\$59,125		0.6		1.1	
UAE	2012	US\$374.6bn		US\$40,977		2.6		0.7	
	2013	US\$390.1bn		US\$42,413		2.5		2.3	
	2014	US\$403.1bn	US\$378bn	US\$43,752	US\$40,765	2.8	2.6	3.0	3.0
	2015	US\$358.1bn		US\$38,663		2.4		4.7	
	2016	US\$357bn		US\$38,142		2.7		4.4	
	2017	US\$385.6bn		US\$40,645		2.7		3.7	

Source: World Bank (2020).

A valuable inference can be drawn from these results: IFRS adoption is an important driver of FDI and OFDI flows. In addition, involvement in international trade and investment is associated with the extent of disclosure practices. Prior research provides empirical evidence that IFRS implementation increases FDI inflows and OFDI growth. (Lungu et al., 2017; Pricope, 2017; Chen et al., 2014; Gordon et al., 2012). Such findings are based on the notion that countries tend to adopt the IFRS since they 1) lead to an increase in transparency, credibility and quality of financial reports; 2) reduce information asymmetry; and 3) facilitate integration with international markets and cross-border economic transactions (Pricope, 2017; Houqe & Monem, 2016; Gordon et al., 2012). Therefore, the decision to adopt the IFRS provides an investment opportunity for countries, as it leads to other economies investing in their markets (Gordon et al., 2012).

The reduction in information asymmetry in adopting countries between domestic and foreign investors provides an investment opportunity and makes a country's capital markets more attractive for FDI. From foreign investors' perspectives, the decision to invest in international capital markets and start economic exchanges (in the form of FDI and OFDI) requires a country to adopt the IFRS to improve disclosure practices and transparency and lower investment risks (Lungu et al., 2017; Gordon et al., 2012). The information in Table 6.2 provides evidence that GCC countries with higher IFRS disclosure scores (Qatar and the UAE) suffer less information asymmetry, have more business ties and transactions with international capital markets, and are more transparent (in terms of higher disclosure practices and financial reporting).

As discussed in Chapter 5, the combination of a self-constructed index and applying unweighted scoring technique to measure the extent of IFRS adoption improves the comparability of the generated results with those of similar studies. However, it is impossible to fully validate the comparisons due to technical/methodological (e.g.,

sample size, sample period, number of standards) and socio-economic (e.g., economy size, political setting, culture, religion) differences.

In short, the level of IFRS compliance in the four sample countries across the six sample years is low compared to other recent IAS/IFRS mandatory disclosure compliance studies in emerging economies, such as Bahrain (80.73%; Juhmani, 2017), Palestine (55%; Sellami & Tahari, 2017), Malaysia (88%; Abdullah et al., 2015), Kuwait (71.2%; Alfraih & Alanezi, 2015), and in developed countries, such as in Denmark (91%), Germany (85%), France (76%) and the UK (85%; Mazzi et al., 2018).

Table 6.3 illustrates the level of mandatory compliance with each applicable IFRS standard for each sample country. The table reflects data pooled over the full sample period across all sample firms in each sample country; firm-level compliance data were aggregated to the country level. The first point of note is that the level of compliance among the four countries from 2012–2017 ranges from extremely low compliance (2%) to full compliance (100%) for some standards. In more detail, IAS 27 ‘Separate Financial Statements’ tends to have the lowest mean (median) scores in all four countries, ranging from 0% (0%) to 2% (1%). In contrast, IAS 2 ‘Inventories’ has the highest average level of compliance in all four countries, ranging from 89% (100%) to 100% (93%).

Firms across the sample countries tend to comply moderately with some standards, ranging from 37% to 64% (e.g., IFRS 13 ‘Fair Value Measurement’, IAS 8 ‘Accounting Policies, Changes in Accounting Estimates and Errors’, IAS 21 ‘The Effects of Changes in Foreign Exchange Rates’ and IAS 28 ‘Investments in Associates and Joint Ventures’). Further, the results confirm that out of the four sample countries, only Qatari and Emirati firms tend to fully comply with some standards (e.g., IAS 2 ‘Inventories’ and IAS 23 ‘Borrowing Costs’), with 100% mean and median compliance rates.

Table 6.3
Average and Median Levels of Mandatory IFRS Compliance by Standard

Standard	No. of items	Bahrain (n = 16)		Kuwait (n = 152)		Qatar (n =27)		UAE (n =27)		Overall Mean (N = 222)
		<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	
IFRS 3	2 items	10%	10%	10%	10%	13%	13%	15%	15%	12%
IFRS 5	5 items	16%	18%	7%	9%	11%	12%	16%	9%	13%
IFRS 8	3 items	79%	78%	97%	99%	99%	99%	99%	100%	94%
IFRS 10	3 items	6%	8%	8%	1%	15%	14%	5%	1%	9%
IFRS 11	4 items	36%	38%	52%	55%	42%	46%	46%	49%	44%
IFRS 12	2 items	40%	40%	48%	48%	50%	50%	43%	43%	45%
IFRS 13	2 items	52%	52%	50%	50%	49%	49%	50%	50%	50%
IAS 1	9 items	21%	13%	24%	0%	18%	0%	18%	1%	20%
IAS 2	1 item	93%	93%	89%	89%	100%	100%	100%	100%	96%
IAS 7	3 items	47%	56%	34%	22%	72%	88%	49%	36%	51%
IAS 8	6 items	40%	43%	64%	93%	57%	70%	58%	75%	55%
IAS 16	2 items	51%	51%	89%	89%	70%	70%	87%	87%	74%

Standard	No. of items	Bahrain (n = 16)		Kuwait (n = 152)		Qatar (n =27)		UAE (n =27)		Overall Mean (N = 222)
		<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	<i>Mean</i>	<i>Median</i>	
IAS 17	7 items	18%	0%	10%	3%	21%	8%	20%	22%	17%
IAS 18	3 items	50%	40%	48%	29%	37%	8%	40%	17%	44%
IAS 21	3 items	45%	35%	57%	73%	54%	65%	54%	74%	53%
IAS 23	1 item	80%	80%	70%	70%	100%	100%	100%	100%	88%
IAS 24	3 items	34%	9%	33%	1%	34%	4%	33%	0%	34%
IAS 27	5 items	2%	1%	2%	0%	2%	0%	2%	0%	2%
IAS 28	2 items	37%	37%	50%	50%	50%	50%	50%	50%	47%
IAS 33	28 items	43%	41%	41%	49%	43%	50%	41%	50%	42%
IAS 36	60 items	34%	34%	35%	24%	37%	29%	37%	30%	36%
IAS 37	24 items	38%	41%	37%	31%	40%	48%	34%	30%	37%
IAS 38	40 items	16%	9%	11%	4%	28%	35%	20%	22%	19%
IAS 40	1 item	66%	66%	63%	63%	71%	71%	52%	52%	63%

Overall, the data in Table 6.3 suggest a clear variation in IFRS compliance among the sample countries. Some countries tend to highly comply and disclose more information about certain disclosure requirements and standards (e.g., IFRS 8, IAS 2 and IAS 23) and moderately comply with mandatory disclosures (e.g., IFRS 13, IAS 8, IAS 21 and IAS 28), while disclosing limited or no information about others during most of the sample period (e.g., IFRS 10, IAS 1, IAS 17, IAS 27 and IAS 38). This variation between high and low compliance practices could be due to a number of reasons.

Countries' tendency to highly comply with specific standards and disclosure requirements might be explained through the nature of these standards, as some standards are considered to be common for all firms across all sectors in a country and easier to implement than others (Tawiah & Boolaky, 2019; Al-Shammari et al., 2008). For example, IAS 2 'Inventories' consists of only one disclosure item, which requires a listed firm to disclose whether it has any inventory. Similarly, compliance for IAS 23 'Borrowing Costs', which also has one item, is almost 100% (100%) across all the sample countries. Therefore, the high level of compliance with these standards can be explained by their simplistic nature, as they do not require special financial expertise to assemble the necessary information for disclosure.

Table 6.3 also shows that sample countries moderately disclose and comply with several standards in the sample. For example, the average level of compliance with IAS 21 'The Effects of Changes in Foreign Exchange Rates' ranges from 45% (35%) to 57% (73%) across the four sample countries. This standard stipulates how to include and present a foreign currency transaction or operation in financial statements and consists of three items. Such moderate disclosure practices across the sample towards this standard might be explained by the effect of a 'learning curve'.

IAS 21 was introduced in 2009, three years before this research's sample period. Given the effects of the Gulf's unique cultural dimensions and weak institutional settings

on firms' disclosure behaviour (e.g., shortage of qualified accountants and weak enforcement mechanisms; Khalife, 2015), it is expected that compliance levels are subject to learning curve effect and experience in implementing the standards (i.e., IFRS experience); countries might require more time to learn how to implement a standard and its requirements, regulatory bodies might need time to exert their influence and enforcement laws require time to be effective.

Conversely, the overall low average levels of compliance with the IFRS in the four sample countries can be clearly attributed to firms' weak disclosure behaviour and practices towards most of the sample standards. In line with the findings of recent studies (for review, see Tawiah & Boolaky, 2019; Sellami & Fendri, 2017; Alfraih & Alanezi, 2015), the mean levels of compliance with IAS 17 'Leases' (ranging from 10% (3%) to 21% (8%)), IAS 24 'Related Party Disclosures' (ranging from 33% (0%) to 34% (9%)), IFRS 3 'Business Combinations' (ranging from 10% (10%) to 15% (15%)) and IFRS 10 'Consolidated Financial Statements' (ranging from 5% (1%) to 15% (14%)) are low across the four sample countries.

The low compliance practices toward these standards are probably due to their proprietary nature. One of the main benefits offered by the IFRS is comparability of financial reports, which is an enhancing qualitative characteristic for financial statements (FASB, 2013). Although comparability improves a firm's financial environment and allows various users of its financial reports to evaluate and compare the firm's performance with its competitors, this can be costly, especially when competition is high (Imhof et al., 2018).

In the GCC markets, where competition is intense, managers tend to formulate their strategies and long-term plans depending on the financial information reported in their competitors' reports. As financial reports require resources to process, it is expected among managers that more comparable financial statements will reduce competitors'

information-processing costs and will increase the revelation of proprietary information (André et al., 2018; Imhof et al., 2018; Beatty et al., 2013).

As previously discussed, managers have a lot of discretion in choosing their accounting estimations and assumptions during the preparation of financial reports (e.g., estimates for bad debt expenses, earnings, revenue accruals). So as not to risk their firm's market positioning and suffer from competitive harm (Aboud & Roberts, 2018), managers are likely to carefully choose specific accounting estimations that do not reflect the firm's current real financial position. In other words, these accounting choices create an opportunity for managers to withhold valuable (proprietary) information that might harm their reputation or help competitors, and present financial statements differently to various users of financial reports.

The combination of such disclosure strategy and the weak institutional settings (Hellman et al., 2018) of the GCC countries (e.g., weak governance mechanisms, low financial reporting transparency, weak enforcement laws) can significantly affect some of the financial statement's components (i.e., comparability of earnings) (Imhof et al., 2018; Kothari et al., 2005) in addition to affecting compliance practices and causing low disclosure levels for certain sample standards.

Moreover, secrecy, a unique core cultural dimension inherited in GCC countries' societies, can play a key role in lowering the level of compliance and disclosure (Chen et al., 2017), as it overrides the IFRS/IAS requirements. As extremely secretive societies with high preference of uncertainty avoidance and high power distance, the six GCC countries suffer from an acute lack of transparency and an old tradition of secretive corporate activities within government. This culture has unfortunately spread to the private sector, where the existence of family-centred ownership (Leigh, 2011) and politically connected firms enforces such practices. This is evident in the literature, with large listed firms in the oil sector and large investment entities (e.g., the Qatar and Abu

Dhabi investment authorities) tending to operate under a veil of secrecy and selective disclosure that lowers the quality of reported financial information (for review, see Center for International and Regional Studies [CIRS], 2011; Nield, 2008; Irvine & Lucas, 2006).

Overall, the results from analysing the extent of IFRS implementation in the GCC region might raise concerns about the effectiveness and appropriateness of adopting such highly sophisticated standards to improve financial information and earnings quality in emerging economies. In theory, IFRS adoption provides a sense of legitimacy to the adopting GCC countries. However, without considering the unique local forces shaping these standards, the IFRS can serve just as a ‘rubber stamp’. The results might support Ball’s (2006) notion that the decision of embracing a uniformed high-quality set of accounting standards alone, without taking into consideration the inevitable differences in deep-rooted economic and political factors among adopting countries that shape actual financial reporting practice, is naïve.

Countries differ in many dimensions, such in their economic size and power, legal and regulatory frameworks, level of enforcement, available technical and training support for implementing and applying the IFRS, capital market structures, cultural dimensions and the extent of government involvement in markets. Therefore, the results from analysing GCC sample countries that adopt but do not effectively implement the IFRS might reflect and signal the quality of the enforcement of standards, rather than the quality of the standards themselves (Ball, 2006). However, it has not been conclusively demonstrated in the literature if the mere adoption of the IFRS can compensate for these country-level dimensions.

6.2.2 Detailed Analyses of IFRS Adoption Status in the GCC Region

To further assess the extent of IFRS adoption in the GCC region, the researcher selects IAS 38 ‘Intangible Assets’ and its items from the sample standards (covering the most recent three years of the sample period, 2015–2017) and analysed it in depth to

identify any variations among the sample firms across the four sample countries. The results generated from this procedure might provide some indirect evidence of earnings management. IAS 38 outlines the accounting treatment, such as recognition, measurement and disclosure criteria, for all intangible assets (non-monetary assets without a physical substance). The standard consists of 40 disclosure and measurement items (one main 'head' disclosure requirement and 39 items).

In detail, under IAS 38, GCC firms have to cover specific items and disclose financial information related to (a) intangible assets recognition on balance sheets and the way of recognition (cost or the revaluation model); (b) different types of intangibles (internally generated, and/or acquired through business combination); (c) initial nature and amount of IAS 38 estimations; (d) different classes of intangibles (intangible with finite and indefinite useful lives); (e) criteria for impairment; (f) amortisation methods (for intangible assets with finite useful lives), carrying amount, reconciliations and any accumulated amortisation; (g) description of the significant factors effacing the determination of intangibles' indefinite useful life; (h) recognising any intangible assets at fair value (acquired by way of a government grant), material to the financial statements; and (i) recognition of any research and development expenditure as an expense.

The justification for selecting this particular standard is that firms have to reveal the significance of intangible assets through a series of disclosures to users of financial statements, as these disclosures are valuable information for investment opportunities; however, firms struggle to disclose enough information about intangible assets due to the fact that intangibles are difficult to verify and measure, and many intangible assets are inherently accompanied by high information complexity (Gu & Wang, 2005). Therefore, the complexity of intangibles gives any management an opportunity to use them to manipulate and manage earnings (Mindermann & Brosel, 2009) due to substantial discretion in estimations (Garanina et al., 2016).

Regarding IAS 38, Table 6.3 shows that, on average, firms in sample countries disclosed limited information about IAS 38 during most of the sample period (with a mean of 19%). A number of prior studies document similar evidence of a low or limited level of disclosure behaviour and practices among firms regarding IAS 38. Covering all six GCC countries to determine the applicability of IAS in the region, Al-Shammari et al. (2008) find that very few firms (one firm of 137 sample firms) disclose the information required by IAS 38 in their annual reports, which led the authors to exclude the standard from their final sample as an ‘Irrelevant standard’.

Azmi and English (2016) assert that most Malaysian firms have problems complying with complex standards, with IAS 38 being a lead example of this. They conclude that disclosures related to the most complex standards (i.e., IAS 38), which third party users of financial statement might gain insight from, are largely absent, and non-disclosure practices among Malaysian firms are largely in relation to IAS 38. In developing countries, Tsalavoutas et al. (2014) report that although almost 30% of the total assets of listed firms in the UK, Belgium, Hong Kong, France, Denmark, the Netherlands and Australia relate to intangible assets, there is high non-compliance behaviour and information disparity across firms in these countries in terms of the mandatory disclosure requirements of IAS 38.

Tables 6.4–6.8 summarise the descriptive statistics for all sample firms in the four sample countries regarding compliance with IAS 38, from 2015–2017. In Table 6.4, the mean (median) compliance score with IAS 38 among all sample countries is around 36% (4%). From country-to-country comparison, the results show that the highest mean of mandatory disclosure levels is in Qatar, averaging around 54% (75%) from 2015–2017, followed by the UAE (38% (15%)) and Bahrain (31% (40%)).

Table 6.4
Descriptive Statistics of Mandatory Level of Compliance with IAS 38

Country	Year	N	Mean	Mode	SD	Min	Max	Q25	Q50 (Median)	Q75
Kuwait	2015	153	0.21	0	0.28	0	1	0	0	0.43
	2016	153	0.21	0	0.28	0	1	0	0	0.43
	2017	153	0.21	0	0.28	0	1	0	0	0.43
UAE	2015	27	0.36	0	0.40	0	0.95	0	0	0.78
	2016	27	0.36	0	0.40	0	0.95	0	0	0.78
	2017	27	0.42	0	0.40	0	0.93	0	0.45	0.80
Qatar	2015	26	0.53	0.78	0.36	0	0.85	0	0.75	0.78
	2016	26	0.53	0.78	0.36	0	0.85	0	0.75	0.78
	2017	26	0.56	0.78	0.35	0	0.85	0	0.76	0.78
Bahrain	2015	16	0.31	0	0.32	0	0.90	0	0.40	0.48
	2016	16	0.30	0	0.30	0	0.80	0	0.40	0.48
	2017	16	0.31	0	0.31	0	0.80	0	0.40	0.50

Similar to Qatar, the results confirm that the mean compliance of the UAE's sample firms across the three sample years is gradually increasing (from 36% in the first two years to 42% in the last year). The lowest mean compliance result is found in Kuwait's sample, with a steady mean of 21% (0%) during the same sample period. The results of the average IAS 38 compliance levels of all firms are lower than the findings of other studies (e.g., Agyei-Mensah, 2019; Devalle et al., 2016; Tsalavoutas et al., 2014). Consistent with Tawiah and Boolaky (2019) and Tsalavoutas et al. (2014), no firm has fully complied with IAS 38 and its items during the sample period.

The year-on-year mean numbers give further in-depth insights. The scores indicate some evidence of a gradual improvement and progression in compliance levels with IAS 38 in the GCC region over the sample years. For example, in Qatar and the

UAE, the mean increased from 53% (75%) to 56% (76%) and from 36% (0%) to 42% (45%), respectively.

The second observation is that there is a cross-country variation among the four sample countries, and this variation is structured better in the case of IAS 38 compared to the mean scores of IFRSx. The gradual improvement in complying with IAS 38 might be explained by the maturity of firms' disclosure behaviour and continued application of the standard itself. That is, GCC firms are gaining more experience in how to comply with IAS 38 over time by continuously disclosing information about intangible assets to outsiders.

Tables 6.5–6.8 present the frequency distribution of the sample (year wise). Table 6.5 presents the frequency distribution of Kuwaiti firms complying with IAS 38. The results confirm that over a span of three years (2015–2017), the majority of Kuwaiti firms' disclosure scores for IAS 38 are within the range of 0–20%, which is the lowest compliance range (about 60% of Kuwaiti listed firms, representing 90–91 firms).

In contrast, the lowest number of Kuwaiti firms complying with IAS 38 requirements from 2015–2017 are within the range of 21–40% (around 0.9% of Kuwaiti listed firms, representing one or two firms only). The results also show that nine Kuwaiti firms comply with 81–100% of IAS 38 disclosure requirements, which is the highest number of firms scoring in the highest compliance range among all sample countries and years.

Year	Range	Frequency	Frequency %
2015	0.0–0.20	91	59.5
	0.21–0.40	1	0.7
	0.41–0.60	47	30.7
	0.61–0.80	5	3.3
	0.81–0.100	9	5.9
	Total	153	100.0
2016	0.0–0.20	90	58.8
	0.21–0.40	2	1.3
	0.41–0.60	47	30.7
	0.61–0.80	5	3.3
	0.81–0.100	9	5.9
	Total	153	100.0
2017	0.0–0.20	91	59.5
	0.21–0.40	1	0.7
	0.41–0.60	47	30.7
	0.61–0.80	5	3.3
	0.81–0.100	9	5.9
	Total	153	100.0

Analogous to the Kuwaiti sample, Table 6.6 shows that most UAE firms' IAS 38 disclosure scores across 2015–2017 are within the 0–20% range, which is the lowest compliance range. That is, in the first two years, the disclosure scores of 14 Emirati firms (around 52% of the Emirati sample) are within this range. Whereas in the last sample year (2017), the disclosure scores of 12 Emirati firms (about 44% of the Emirati sample) are

within this range. Table 6.6 also illustrates that the lowest number of Emirati firms complying with IAS 38 disclosure requirements across 2015–2017 is one firm, between the ranges of 21–40% and 41–60% (3.7% of the total Emirati sample).

Table 6.6			
<i>Frequency Distribution of UAE Firms Complying with IAS 38</i>			
Year	Range	Frequency	Frequency %
2015	0.0–0.20	14	51.9
	0.21–0.40	1	3.7
	0.41–0.60	1	3.7
	0.61–0.80	6	22.2
	0.81–0.100	5	18.5
	Total	27	100.0
2016	0.0–0.20	14	51.9
	0.21–0.40	1	3.7
	0.41–0.60	1	3.7
	0.61–0.80	6	22.2
	0.81–0.100	5	18.5
	Total	27	100.0
2017	0.0–0.20	12	44.4
	0.21–0.40	1	3.7
	0.41–0.60	1	3.7
	0.61–0.80	8	29.6
	0.81–0.100	5	18.5
	Total	27	100.0

Table 6.7 presents the frequency distribution of Qatari firms complying with IAS 38. Unlike Kuwaiti and Emirati firms, the majority of Qatari firms comply with 61–80%

of the IAS 38 disclosure items. From 2015–2016, 16 firms (about 62% of the total Qatari sample) score in the range of 61–80% of disclosure items, whereas in 2017, 17 firms (about 65% of the total Qatari sample) score within the same range.

In addition, none of the Qatari sample firms have disclosure scores within the 21–40% and 41–60% ranges in any sample year. The lowest disclosure scores among Qatari firms in 2015–2017 are within the 0–20% range; specifically, eight firms in 2015 and 2016 (about 31% of the total Qatari sample) and seven firms in 2017 (about 27% of the total Qatari sample).

Table 6.7
Frequency Distribution of Qatari Firms Complying with IAS 38

Year	Range	Frequency	Frequency %
2015	0.0–0.20	8	30.8
	0.21–0.40	0	0
	0.41–0.60	0	0
	0.61–0.80	16	61.5
	0.81–0.100	2	7.7
	Total	26	100
2016	0.0–0.20	8	30.8
	0.21–0.40	0	0
	0.41–0.60	0	0
	0.61–0.80	16	61.5
	0.81–0.100	2	7.7
	Total	26	100
2017	0.0–0.20	7	26.9
	0.21–0.40	0	0
	0.41–0.60	0	0
	0.61–0.80	17	65.4
	0.81–0.100	2	7.7
	Total	26	100

Table 6.8 shows the frequency distribution of Bahraini firms complying with IAS 38. The results are in line with Kuwait's and the UAE's samples. The majority of Bahraini firms comply with 0–20% of the IAS 38 disclosure requirements (the lowest compliance range) across 2015–2017. That is, seven firms (about 44% of the total Bahraini sample) score within this range. The table also shows that none of the Bahraini sample firms in

2016 and 2017 score within the highest compliance range, and only one firm scores within this range in 2015 (about 6.3% of the total Bahraini sample).

Table 6.8
Frequency Distribution of Bahraini Firms Complying with IAS 38

Year	Range	Frequency	Frequency %
2015	0.0–0.20	7	43.8
	0.21–0.40	5	31.3
	0.41–0.60	1	6.3
	0.61–0.80	2	12.5
	0.81–0.100	1	6.3
	Total	16	100
2016	0.0–0.20	7	43.8
	0.21–0.40	5	31.3
	0.41–0.60	1	6.3
	0.61–0.80	3	18.8
	0.81–0.100	0	0
	Total	16	100
2017	0.0–0.20	7	43.8
	0.21–0.40	4	25
	0.41–0.60	2	12.5
	0.61–0.80	3	18.8
	0.81–0.100	0	0
	Total	16	100

Reflecting on the above findings, the results show that there is a clear level of information disparity and non-compliant practice regarding the IFRS in the GCC region. The findings of the IAS 38 compliance and disclosure analyses indicate that there has

been a gradual improvement in compliance over the years among sample firms. However, the overall low level of compliance in relation to IAS 38 is consistent with the overall/country-level low level of compliance with most of the standards (presented in Table 6.3).

Arguably, IFRS implementation and enforcement by developing countries is a learning experience. As Ball (2006) argues, the vast majority of countries that have adopted the IFRS did not have well-developed accounting infrastructure. Lack of adequate accounting infrastructures, including accounting education and enforcement, creates doubt regarding the appropriateness of the IFRS for developing countries. In addition, managers tend to put less effort into disclosure in jurisdictions where (a) enforcement mechanisms are seen to be weak (Wang, 2019), (b) information is of a proprietary nature and commercially sensitive, (c) there is a high cost of collecting and disclosing some of the financial information (Chen et al., 2017) and (d) unique cultural dimensions (e.g., secrecy) override reporting requirements—all of these are present in the GCC region.

6.3 Empirical Results for Q2, Q3 and Q4

6.3.1 Descriptive Statistics

In research, data quality is a critical matter and persistent concern for the researcher, and one of the most important criteria to ensure data quality in quantitative studies is detecting and monitoring outliers in inflated datasets, where there is a possibility of value absence (i.e., missing data) (Templ et al., 2020) and incorrect coding. For cross-sectional datasets, the inclusion and presence of extreme observations (i.e., outliers) may dominate parameter estimates, distort distribution shape, increase the sample variance and decrease precision, produce biased coefficient estimates and draw unrealistic/erroneous inferences that other researchers may subsequently use in their

investigations. As a result, identifying and replacing outliers to ensure the normality of distribution and proximation is a major task (Templ et al., 2020; Adams et al., 2019).

As a pre-processing step before the start of the data analysis stage, this researcher follows proven precautionary protocols (for review, see e.g., Kwak & Kim, 2017; Dittmar & Duchin, 2016) to detect potential extreme observations by examining the descriptive statistics tables (Adams et al., 2019). Examining the descriptive tables shows that there were not outliers in the dataset. Next, the researcher follows the steps of Boonlert-U-Thai and Sen (2019) and transforms the data using winsorisation technique at 95% and 5% percentile levels (top and bottom 5% of the distribution). Most accounting studies employ data winsorisation (Leone et al., 2019). As a mitigating method, the process of winsorising the data consists of converting and replacing a sample's outlying extreme values and observations (high or low end observations) with a data value from the same dataset (high or low end observations) that is not considered to be an outlier or influential (within a reasonable range of scores) (Brownen-Trinh, 2019; Kwak & Kim, 2017; Reifman & Keyton, 2010). Winsorisation is a commonly used and simple process, and employing winsorisation in this research helps preserving within-range highest and lowest observations in the compass of the examined dataset while shielding against the effects of extreme outliers. Further, the transformation helps achieving a more normal 'asymmetric' shape of distribution.

Tables 6.9 and 6.10 show the descriptive statistical results of all variables for the entire sample. For earnings persistence, Table 6.9 shows that the average ROA and EPS (both used to measure earnings persistence) for the entire sample ranges from -0.34 to 0.39 (mean = 0.06) and -52.43 and 184.99 (mean = 29.77). The highest means are seen in Bahrain's sample (mean ROA = 0.18 and mean EPS = 102.96), while Emirati firms have the lowest means (mean ROA = 0.01 and mean EPS = -0.63). Clearly, a minority number of firms are much more profitable compared to the majority of the firms in the

sample. The extreme EPS could also be driven by ownership structure of some firms, which could be unique to the GCC region.

Average length of IFRS experience for the entire sample is 19.05 years, on a scale ranging from 0–26 years (the time lapse in years since IFRS mandatory adoption). Kuwait has the highest mean score of 23.5 years, followed by Qatar (15.5 years), Bahrain (13.5 years) and the UAE (0.5 years). These results are expected since Kuwait mandated IFRS compliance for listed firms in 1991, while the UAE only officially mandated IFRS adoption by all DSM-listed firms in 2015 via Federal Law of 2015 on Commercial Companies.

Table 6.9
Descriptive Statistics of All Variables for the Full Sample

Variable	N	Mean	SD	SEM	Q1	Median	Q3	Min	Max
ROA	1296	0.06	0.17	0.01	0.00	0.04	0.15	−0.34	0.39
EPS	1296	29.77	58.67	1.63	0.02	6.01	45.95	−52.43	184.99
IFRS_EXP	1332	19.05	7.87	0.22	16	22	24	0	26
OWN	1332	0.46	0.50	0.01	0	0	1	0	1
SIZE	1296	18.11	2.22	0.06	16.86	18.63	19.70	13.41	21.21
LEV	1293	0.39	0.23	0.01	0.19	0.37	0.55	0.04	0.83
GRW	1021	−0.01	0.41	0.01	−0.17	0.01	0.14	−0.87	1.95
IBOD	1332	0.31	0.22	0.01	0.20	0.20	0.40	0	10
AUD_EXP	1332	0.75	0.63	0.02	0	1	1	0	3
CFO	1296	0.04	0.07	0.00	0	0.04	0.09	−0.08	0.18
WC	1296	0.01	0.11	0.00	−0.02	0.01	0.02	−0.25	0.30
PC	1332	0.25	0.43	0.01	0	0	1	0	1

Note. ROA = return on assets, EPS = earnings per share, IFRS_EXP = length of IFRS experience, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee, CFO = cash flow from operations, WC = working capital, PC = political connections.

Table 6.10
Descriptive Statistics of All Variables by Country

Country: Bahrain					Country: Kuwait				
Variable	N	Mean	SD	SE Mean	Variable	N	Mean	SD	SE Mean
ROA	92	0.18	0.14	0.02	ROA	902	0.06	0.19	0.01
EPS	92	102.96	68.88	7.18	EPS	902	32.16	60.17	2.00
IFRS_EXP	96	13.5	1.72	0.18	IFRS_EXP	918	23.5	1.71	0.06
OWN	96	0.44	0.5	0.05	OWN	918	0.44	0.5	0.02
SIZE	92	17.45	2.08	0.22	SIZE	902	18.73	1.82	0.06
LEV	89	0.25	0.19	0.02	LEV	902	0.39	0.24	0.01
GRW	73	0.04	0.21	0.03	GRW	704	−0.04	0.45	0.02
IBOD	96	0.45	0.21	0.02	IBOD	918	0.24	0.14	0.01
AUD_EXP	96	0.83	0.8	0.08	AUD_EXP	918	0.81	0.58	0.02
CFO	92	0.08	0.05	0.01	CFO	902	0.04	0.07	0.00
WC	92	0.01	0.08	0.01	WC	902	0.01	0.13	0.00
PC	96	0.31	0.47	0.05	PC	918	0.19	0.39	0.01
Country: Qatar					Country: United Arab Emirates				
Variable	N	Mean	SD	SE Mean	Variable	N	Mean	SD	SE Mean
ROA	153	0.02	0.02	0.00	ROA	149	0.01	0.03	0.00

EPS	153	1.29	1.35	0.11	EPS	149	-0.63	5.23	0.43
IFRS_EXP	156	15.5	1.71	0.14	IFRS_EXP	162	0.5	0.77	0.06
OWN	156	0.69	0.47	0.04	OWN	162	0.43	0.5	0.04
SIZE	153	17.66	2.41	0.2	SIZE	149	15.22	1.67	0.14
LEV	153	0.42	0.21	0.02	LEV	149	0.43	0.2	0.02
GRW	126	0.07	0.28	0.03	GRW	118	0.03	0.33	0.03
IBOD	156	0.32	0.23	0.02	IBOD	162	0.65	0.22	0.02
AUD_EXP	156	0.43	0.69	0.06	AUD_EXP	162	0.69	0.65	0.05
CFO	153	0.06	0.06	0.01	CFO	149	0.05	0.08	0.01
WC	153	0.00	0.02	0.00	WC	149	0.00	0.02	0.00
PC	156	0.74	0.44	0.04	PC	162	0.13	0.34	0.03

Note. ROA = return on assets, EPS = earnings per share, IFRS_EXP = length of IFRS experience, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee, CFO = cash flow from operations, WC = working capital, PC = political connections.

For the full sample, the average for family ownership is 0.46. The highest family ownership concentration is in Qatar (0.69), which confirms earlier studies highlighting that over 50% of listed firms in Qatar are family owned (Halawi & Davidson, 2008). UAE firms score the second-highest average (0.5), while Kuwaiti and Bahraini firms have the same lowest mean (0.44).

Firm size, as measured by the natural log of total assets, presents moderate variation, with a mean of 18.11 and standard deviation of 2.22, ranging from US\$21.21 million to US\$13.41 million. The descriptive (by country) results show that, on average, the largest firms are in Kuwait's sample (US\$18.73 million), followed by Qatar (US\$17.66 million), Bahrain (US\$17.45 million) and the UAE (US\$15.22 million). The moderate variation in firms' sizes can be explained through the differences in their business activities, as most of the large firms in Kuwait's sample were listed as investment and real estate firms, in comparison to Bahraini firms, which were mostly listed as consumer discretionary and consumer staples firms.

In regard to leverage, the mean for the entire sample is 0.39, ranging from 0.04 to 0.83. The statistical results confirm that the most leveraged firms are in the UAE, followed closely by Qatar, while the least leveraged firms are in Bahrain. These results can be explained by the sample countries' respective business environments. Since 2010, the UAE and Qatar have grown rapidly into the leading financial and trading hubs in the MENA region. In particular, the booming status of the UAE's and Qatar's construction and real estate sectors in recent years has played a major role in increasing the debt of the sample Emirati and Qatari firms. Qatar's real estate boom has been fuelled by preparation for the 2022 FIFA World Cup, and the UAE's boom by preparation for hosting the World Expo 2020 (postponed to October 2021 – March 2022).

Also, firms listed in these sectors traditionally tend to be highly leveraged. Unsurprisingly, the low mean leverage of the Bahraini sample can be attributed to the

country's ongoing political impasse, which has heavily and negatively affected listed Bahraini firms' operations and lead to seven years of negative economic growth (2011–2017). Sales growth for the entire sample varies, ranging from –0.87 to 1.95, with a mean of –0.01. Qatar scores the highest mean of sales growth (0.07), followed by Bahrain (0.04), the UAE (0.03) and Kuwait (–0.4). For the independence of board of directors, the mean of the full sample is 0.31. Qatar scores the highest mean (0.65), followed by Bahrain (0.45), the UAE (0.32) and Kuwait (0.24). Firms with 100% independent director representation are only seen in the Kuwaiti and Emirati samples. Kuwait's sample also includes the highest number of independent directors in a single firm (11 of 11 directors). Firms with 0% independent director representation are only seen in the Kuwaiti (0 of 5) and Qatari (0 of 7) samples.

Accounting expertise within audit committees is, on average, 0.75 for the whole sample. Table 6.10 shows that Kuwaiti and Qatari firms have the highest accounting expertise within their audit committees (3 of 3 members with accounting qualifications), although across all sample countries, many firms did not have even a single member in their audit committees with accounting qualifications or background. Bahraini firms have the highest mean of accounting expertise within audit committees (0.83), followed closely by Kuwaiti (0.81), Emirati (0.69) and then Qatari (0.43) firms.

A further examination of Table 6.10 shows that cash flow from operations for the whole sample ranges from –0.08 to 0.18, with a mean of 0.04. Mean cash flow from operations does not vary significantly among the sample countries; the highest average cash flow from operations is in Bahrain (0.08), followed by Qatar (0.06), the UAE (0.05) and Kuwait (0.04). Mean working capital of the entire sample is 0.01, ranging from –0.25 to 0.30, with the Kuwait and Bahraini samples sharing the highest mean (0.01), while Qatar and the UAE share the lowest mean (0.00). Regarding political connections, around 25% of listed firms in the entire sample are politically connected. Similar to family

ownership, Qatar has the most politically connected firms, with a mean of 0.74, followed by Bahrain (0.31), Kuwait (0.19) and the UAE (0.13).

6.3.2 Correlation Analysis

As a pre-regression and multivariate analysis step, the Pearson matrix table is discussed below to explore and present the correlation coefficients between the dependent and independent variables. Table 6.11 presents the Pearson correlation matrix, showing that there is no serious multicollinearity among any of the sample variables. The highest correlation coefficient among all variables is between EPS and ROA (0.76, $p < 0.01$), though such high correlation is expected since both variables are proxies for measuring earnings quality. Calculating the VIF is not possible in this case as both EPS and ROA are dependent variables in two different models measuring the same construct (earnings quality). Therefore, no statistical remedy is required since the correlation coefficient results of all the variables are within the acceptable statistical range, below 0.80 (Gujarati & Porter, 2017; Thompson et al., 2017).

Table 6.11 shows that EPS is significantly and positively correlated with firm size (SIZE) (0.10 at $p < 0.01$). Al-dhamari and Ismail (2014) and Pimentel and de Aguiar (2012) document the same findings. This result suggests that earnings in the GCC region are of a higher quality in terms of persistence in larger firms. One interpretation of this is that larger Gulf firms tend to have larger boards with more expertise, particularly if there are independent directors (Al-dhamari & Ismail, 2014). Empirically, within the field of financial reporting quality, several studies document that managers of larger firms are less expected to manipulate earnings (e.g., Bradbury et al., 2006). This is supported by resource dependency theory, in that large firms and boards can reduce earnings manipulation.

Table 6.11 also shows that EPS is significantly and negatively correlated with independence of board of directors (IBOD) (-0.08 at $p < 0.05$). This is in line with Al-

dhamari and Ismail's (2014) results. This result suggests that sample firms report pronounced persistent earnings when they have fewer independent directors on their boards compared to other firms. Empirically, some prior studies have reported evidence of firms experiencing lower earnings quality in general when they have more independent directors on their boards (e.g., Tiscini & Di Donato, 2008).

Table 6.11
Pearson Correlation Coefficient Matrix of All Variables

Variable	EPS	ROA	IFRS_EXP	OWN	SIZE	LEV	GRW	IBOD	AUD_EXP	CFO	WC	PC
EPS	—											
ROA	0.76***	—										
IFRS_EXP	0.12***	0.05	—									
OWN	0.08**	0.12***	−0.02	—								
SIZE	0.10***	0.09**	0.50***	0.03	—							
LEV	−0.05	−0.11***	−0.03	0.11***	0.01	—						
GRW	0.17***	0.22***	−0.08*	0.09**	0.02	0.10**	—					
IBOD	−0.08**	−0.05	−0.62***	−0.02	−0.33***	0.04	0.01	—				
AUD_EXP	0.11***	0.10***	0.01***	0.02	0.02	0.01	−0.01	0.08**	—			
CFO	0.37***	0.35***	−0.11***	0.05	0.01	−0.04	0.11***	0.08**	0.00	—		
WC	0.01***	0.13***	0.04	−0.02	0.05	0.01	0.03	−0.03	0.02	−0.23***	—	
PC	−0.02	0.03	−0.04	0.23***	0.06*	0.01	−4.123e-4	0.10***	0.01**	0.12***	−0.06*	—

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Note. EPS = earnings per share, ROA = return on assets, IFRS_EXP = length of IFRS experience, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee, CFO = cash flow from operations, WC = working capital, PC = political connections.

Table 6.11 also shows a significant positive relationship between EPS and family ownership (OWN) (0.08 at $p < 0.05$). This result has been documented in prior works (e.g., Wang, 2006) and suggests that family-owned firms in the GCC region experience higher earnings persistence. The difference in ownership concentration between GCC family and non-family firms can explain this result. Family firms have the incentive to protect the family's name and corporate reputation by improving firm performance and reporting higher quality earnings (Dechow et al., 2010). Therefore, family firms in the GCC region are less likely to risk their corporate success, reputation or competitive advantage by manipulating earnings since the family's wealth is tied to the firm's value.

In addition, sample GCC family firms are competitive by nature, and families strive to improve their firms' performance through long-term strategic plans (Ebihara et al., 2015) to reduce information risk and uncertainty surrounding the next period's earnings. As a result, they are expected to report highly persistent earnings for the current period to diminish such future risk.

Finally, EPS has a number of other positive significant relationships with other variables: IFRS experience (IFRS_EXP) (0.12 at $p < 0.01$), firm growth (GRW) (0.17 at $p < 0.01$), accounting expertise within audit committee (AUD_EXP) (0.11 at $p < 0.01$), cash flow from operations (CFO) (0.37 at $p < 0.01$) and working capital (WC) (0.01 at $p < 0.01$). These results indicate that firms with higher earnings persistence have longer IFRS experience, report high growth in sales, employ a higher proportion of accounting experts as directors in their audit committees, generate high cash flow from operations and report high accruals. However, Table 6.11 shows insignificant relationships between EPS, political connections (PC) and leverage (LEV).

Table 6.11 illustrates that the results of the other earnings persistence measurement, return on assets (ROA), are identical to the results of EPS, except for the following. Compared to EPS, there is no significant relationship between ROA and

IFRS_EXP or IBOD. Unlike EPS, ROA is significantly and negatively correlated with LEV (-0.11 at $p < 0.05$), suggesting that highly leveraged firms have lower earnings persistence.

Regarding IFRS_EXP, Table 6.11 shows that firms with longer IFRS adoption experience tend to be bigger in size (0.50 at $p < 0.01$). This result confirms the view that over time, larger firms in general adopt highly sophisticated standards and disclose more information in comparison to their small-sized competitors (Alnaas & Rashid, 2019) to avoid media and public criticism. In addition, larger firms have higher political costs as opposed to smaller firms. Therefore, large, listed firms in the GCC region that have adopted the IFRS for a long time have learned how to disclose valuable information without draining their resources, thus reducing their high political costs over time.

Another plausible justification might be linked to signalling theory. Large firms tend to signal to outsiders and separate themselves from competitors by disclosing more valuable and sensitive information. Disclosing such sensitive information might not negatively affect their competitive advantage since these firms are old establishments with more IFRS experience.

Firms with longer IFRS experience in the GCC region report lower growth in sales (-0.08 at $p < 0.10$) and employ fewer independent directors on their boards (-0.62 at $p < 0.01$). The latter is consistent with Marra and Mazzola (2014), and a probable explanation is that firms in the GCC region with longer IFRS experience tend to employ fewer independent directors because their main role (to monitor executive managements' activities) may affect the firm's performance. A large portion of independent directors will determine and directly affect managements' accounting choices, which are directly linked to the discretion of earnings.

The results in Table 6.11 also show that firms with longer IFRS experience employ more directors with accounting qualification in their audit committees (0.01 at

$p < 0.01$). The results confirm that IFRS_EXP has a negative significant relationship with cash flow from operations (-0.11 at $p < 0.01$), indicating that firms that have adopted the IFRS for a comparatively long time have lower cash flow from operations.

Also, OWN is significantly and positively correlated with LEV (0.11 at $p < 0.01$). This is in line with the findings of Chi et al. (2015) but contradicts those of Wang (2006). This finding suggests that family-owned firms in the sample are highly leveraged. This might be due to the fact that the structure of ownership among listed firms in the GCC region affects the capital structure choices of these firms, as family-owned firms in the GCC region tend to maintain holdings in high-risk activities that require more high-risk debt financing. Possible explanation for the inconsistency with Wang's (2006) results may be related to contextual and sample size reasons; Wang (2006) uses a sample from the S&P 500, an index that measures the top 500 listed firms in the US, a first world/developed country. Hence, there are huge differences between Wang's and the present study's respective sample shapes.

Among the other variables, OWN is positively correlated with GRW (0.09 at $p < 0.05$). This result is not consistent with Chi et al. (2015) and Wang (2006) and indicates that family-owned sample firms report higher sales growth than non-family sample firms. This significant correlation might be explained by the notion that firms with higher reported growth in sales are strategically better positioned in the market as they attract more investment opportunities, which might give opportunistic managers incentive and more room to manipulate earnings. Prior empirical evidence (e.g., Skinner & Sloan, 2002) shows that firms with high growth in sales are under constant pressure, as markets tend to penalise them severely if they do not report positive earnings numbers. Therefore, family firms in the GCC region may report high growth in sales figures to avoid market pressures and attract investment.

OWN is also significantly and positively correlated with PC (0.23 at $p < 0.01$), indicating that family-owned firms in the GCC are also politically connected. This result is in line with prior studies (e.g., Wang et al., 2016; Muttakin et al., 2015). This result might be explained by the robust alignment of managers' and firm owners' incentives.

In a weak regulatory environment, which characterises the majority of emerging economies (including the GCC region), family firms tend to be very competitive. Hence, family firms in the GCC region nurture political connections to exploit weaknesses in the institutional environment in which they operate and gain competitive advantage (Muttakin et al., 2015). By employing politically connected persons, Gulf family firms will gain preferential treatment and exclusive benefits such as restrictions on competitors from entering the market, market and governmental protection, and easier access to financial aid and loans (Faccio, 2006).

In respect to SIZE, the variable is significantly and negatively correlated with IBOD (-0.33 at $p < 0.01$) and significantly and positively correlated with PC (0.06 at $p < 0.10$). These results can be interpreted as bigger sized firms tending to be politically connected and having fewer independent directors on their boards. Hashmi et al. (2018) and Muttakin et al. (2015) document similar result, as they find that, compared to smaller sized firms, larger firms are more politically connected by recruiting more politically connected persons. This result is unsurprising, as large Gulf firms often recruit politically connected directors to protect and develop their economic interests by securing benefits that ensure competitive advantage and superior performance (Hillman, 2005).

The inverted relationship between firms' size and board of directors' independence can be explained by the complexity of sample firms' operations increasing with firms' size; thus, firms appoint specialised independent directors that offer valuable advice and add value to the firms. However, appointing independent directors is potentially costly (Alnaas & Rashid, 2019), and firms might recruit fewer independent

directors in accordance with their cost and benefit strategies. In addition, firms tend to employ more independent directors when operating outside their local borders to aid in identifying new sectors and investment opportunities. However, most of the sample firms operate locally, so there is less pressure for them to employ independent directors on their boards.

LEV and GRW are significantly and positively correlated (0.10 at $p < 0.05$), which is in line with den Besten et al. (2015). This result indicates that highly leveraged firms report high sales growth in their reports. GRW also has a significant relationship with CFO (0.11 at $p < 0.01$), suggesting that firms reporting high growth in their sales tend to have more cash flow from operations.

Furthermore, the results on correlation table show that the variable IBOD has a significant relationship with several other variables. For example, there is a significant positive correlation between IBOD and AUD_EXP (0.08 at $p < 0.05$), similar to that reported by Badolato et al. (2014). This result is predictable as listed firms in the GCC region with more independent directors on their boards tend to employ more accounting experts in audit committees to detect, mitigate, or prevent any potential act of earnings manipulation by management (Abdullah & Ismail, 2016).

IBOD is also significantly and positively correlated with CFO (0.08 at $p < 0.05$), suggesting that firms with a high proportion of independent directors on their boards have more cash flow from operations. In line with Haris et al. (2019), IBOD is significantly and positively correlated with PC (0.10 at $p < 0.01$), showing that sample firms with a high proportion of independent directors on their boards are also politically connected.

Contrary to expectations, Table 6.11 shows a significant and positive interaction between AUD_EXP and PC (0.01 at $p < 0.05$), suggesting that firms that employ more accounting experts in their audit committees are usually politically connected. This result can be interpreted through Gendron et al.'s (2004) conclusions.

According to Gendron et al. (2004), directors in audit committees of politically connected firms have their own personal interests and priorities, including planning for longer director membership in the firm. To secure that, those independent directors tend to show some aspects of diligent biased behaviour towards politically connected allies within the firm (either when invited to the committee while the firm is politically connected or before that), as those politically connected members can facilitate and support their personal agenda, and vice versa. Such interest-based allegiance behaviour from independent directors in audit committees will be more noticeable if politically connected persons signal hints of appreciation, suggesting that this behaviour might be a deciding factor for their director membership.

Building on Gendron et al.'s (2004) findings, some cultural dimensions of the GCC region, specifically favouritism towards personal connections, might explain the relationship between AUD_EXP and PC. Favouritism has strong roots in Gulf corporate settings (Atiyyah, 1992) and underpins the employment relationship in the Middle East (Budhwar et al., 2019). Hence, directors with accounting qualifications in audit committees in Gulf firms might rely on their politically connected allies to secure their future and extend their directorship contracts using their diligent biased behaviour and connections.

There is a significant positive correlation between CFO and PC (0.12 at $p < 0.01$) and significant negative correlation between CFO and WC (-0.23 at $p < 0.01$), confirming Cho and Song's (2017) findings. These results indicate that firms reporting higher cash flow from operations are politically connected. In addition, firms reporting higher cash flow from operations also report less accruals compared to other firms in the sample. The correlation between PC and WC is significant and negative (-0.06 at $p < 0.10$), suggesting that politically connected firms in the GCC report lower accruals than their non-connected competitors.

The aforementioned correlation results might not control for conceivable confounding factors. Thus, to draw more accurate conclusions and provide more robust results, multivariate regression tests are employed to investigate the formulated hypotheses. These are discussed in the next section.

6.3.3 Main Multivariate Panel Regression Analysis

This section provides and discusses the results from panel data multivariate regressions and robustness tests, investigating the relationship between IFRS experience, political connections, family ownership and earnings quality in the four sample GCC countries. To examine the relationship between these in an overarching way, this study employs various multivariate regression techniques to investigate the four hypotheses developed in Chapter 4 to address Q2–Q4 (see Table 6.12).

Table 6.12
Multivariate Technique Classifications for All Models

Research question	Hypothesis	Multivariate techniques
Q2: What is the relationship between the length of IFRS experience and earnings quality in the GCC region?	H ₁ : There is no significant relationship between reported earnings quality in the GCC countries and the length of IFRS experience.	<p>Persistence:</p> <ul style="list-style-type: none"> • EPS: Two-way cluster-robust standard error and random effects regressions • ROA: Two-way cluster-robust standard error and random effects regressions <p>Accruals:</p> <ul style="list-style-type: none"> • Dechow and Dichev's (2002) method; two-way cluster-robust standard error and random effects regressions

Research question	Hypothesis	Multivariate techniques
Q3: What is the relationship between family ownership and the quality of reported earnings for listed firms in the GCC region?	H ₂ : There is no significant relationship between family ownership and quality of reported earnings for listed firms in the GCC countries.	<p>Persistence:</p> <ul style="list-style-type: none"> • EPS: Two-way cluster-robust standard error and random effects regressions • ROA: Two-way cluster-robust standard error and random effects regressions <p>Accruals:</p> <ul style="list-style-type: none"> • Dechow and Dichev's (2002) method; two-way cluster-robust standard error and random effects regressions
Q4: What is the relationship between politically connected firms and the quality of reported earnings for listed firms in the GCC countries?	<p>H₃: There is no significant relationship between politically connected firms and quality of reported earnings for listed firms in the GCC countries.</p> <p>H₄: There is no difference in reported earnings quality between politically connected family-</p>	<p>Persistence:</p> <ul style="list-style-type: none"> • EPS: Two-way cluster-robust standard error and random effects regressions • ROA: Two-way cluster-robust standard error and random effects regressions <p>Accruals:</p> <ul style="list-style-type: none"> • Dechow and Dichev's (2002) method; two-way cluster-robust standard error and random effects regressions

Research question	Hypothesis	Multivariate techniques
	owned firms and politically connected non-family owned firms in the GCC countries.	

6.3.3.1 Main Multivariate Analysis Results for Q2 (Hypothesis 1 (H₁))

The second question investigates the relationship between the length of IFRS experience and earnings quality in the GCC region. To address this question, the panel data in this study use two properties of earnings as measurements of earnings quality: earnings persistence (using EPS and ROA as proxies) and abnormal accruals (measured using Dechow and Dichev's [2002] model).

The first hypothesis (H₁) examines the effect of length of IFRS experience (IFRS_EXP) on future earnings (EPS_{t+1} and ROA_{t+1}) and the absolute values of the residuals generated using Dechow and Dichev's (2002) model. Equation 6.1 models the first proxy of the earnings persistence subclassification of earnings quality, EPS_{t+1}. Accordingly, the variable of interest in Equation 6.1 is the interaction between current earnings (EPS_t) and IFRS_EXP. In particular, Equation 6.1 specifies EPS_{t+1} as a function of EPS_t, IFRS_EXP, interaction between EPS_t and IFRS_EXP, family ownership, firm size, leverage, growth, independence of board of directors, and accounting expertise within audit committee.

Equation 6.1

Interaction of Earnings Quality (EPS) and Length of IFRS Experience (IFRS_EXP)

$$\text{EPS}_{i,t+1} = \alpha + \beta_1 \text{EPS}_{i,t} + \beta_2 \text{IFRS_EXP}_t + \beta_3 \text{EPS}_{i,t} * \text{IFRS_EXP}_t + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{LEV}_{i,t} + \beta_6 \text{GRW}_{i,t} + \beta_7 \text{IBOD}_{i,t} + \beta_8 \text{AUD_EXP}_{i,t} + e_t$$

To meet the state of art and up to date statistical technology, this study applies and estimates each model using two-way cluster-robust standard error panel data multivariate regression estimation. In this thesis, OLS regression estimate was not employed since OLS standard errors would be biased when panel data is used in the regression (Sun et al., 2018). After reviewing the literature, this study follows the steps of Sun et al. (2018) by employing the two-way cluster-robust standard error as an effective statistical alternative to the panel data and to correct both cross-sectional and serial correlations. Utilising this regression technique provides further insights about the empirical results.

Table 6.13 reports the two-way cluster-robust standard error estimates of Equation 6.1 for testing the relationship between IFRS experience and earnings quality proxied by EPS (H_1). The table shows that the model is significant and well fitted ($F=301.57$, $p<0.000$, adjusted $R^2=0.75$); that is, all the variables in Equation 6.1 together are relevant and explain roughly 75% of the variations in EPS_{t+1} .

As shown in Table 6.13, the coefficient of EPS (1.129), reflecting current earnings, is positive and significant (0.000) at $p<0.01$. This result is in line with Liu and Sun (2015) and implies that one-year-ahead earnings equal 1.129 times current year earnings. This suggests that during the sample period, the sample firms experienced a slight growth in earnings. In addition, the result denotes that the current reported earnings of sample firms can predict their future earnings.

Table 6.13 shows that the coefficient on IFRS_EXP positive and statistically significant (0.406) at 1%. Also, the variable of interest (ESP*IFRS_EXP) is significant (0.006) at the 1% level, with a negative coefficient of -0.013 . The negative coefficient of ESP*IFRS_EXP suggests that the ability of current year earnings to predict one-year-ahead earnings declines over time with IFRS experience. This suggests compliance with the IFRS instils greater volatility in earnings as the IFRS focus on fair value. Thus, the null hypothesis (H_1) is rejected.

Table 6.13
Two-Way Cluster-Robust Standard Error Regression Results of Q2 (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	1.129	0.078	14.510	0.000
IFRS_EXP	?	0.406	0.144	2.820	0.005
EPS*IFRS_EXP	?	−0.013	0.005	−2.760	0.006
SIZE	+	−0.174	0.177	−0.980	0.327
LEV	?	2.687	4.098	0.660	0.512
GRW	+	0.186	1.047	0.180	0.859
IBOD	+	7.281	2.401	3.030	0.003
AUD_EXP	+	−0.765	0.844	−0.910	0.365
Constant		−3.387	5.330	−0.640	0.525
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.75	Number of Observations		809
F(8,800)		301.57	Prob > F		0.000
Root MSE		29.396			

Note. EPS = earnings per share, IFRS_EXP = length of IFRS experience, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

A probable rational for this result is the strict nature of the IFRS, which limit managerial discretion (Ismail et al., 2013) in choosing accounting policy choices and managers' opportunistic behaviour to manipulate earnings. Such restrictions and limitations force managers of listed firms in the GCC region to face reality and recognise their losses sooner rather than later. This, in turn, creates lower earnings persistence.

There is also a statistically significant positive relationship between independence of the board of directors (IBOD) (0.003 at $p < 0.01$) and future earnings, with a positive coefficient of 7.281. This confirms prior empirical findings and theories that appointing a higher proportion of independent board of directors is an effective mechanism for enhancing earnings quality in general (e.g., Liao & Chen, 2020; Alves, 2014; Bazaz & Mashayekhi, 2010; Klein, 2002) and improving earnings persistence in particular (e.g.,

Hoang et al., 2017; Bazaz & Mashayekhi, 2010). Independent board of directors of listed firms in the GCC region monitor managements' accounting choices (discretion of earnings), which can reduce managers' opportunistic behaviour to manipulate earnings. As independent board members exert much more influence than other board members, they can pressure management and demand high-quality earnings (Pucheta-Martínez & García-Meca, 2014).

Also, it is evident empirically (e.g., Peasnell et al., 2005) that independent directors play the main roles of exerting influence over a firm's choice of accounting policies, which affect earnings quality (Liao & Chen, 2020). Therefore, it is expected that after adopting the IFRS, independent boards of directors of Gulf listed firms became more effective in limiting and restricting the extent of earnings management, which directly affected the persistence of earnings. Finally, Table 6.13 shows that the coefficients of the independent variables SIZE (−0.235; $p=0.665$), LEV (1.952; $p=0.670$), GRW (−0.086; $p=0.973$), and AUD_EXP (−0.846; $p=0.612$) are not statistically significant and, therefore, have no significant impact on the dependent variable EPS_{t+1} .

Equation 6.2 models the second proxy of the earnings persistence subclassification of earnings quality, future earnings (ROA_{t+1}). Equation 6.2 specifies ROA_{t+1} as a function of ROA_t , IFRS_EXP, interaction between ROA_t and IFRS_EXP, family ownership, firm size, leverage, growth, independence of board of directors, and accounting expertise within audit committee.

Equation 6.2
Interaction of Earnings Quality (ROA) and IFRS Experience

$$ROA_{i,t+1} = \alpha + \beta_1 ROA_{i,t} + \beta_2 IFRS_EXP_t + \beta_3 ROA_{i,t} * IFRS_EXP_t + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 GRW_{i,t} + \beta_7 IBOD_{i,t} + \beta_8 AUD_EXP_{i,t} + e_t$$

Table 6.14 shows the two-way cluster-robust standard error regression results of Equation 6.2 for the relationship between length of IFRS experience and earnings quality

proxied by ROA (H_1). The results show that the model is significant and well fitted ($F=67.65$, $p<0.000$, adjusted $R^2=0.43$). According to the regression coefficient of ROA, which is significantly (1.111) positive at 1%, current year reported earnings in Gulf listed firms' annual reports are informative of next year's earnings. This result corroborates the findings of Muttakin et al. (2015) and Richardson et al. (2005), as it indicates that current year reported ROA numbers in Gulf listed firms' annual reports are informative of future earnings. In line with the results in Table 6.13, the results in Table 6.14 provide evidence suggesting that the ability of current year earnings to predict one-year-ahead earnings declines over time with IFRS experience ($ROA*IFRS_EXP=-0.021$; significant at 0.000, $p<0.01$). Hence, the null hypothesis (H_1) is rejected. Finally, Table 6.14 shows that the other independent variables have no significant relationships or impact at any level on ROA_{t+1} .

Table 6.14
Two-Way Cluster-Robust Standard Error Regression Results of Q2 (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	1.111	0.087	12.780	0.000
IFRS_EXP	?	0.001	0.000	2.630	0.009
ROA*IFRS_EXP	?	−0.021	0.003	−6.070	0.000
SIZE	+	0.000	0.001	0.040	0.968
LEV	?	0.008	0.014	0.590	0.556
GRW	+	0.015	0.015	1.010	0.313
IBOD	+	0.022	0.021	1.080	0.282
AUD_EXP	+	−0.000	0.004	−0.020	0.987
Constant		−0.021	0.004	−4.840	0.000
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.43	Number of Observations		809
F(8,800)		67.65	Prob > F		0.000
Root MSE		0.126			

Note. ROA = return on assets, IFRS_EXP = length of IFRS experience, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Equation 6.3 represents Dechow and Dichev's model (2002) of abnormal accruals and modelling the accrual process (accruals quality) in addition to the absolute values of the residuals model as the second measurements proxy of earnings quality. As mentioned in Chapter 4 and in Section 5.2.2.1.3, accruals in Dechow and Dichev's model (2002) are measured by the changes in working capital (ΔWC_t) using past, present and future cash flows related to current accruals. Cash flow from operations is used in this study as a proxy for cash flow-related accruals. Equation A specifies the absolute values of the residuals (generated from Dechow and Dichev's [2002] model) as a function of IFRS_EXP, firm size, leverage, growth, independence of board of directors and accounting expertise within audit committee.

Equation 6.3
Dechow and Dichev's (2002) Model of Accruals

Dechow and Dichev's (2002) model	$\Delta WC_{i,t} = \alpha + \beta_1 CFO_{i,t-1} + \beta_2 CFO_{i,t} + \beta_3 CFO_{i,t+1} + e_t$
Equation A	$\text{Absolute Residuals}_{i,t} = \alpha + \beta_1 IFRS_EXP_t + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t} + \beta_4 GRW_{i,t} + \beta_5 IBOD_{i,t} + \beta_6 AUD_EXP_{i,t} + e_t$

The first step is to run Equation 6.3 on STATA (v. 16) and save the values of the residuals from regressions of change in working capital on last year, present and one-year-ahead cash flows from operation, based on Dechow and Dichev's (2002) model. Table 6.15 reports the results of two-way cluster-robust standard error regression estimates of Equation 6.3 for calculating the residuals. The model is significant and well fitted ($F = 43.46$, $p < 0.000$, adjusted $R^2 = 0.17$).

The results in Table 6.15 are fully consistent with prior theory and literature (e.g., Darjezi, 2016; Li et al., 2014; Dechow & Dichev, 2002), as the model captures some of the key features of accruals. As predicted, the results show that changes in working capital accruals in the current period are negatively related to current cash flow from operations and positively related to past and future cash flow from operations. The mean coefficient of current cash flow is -0.897 , significant at 1% ($p = 0.000$), while the mean coefficients of past and future cash flows (0.295 and 0.611 , respectively) are both significant ($p = 0.024$; $p = 0.001$). Therefore, this result is consistent with Dechow and Dichev (2002).

Table 6.15
Two-Way Cluster-Robust Standard Error Regression Results of Dechow and Dichev's (2002) Model

WC _t	Prediction	Coef.	SE	t	p
CFO _{t-1}	+	0.295	0.130	2.270	0.024
CFO	–	–0.897	0.071	–12.620	0.000
CFO _{t+1}	+	0.611	0.189	3.240	0.001
Constant		0.009	0.004	2.150	0.031
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.17	Number of Observations		870
F(3,866)		43.46	Prob > F		0.000
Root MSE		0.114			

Note. WC = working capital, CFO = cash flow from operations.

In line with the previous literature (Bravo & Reguera-Alvarado, 2018; Muttakin et al., 2015), the second step is to transform the saved residuals from Dechow and Dichev's (2002) model into absolute values of residuals. Then, use the saved residuals as a dependent variable in Equation A and run the model using the exact same multivariate regression technique applied in the EPS and ROA models.

Equation A
Absolute Values of the Residual's Regression Equation for Q2 Based on Dechow and Dichev's (2002) Model of Accruals

Equation A	$\text{Absolute Residuals}_{i,t} = \alpha + \beta_1 \text{IFRS_EXP}_t + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{GRW}_{i,t} + \beta_5 \text{IBOD}_{i,t} + \beta_6 \text{AUD_EXP}_{i,t} + e_t$
-------------------	---

Table 6.16 presents the results of the two-way cluster-robust standard errors regression estimations on Equation A. The model is significant and well fitted (F=27.98, $p < 0.000$, adjusted $R^2 = 0.10$). The variable of interest, IFRS_EXP, exhibits significance and positive coefficient (Coefficients= 0.003; significant at 0.000, $p < 0.01$). Therefore, the null hypothesis (H_1) is rejected. The result suggests that Gulf listed firms that have longer IFRS experience report lower accruals quality compared to other Gulf firms. It is possible that IFRS experience is capturing the country-level earnings quality, as earnings quality

in countries with the longest IFRS experience may have decreased following IFRS adoption. This decline is likely driven by low enforcement and low level of implementation. Another possible explanation for this result can be drawn from examining the sample composition (for review, see Tables 6.1 and 6.3, and discussion in section 6.2.2). It is highly likely that within the sample countries, earnings quality has not improved in some countries following the introduction of the IFRS in the GCC region (e.g., Kuwait).

Table 6.16
Two-Way Cluster-Robust Standard Error Regression Results of Equation A (Q2) (H_1)

Absolute values of residuals	Prediction	Coef.	SE	t	p
IFRS_EXP	?	0.003	0.001	7.090	0.000
SIZE	—	−0.004	0.001	−2.150	0.031
LEV	?	0.024	0.012	1.410	0.160
GRW	—	−0.013	0.007	−1.950	0.051
IBOD	—	−0.024	0.016	−1.350	0.179
AUD_EXP	—	0.001	0.004	0.190	0.849
Constant		0.089	0.025	2.450	0.014
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.10	Number of observations		809
F(6,802)		27.98	Prob > F		0.000
Root MSE		0.076			

Note. IFRS_EXP = length of IFRS experience, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

The significant and negative coefficient of SIZE (Coefficient= −0.004; significant at 0.031, $p < 0.05$) is consistent with the findings of Fang et al. (2016), Christensen et al. (2015), Al-dhamari and Ismail. (2014), Gaio (2010) and Dechow and Dichev (2002). This result suggests that larger sized Gulf firms have lower accruals and, in turn, higher earnings quality compared to smaller sized Gulf firms. This result can be explained by

larger firms in the GCC region tending to have more stable and predictable business activities, which leads to smaller estimation errors. Also, large firms are involved in diversified industries; thus, it is expected that the portfolio effects across these diversified industries lowers the relative effect of estimation errors (Dechow & Dichev, 2002).

As reported in the regression table, GRW has a moderate significant and negative relationship (Coefficient = -0.013 ; significant at 0.051, $p < 0.1$) with accruals. This result shows that the earnings of Gulf listed firms experiencing growth in sales are of high quality and have less discretionary accruals, though this finding contravenes some prior empirical findings (e.g., den Besten et al., 2015; Houque et al., 2012; Lee et al., 2006). Skinner and Sloan (2002) assert that firms experiencing growth are always under pressure and the market severely penalises them for reporting negative earnings. Therefore, growth firms are incentivised to report higher quality earnings and meet future earnings forecasts. The rest of the proposed independent variables have no significant influence on accruals quality.

6.3.3.2 Main Multivariate Analysis Results for Q3 (Hypothesis 2 (H₂))

The third question examines the relationship between family ownership and earnings quality in the GCC region. Continuing with the previous approach applied in the second question, the panel data in this study uses two properties of earnings as measurements of earnings quality: earnings persistence (using EPS and ROA as proxies) and abnormal accruals and modelling the accrual process (using Dechow and Dichev's [2002] model).

The second hypothesis (H₂) investigates the effect of OWN (family ownership) on EPS_{t+1} , ROA_{t+1} and the absolute values of the residuals generated from Dechow and Dichev's (2002) model. Equation 6.4 models the first proxy of the earnings persistence subclassification of earnings quality, EPS_{t+1} . The variable of interest in Equation 6.4 is the interaction between EPS_t and OWN. Equation 6.4 specifies EPS_{t+1} as a function of

EPS_t, OWN, interaction between EPS_t and OWN, firm size, leverage, growth, independence of board of directors and accounting expertise within audit committee.

Equation 6.4

Interaction of Earnings Quality (EPS) and Family Ownership

$$\text{EPS}_{i,t+1} = \alpha + \beta_1 \text{EPS}_{i,t} + \beta_2 \text{OWN}_{i,t} + \beta_3 \text{EPS}_{i,t} * \text{OWN}_{i,t} + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{LEV}_{i,t} + \beta_6 \text{GRW}_{i,t} + \beta_7 \text{IBOD}_{i,t} + \beta_8 \text{AUD_EXP}_{i,t} + e_t$$

Table 6.17 shows the regression estimation of Equation 6.4 for testing the relationship between family ownership and earnings quality proxied by EPS (H₂). The variable of interest in Table 6.17 is the interaction of EPS and OWN. Some of the regression results are generally consistent with those presented and discussed for Q2 (in Section 6.3.3.1).

Table 6.17
Two-Way Cluster-Robust Standard Error Regression Results of Q3 (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	0.825	0.046	17.910	0.000
OWN	?	0.506	2.457	0.210	0.837
EPS*OWN	?	0.084	0.054	1.550	0.120
SIZE	+	0.095	0.240	0.390	0.693
LEV	?	0.476	4.646	0.100	0.918
GRW	+	-1.076	1.307	-0.820	0.411
IBOD	+	2.711	2.208	1.230	0.220
AUD_EXP	+	-0.236	0.968	-0.240	0.808
Constant		0.788	5.842	0.130	0.893
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.75	Number of observations		809
F(8,800)		285.02	Prob > F		0.000
Root MSE		29.518			

Note. EPS = earnings per share, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

The results in Table 6.17 show that EPS is strongly significant ($p=0.000$) at the 1% level, with a positive coefficient of 0.825, indicating that one-year-ahead earnings equal 0.825 times current year earnings. This suggests that during the sample period, Gulf listed firms experienced a slight growth in earnings. The result also suggests that current reported earnings by sample firms in the GCC region can predict future earnings. In relation to the variable of interest, the results in Table 6.17 show that the coefficient of the interaction of EPS and OWN is positive (0.084; $p=0.120$) but not statistically significant at any level. This supports the second null hypothesis (H_2), and it suggests that the family ownership status—family owned or non-family owned—of a Gulf firm does not affect earnings quality. Finally, the results in Table 6.17 show that the rest of the independent variables have no significant relationships or impact at any level on EPS_{t+1} .

Equation 6.5 models the second proxy of the earnings persistence subclassification of earnings quality, ROA_{t+1} . Equation 6.5 specifies ROA_{t+1} as a function of ROA_t , OWN, interaction between ROA_t and OWN, firm size, leverage, growth, independence of board of directors and accounting expertise within audit committee.

Equation 6.5
Interaction of Earnings Quality (ROA) and Family Ownership

$$ROA_{i,t+1} = \alpha + \beta_1 ROA_{i,t} + \beta_2 OWN_{i,t} + \beta_3 ROA_{i,t} * OWN_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 GRW_{i,t} + \beta_7 IBOD_{i,t} + \beta_8 AUD_EXP_{i,t} + e_t$$

Tables 6.18 presents the two-way cluster-robust standard error regression estimates of Equation 6.5 for testing the relationship between family ownership and earnings quality proxied by ROA (H_2).

Table 6.18

<i>Two-Way Cluster-Robust Standard Error Regression Results of Q3 (ROA)</i>					
ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	0.652	0.044	14.720	0.000
OWN	?	0.021	0.012	1.730	0.084
ROA*OWN	?	-0.062	0.111	-0.560	0.578
SIZE	+	0.002	0.001	1.910	0.057
LEV	?	-0.009	0.007	-1.260	0.210
GRW	+	0.011	0.015	0.770	0.440
IBOD	+	0.009	0.016	0.560	0.576
AUD_EXP	+	0.000	0.005	0.050	0.957
Constant		-0.019	0.019	-0.980	0.329
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.43	Number of Observations		809
F(8,800)		43.46	Prob > F		0.000
Root MSE		0.126			

Note. ROA = return on assets, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

The results in Table 6.18 are consistent with this thesis's prior reported findings. The results clearly confirm that current earnings (Coefficient= 0.652; $p=0.000$ at 1%) is positive and significant. Panel data regressions also present that there is a statistically significant relationship between family ownership ((Coefficient= 0.021; $p=0.084$, at 10%) and future earnings. This confirms prior earnings quality research that suggests a positive relationship between family ownership and earnings quality (Muttakin et al., 2015).

The result suggests that in one year ahead, family-owned firms in the GCC region will report higher earnings compared to non-family firms, but not necessarily higher persistent earnings. In the context of the Gulf region and consistent with the alignment effect, family-owned firms might report higher future earnings based on the assumption

that they do not suffer from Type I agency problem, which arises from the separation of ownership and management. The owning family's direct involvement, close monitoring and better knowledge of the firms' business substantially motivate them to protect their family's reputation and report higher future earnings. Such unique kinship is used as a competitive advantage by family-owned Gulf firms. Consistent with prior results on the other persistence proxy table (i.e., EPS), the coefficient of ROA*OWN is also not significant. Therefore, the second null hypothesis (H_2) is supported.

Equation A
Absolute Values of the Residual's Regression Equation for Q3 Based on Dechow and Dichev's (2002) Model of Accruals

Equation A	Absolute Residuals_{i,t} = $\alpha + \beta_1 \text{OWN}_t + \beta_2 \text{SIZE}_{i,t} + \beta_3 \text{LEV}_{i,t} + \beta_4 \text{GRW}_{i,t} + \beta_5 \text{IBOD}_{i,t} + \beta_6 \text{AUD_EXP}_{i,t} + e_t$
-------------------	--

Table 6.19 shows that the coefficient of family ownership is highly significant and negative (−0.021; $p=0.001$ at $p<0.01$). This result agrees with the assertion that, in comparison to non-family Gulf firms, family-owned Gulf firms have higher accruals quality and, therefore, high-quality reported earnings. Therefore, the second null hypothesis (H_2) is rejected. This result is in line with the findings of Boonlert-U-Thai and Sen (2019), Reyna (2018) and Wang (2006).

Table 6.19

Two-Way Cluster-Robust Standard Error Regression Results of Equation A (Q3) (H₂)

Absolute values of residuals	Prediction	Coef.	SE	t	p
OWN	?	−0.021	0.006	−3.410	0.001
SIZE	—	−0.000	0.002	−0.100	0.922
LEV	?	0.028	0.018	1.550	0.121
GRW	—	−0.017	0.007	−2.480	0.013
IBOD	—	−0.088	0.016	−5.590	0.000
AUD_EXP	—	0.006	0.005	1.370	0.170
Constant		0.101	0.036	2.790	0.005
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.08	Number of observations		809
F(6,802)		14.97	Prob > F		0.000
Root MSE		0.078			

Note. OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

This result agrees with agency theory and the incentive alignment effect, suggesting that the reported earnings of family-owned firms are of a higher quality since managers have the incentive to report in good faith (Givoly et al., 2010; Wang, 2006). The alignment effect suggests that concentrated ownership, as is the case in family ownership, allows for highly effective monitoring by family directors (Shleifer & Vishny, 1997). It also proposes that managers of family-owned firms are less likely to seek private benefits or purposely manipulate earnings or other financial information at the expense of minority shareholders and outsiders, as concentrated family ownership minimises and limits managers' opportunistic behaviour. Also, family-owned firms usually prepare long-term plans for sustainable presence in the market, care about the family's name and corporate reputation, and aim to pass on their success and corporate experience to future generations. Thus, family-owned firms align their interests with those of other

shareholders, reduce Type I agency problems, and tend to report high-quality earnings and forgo short-term objectives.

In line with prior reported results, the results in Table 6.19 show that Gulf sample firms with greater sales growth rates are associated with higher accruals and earnings quality (-0.017 ; $p=0.013$ at $p<0.05$). Finally, the coefficient of independent directors on Gulf firms' boards (IBOD) is significant and negative (-0.088 ; $p=0.000$ at $p<0.01$), indicating that Gulf firms with a higher proportion of independent directors on their boards have higher accruals and earnings quality.

Consistent with the evidence from prior literature (Bryan & Mason, 2020; Lee, 2013) and contrary to the findings of Lisboa and Costa (2020), the significant and negative coefficient of IBOD supports the theoretical proposition of agency theory that independent directors' monitoring role is crucial in terms of reinforcing the credibility and quality of financial data in annual reports, including reported earnings. This is due to their ability to persuade managers to publish more accurate financial information (Lee, 2013). A higher proportion of independent directors on Gulf listed firms' boards constrains managements' opportunistic behaviour and offers superior oversight of managements' choices of accounting policies (Saona et al., 2020). Thus, the appointment of independent directors increases both accruals and earnings quality.

6.3.3.3 Multivariate Analysis Results for Q4 (Hypotheses 3 (H_3) and 4 (H_4))

6.3.3.3.1 Multivariate Analysis Results for Hypothesis 3 (H_3)

The fourth and last question investigates the relationship between political connections, family ownership and earnings quality in the GCC region. Following the same analytical approach applied for Q2 and Q3, the panel data in this study employs two properties of earnings to measure earnings quality: earnings persistence (using EPS and ROA as proxies) and abnormal accruals and modelling the accrual process (using Dechow and Dichev's [2002] model).

This study proposes the third hypothesis (H_3) to investigate the effect of political connections (PC) on EPS_{t+1} , ROA_{t+1} and the absolute values of residuals generated from Dechow and Dichev's (2002) model. Thus, the variable of interest in H_3 is the interaction between EPS_t and ROA_t and PC. Equation 6.6 models the first proxy of the earnings persistence subclassification of earnings quality, EPS_{t+1} . Equation 6.6 specifies EPS_{t+1} as a function of EPS_t , PC, interaction between EPS_t and PC, firm size, leverage, growth, independence of board of directors and accounting expertise within audit committee.

Equation 6.6
Interaction of Earnings Quality (EPS) and Political Connections

$$EPS_{i,t+1} = \alpha + \beta_1 EPS_{i,t} + \beta_2 PC_{i,t} + \beta_3 EPS_{i,t} * PC_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRW_{i,t} + \beta_8 IBOD_{i,t} + \beta_9 AUD_EXP_{i,t} + e_t$$

In agreement with earlier findings, the regression estimation results presented in Table 6.20 show that the coefficient of EPS (0.848) is positive and significant (0.000 at $p < 0.01$). This suggests that one-year-ahead earnings equal 0.848 times current year earnings, sequentially. In other words, Gulf listed firms experienced a slight growth in earnings and current reported earnings are informative of future earnings.

Interestingly, the results also reveal that $EPS * PC$ is positive and significant for the full sample with a coefficient (p -value) of 0.095 (0.055 at $p < 0.1$). This result clearly demonstrates that politically connected Gulf firms have higher earnings persistence and earnings quality compared to non-connected Gulf firms. This result is inconsistent with the supposition that there is no significant relationship between politically connected firms and quality of earnings for listed firms in the GCC region, thus, the null hypothesis (H_3) is rejected.

Table 6.20

Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₃) (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	0.848	0.028	30.100	0.000
PC	?	-3.617	3.113	-1.160	0.246
EPS*PC	?	0.095	0.049	1.920	0.055
SIZE	+	0.288	0.248	1.160	0.246
LEV	?	1.427	4.751	0.300	0.764
GRW	+	-0.925	1.060	-0.870	0.383
IBOD	+	2.893	1.858	1.560	0.120
AUD_EXP	+	-1.224	1.250	-0.980	0.327
Constant		-1.187	6.101	-0.190	0.846
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.75	Number of Observations		809
F(8,800)		250.75	Prob > F		0.000
Root MSE		29.578			

Note. EPS = earnings per share, PC = political connections, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

This result is contrary to that of prior studies (e.g., Tee & Rasiah, 2020; Ben-Nasr et al., 2015; Chaney et al., 2011), which were undertaken in other contexts, employed different earnings persistence proxies and reported a negative relationship between political connections, earnings persistence and earnings quality. This result can be explained by GCC's unique institutional, socio-political and cultural settings.

The Gulf economies and markets are heavily affected by political connections (exemplified by royal family members being on company boards), familism, favouritism and nepotism. These distinctive cultural tools are used when conducting business in the GCC region (Nasser, 2019; Al-Hadi et al., 2016; Hvidt, 2013). The economic environment of the GCC region is built on the strength of common interests, including

solid relationships between politically connected merchant families and ruling dynasties (see Chapter 2).

In the GCC region, royal family members have power over both the economic and political regimes (Al-Hadi et al., 2017). As board members, royal family members have prestigious status due to their impact on the quality of information published in any firm's financial reports (Al-Hadi et al., 2016; Chaney et al., 2011). Politically connected members on Gulf firms' boards also have great influence on firms' decision-making process (Nasser, 2019) and managers' incentives.

Thus, this thesis's result that politically connected Gulf firms have higher earnings persistence and earnings quality compared to non-connected Gulf firms supports the notion that politically connected members on Gulf firms' boards do not necessarily behave in an opportunistic way to seek private benefits at the expense of minority shareholders. They may actually improve firm performance, the quality of financial reports (Al-Hadi et al., 2016) and earnings quality. Prior research has shown that listed firms tend to use political connections to secure extensive benefits, including government contracts, preferential tax treatment, easier access to loans, bail outs during any financial distress and a shield against any government intervention that might restricts the firm's economic expansion (Hertog, 2012; Faccio, 2006; Khwaja & Mian, 2005).

Nevertheless, politically connected firms bear more reputational and political costs than non-connected firms since they are closely scrutinised by media and the public (Tee & Rasiah, 2020). Accordingly, they do not like to attract any negative attention (Nasser, 2019) and try to improve their long-term profitability and earnings quality. For example, politically connected royal family directors of Gulf listed firms can link firms with an informal network of politicians and financial institutes. Such informal connections and unique cultural nepotism would ensure firms' independence from the government and shield them from any authoritarian intervention.

Any financial or accounting scandal resulting from earnings manipulation severely damages the reputation of politically connected Gulf firms, and the scandalised firm will receive negative media coverage and public criticism. This also risks the reputation of any politicians or elites connected to the firm (formally or informally) (Tee & Rasiah, 2020). Therefore, politically connected directors in Gulf listed firms have the incentive to preserve their wealth and prevent or mitigate any possible reputation damage by effectively monitoring managements' activities and reporting high-quality persistent earnings.

Another plausible justification for this result is based on the fundamental premise that public pressure on politically connected Gulf firms is constant, as the public has high expectations that politically connected firms are more likely to report high-quality and persistent earnings due to the presence of highly reputable, politically connected directors with prestigious résumé on their boards. Therefore, these politically connected directors are expected to help the firm access various government resources and provide sensitive information that would improve the quality of reported earnings and firm's value—to separate themselves from competitors and/or politically unconnected firms, to use these numbers as a competitive advantage and to send a positive signal to the market, financial lenders and public. Finally, the results in Table 6.20 confirm that the other independent variables are not significant and have no influence on earnings persistence at any level.

Equation 6.7 models the second proxy of the earnings persistence subclassification of earnings quality, ROA_{t+1} . The variable of interest in third hypothesis (H_3) is the interaction between ROA_t and PC. Equation 6.7 specifies future earnings (ROA_{t+1}) as a function of ROA_t , PC, interaction between ROA_t and PC, firm size, leverage, growth, independence of board of directors and accounting expertise within audit committee.

Equation 6.7
Interaction of Earnings Quality (ROA) and Political Connections

$$ROA_{i,t+1} = \alpha + \beta_1 ROA_{i,t} + \beta_2 PC_{i,t} + \beta_3 ROA_{i,t} * PC_{i,t} + \beta_5 SIZE_{i,t} + \beta_6 LEV_{i,t} + \beta_7 GRW_{i,t} + \beta_8 IBOD_{i,t} + \beta_9 AUD_EXP_{i,t} + e_t$$

The regression estimation results of Equation 6.7 presented in Table 6.21 show that ROA is positive and highly significant, with a coefficient (*p*-values) of 0.595 (*p*=0.000) at 1% level. The positive coefficient of ROA suggests that one-year-ahead earnings equal 0.595 times current year earnings, sequentially. Simply put, current reported earnings, proxied as ROA, are informative of future earnings, and Gulf listed firms experienced a slight growth in earnings.

Table 6.21
Two-way Cluster-Robust Standard Error Regression Results of Q4 (H₃) (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	<i>p</i>
ROA	+	0.595	0.031	19.070	0.000
PC	?	-0.012	0.016	-0.720	0.473
ROA*PC	?	0.274	0.072	3.800	0.000
SIZE	+	0.001	0.001	1.970	0.049
LEV	?	0.003	0.012	0.260	0.797
GRW	+	0.012	0.015	0.810	0.418
IBOD	+	0.006	0.014	0.440	0.662
AUD_EXP	+	-0.004	0.005	-0.680	0.497
Constant		-0.002	0.011	-0.160	0.873
Number of Clusters (Company)			222	Number of Clusters (Year)	4
Adj. R-Squared			0.44	Number of Observations	809
F(8,800)			69.41	Prob > F	0.000
Root MSE			0.125		

Note. ROA = return on assets, PC = political connections, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Contrary to expectations, the coefficient of the interaction term ROA*PC is positive and highly significant (coefficient = 0.274; $p=0.000$) at 1% level. This result shows that, relative to politically unconnected firms, politically connected Gulf firms appear to have higher earnings persistence as measured by ROA and, therefore, higher earnings quality. Therefore, this result rejects null hypothesis (H_3). In relation to the other independent variables, the results provide strong evidence that large-sized Gulf listed firms have higher earnings persistence and higher earnings quality compared to other Gulf firms (Coefficient=0.001; $p=0.049$; at $p<0.05$).

Equation A
*Absolute Values of the Residuals Regression Equation for Q4 (H_3) Based on Dechow
and Dichev's (2002) Model of Accruals*

Equation A	Absolute Residuals$_{i,t} = \alpha + \beta_1 PC_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 LEV_{i,t}$ $+ \beta_4 GRW_{i,t} + \beta_5 IBOD_{i,t} + \beta_6 AUD_EXP_{i,t} + e_t$
-------------------	--

Table 6.22 reports the results of two-way cluster-robust standard errors regression estimation on the absolute values of residuals (from Equation A). The results show that the PC coefficient (−0.016) is negative, in contrast to the prediction, and significant ($p=0.008$; at $p<0.01$). The findings indicate that, in relation to politically unconnected firms, politically connected Gulf firms have higher accruals quality, suggesting higher earnings quality. Therefore, the result rejects null hypothesis (H_3).

Table 6.22
Two-Way Cluster-Robust Standard Error Regression Results of Equation A (Q4) (H₃)

Absolute values of residuals	Prediction	Coef.	SE	t	p
PC	?	−0.016	0.006	−2.670	0.008
SIZE	—	−0.000	0.002	−0.050	0.957
LEV	?	0.024	0.018	1.300	0.195
GRW	—	−0.019	0.007	−2.840	0.005
IBOD	—	−0.083	0.016	−5.200	0.000
AUD_EXP	—	0.007	0.005	1.530	0.127
Constant		0.094	0.037	2.540	0.011
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.07	Number of observations		809
F(6,802)		14.08	Prob > F		0.000
Root MSE		0.078			

Note. PC = political connections, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

The positive relationship between political connections and earnings quality is inconsistent with the majority of empirical research, which documents that political connections lead to poorer earnings quality and poorer accruals quality (e.g., Belghitar et al., 2019; Hashmi et al., 2018; Sadiq & Othman, 2017; Harymawan & Nowland, 2016; Al-dhamari & Ismail, 2015; Chaney et al., 2011). However, the result complements the empirical conclusions of Cho and Song (2017), Batta et al. (2014) and Song et al. (2011), who find a positive relationship between political connections and accruals quality by using slightly different measurements of accruals quality. (For theoretical reasoning and justification of this result, see the discussion on the results in Table 6.20.)

The results also present that the coefficients of GRW (−0.019) and IBOD (−0.083) are negative and statistically significant ($p=0.005$ and $p=0.000$, respectively), both at 1% levels. These results support the notion that those politically connected sample firms that

experience growth in sales and have a high proportion of independent directors on their boards also have high accruals and earnings quality, as compared to their politically unconnected counterparts.

6.3.3.3.2 Multivariate Analysis Results for Hypothesis 4 (H_4)

The fourth and last hypothesis (H_4) examines the quality of earnings (i.e., EPS_{t+1} , ROA_{t+1} and the absolute values of residuals generated from Dechow and Dichev's [2002] model) between politically connected family-owned firms and politically unconnected family-owned firms. The variable of interest is the interaction between PC*OWN and the three earnings quality measurements (EPS_{t+1} , ROA_{t+1} and the absolute values of the residuals generated from Dechow and Dichev's [2002] model). Equation 6.8 models the first proxy of the earnings persistence subclassification of earnings quality, EPS_{t+1} . Equation 6.8 specifies EPS_{t+1} as a function of EPS_t ; PC; OWN; interaction between EPS_t and PC; interaction between EPS_t and OWN; interaction between EPS_t , PC and OWN; firm size; leverage; growth; independence of board of directors; and accounting expertise within audit committee.

Equation 6.8

Interaction of Earnings Quality (EPS), Political Connections and Family Ownership

$$\begin{aligned} EPS_{i,t+1} = & \alpha + \beta_1 EPS_{i,t} + \beta_2 PC_{i,t} + \beta_3 OWN_{i,t} + \beta_4 EPS_{i,t} * PC_{i,t} + \beta_5 \\ & EPS_{i,t} * OWN_{i,t} + \beta_6 EPS_{i,t} \\ & * PC_{i,t} * OWN_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 LEV_{i,t} + \beta_9 GRW_{i,t} + \beta_{10} IBOD_{i,t} + \beta_{11} \\ & AUD_EXP_{i,t} + e_t \end{aligned}$$

Table 6.23 presents the results of the two-way cluster-robust standard error regression estimates of Equation 6.8 for testing the relationship between politically connected family-owned Gulf firms and earnings quality proxied by EPS. The results are consistent with those reported earlier for (H_3). As Table 6.23 shows, during the sample period, current reported earnings (EPS ; $p=0.000$) in Gulf firms experienced a slight growth and one-year-ahead earnings equal 0.800 times current year earnings. That is, current reported earnings are informative of future earnings, and Gulf listed firms

experienced a slight growth in earnings. Additionally, politically connected Gulf listed firms appear to have higher earnings persistence (EPS*PC; $p=0.028$) compared to politically unconnected Gulf listed firms.

Table 6.23
Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₄) (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	0.800	0.046	17.520	0.000
PC	?	-3.907	2.598	-1.500	0.133
OWN	?	1.303	1.900	0.690	0.493
EPS*PC	?	0.129	0.058	2.210	0.028
EPS*OWN	?	0.092	0.056	1.650	0.100
EPS*PC*OWN	?	-0.061	0.050	-1.220	0.221
SIZE	+	0.147	0.269	0.550	0.585
LEV	?	1.808	4.192	0.430	0.666
GRW	+	-1.189	1.384	-0.860	0.390
IBOD	+	2.555	2.498	1.020	0.307
AUD_EXP	+	-1.044	1.193	-0.870	0.382
Constant		0.513	6.057	0.080	0.933
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.75	Number of Observations		809
F(11,797)		342.15	Prob > F		0.000
Root MSE		29.467			

Note. EPS = earnings per share, PC = political connections, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

As expected, the table also shows that the quality of earnings in politically connected family-owned Gulf listed firms is not significant at any level (EPS*PC*OWN; $p=0.221$). This supports the fourth null hypothesis (H₄) that there is no difference in reported earnings quality between politically connected family-owned firms and politically connected non-family firms in the GCC countries. Statistically, this result is

justified since there is high correlation between PC and OWN. The results in the Pearson correlation (Table 6.11) previously showed that OWN is significantly and positively correlated with PC (0.23 at $p < 0.01$), suggesting that family-owned Gulf firms are also politically connected.

The uniqueness of the GCC region's institutional setting can explain this result. As previously discussed, family ownership and political connections are influential and especially prevalent in the GCC region. Based on the full sample, the descriptive statistics in Table 6.9 demonstrate that around 46% of the sample firms across the four sample countries are family owned and approximately 25% are politically connected.

Table 6.10 provides further insights from a country-to-country analysis. For instance, around 69% of Qatari sample firms are family owned and 74% are politically connected. Therefore, it is most likely that those family-owned Qatari firms are also politically connected. For example, the largest listed firms in Qatar—Aamal Real Estate, Qatar Electricity and Water, Ezden Holding, and Gulf International—are all family owned and politically connected.

Equation 6.9 models the second proxy of the earnings persistence subclassification of earnings quality, ROA_{t+1} . Equation 6.9 specifies ROA_{t+1} as a function of ROA_t ; PC; OWN; interaction between ROA_t and PC; interaction between ROA_t and OWN; interaction between ROA_t , PC and OWN; firm size; leverage; growth; independence of board of directors; and accounting expertise within audit committee.

Equation 6.9

Interaction of Earnings Quality (ROA), Political Connections and Family Ownership

$$ROA_{i,t+1} = \alpha + \beta_1 ROA_{i,t} + \beta_2 PC_{i,t} + \beta_3 OWN_{i,t} + \beta_4 ROA_{i,t} * PC_{i,t} + \beta_5 ROA_{i,t} * OWN_{i,t} + \beta_6 ROA_{i,t} * PC_{i,t} * OWN_{i,t} + \beta_7 SIZE_{i,t} + \beta_8 LEV_{i,t} + \beta_9 GRW_{i,t} + \beta_{10} IBOD_{i,t} + \beta_{11} AUD_EXP_{i,t} + \epsilon_t$$

Table 6.24 presents the regression estimate of Equation 6.9 for testing (H_4). The results largely parallel those previously presented in Tables 6.18 and 6.21. Table 6.24

shows that the coefficient of ROA (Coefficient= 0.620; $p=0.000$) is positive and significant, suggesting that there is a slight growth in current reported earnings of Gulf sample firms, as one-year-ahead earnings equal 0.620 times current year earnings. Also, current earnings, proxied as ROA, are informative of future earnings.

Table 6.24
Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₄) (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	0.620	0.048	12.830	0.000
PC	?	-0.018	0.015	-1.170	0.244
OWN	?	0.021	0.010	2.230	0.026
ROA*PC	?	0.256	0.121	2.110	0.035
ROA*OWN	?	-0.080	0.135	-0.590	0.552
ROA*PC*OWN	?	0.053	0.218	0.240	0.809
SIZE	+	0.001	0.001	1.880	0.061
LEV	?	-0.004	0.003	-1.220	0.222
GRW	+	0.010	0.015	0.700	0.487
IBOD	+	0.008	0.014	0.550	0.582
AUD_EXP	+	-0.004	0.006	-0.660	0.511
Constant		-0.010	0.017	-0.580	0.561
Number of Clusters (Company)		222	Number of Clusters (Year)		4
Adj. R-Squared		0.44	Number of Observations		809
F(11, 797)		54.03	Prob > F		0.000
Root MSE		0.125			

ROA = return on assets, PC = political connections, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Moreover, the coefficient of OWN (Coefficient= 0.021; $p=0.026$) and ROA*PC (Coefficient= 0.256; $p=0.035$) are positive and significant, meaning that the reported earnings of family-owned Gulf listed firms are of a higher quality compared to those of non-family Gulf listed firms. In addition, the results clearly show that politically

connected Gulf listed firms have higher earnings persistence and higher earnings quality than politically unconnected Gulf listed firms.

Table 6.24 also reports a positive and statistically significant coefficient of the variable SIZE (Coefficient= 0.001; $p=0.061$), indicating that large-sized Gulf firms report higher quality of earnings than smaller sized Gulf firms. Regarding the variable of interest, the coefficient of the interaction term ROA*PC*OWN (Coefficient= 0.053; $p=0.809$) is not significant, confirming prior results. This result supports the fourth null hypothesis (H_4).

Equation A

Absolute Values of the Residuals Regression Equation for Q4 (H_4) Based on Dechow and Dichev's (2002) Model of Accruals

Equation A	$\text{Absolute Residuals}_{i,t} = \alpha + \beta_1 \text{PC}_{i,t} + \beta_2 \text{OWN}_{i,t} + \beta_3 \text{PC}_{i,t} * \text{OWN}_{i,t} + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{LEV}_{i,t} + \beta_6 \text{GRW}_{i,t} + \beta_7 \text{IBOD}_{i,t} + \beta_8 \text{AUD_EXP}_{i,t} + e_t$
-------------------	--

Table 6.25
Two-Way Cluster-Robust Standard Error Regression Results of Q4 (H₄)

Absolute values of residuals	Prediction	Coef.	SE	t	p
PC	?	−0.004	0.016	−0.260	0.795
OWN	?	−0.016	0.008	−2.080	0.038
PC*OWN	?	−0.012	0.024	−0.480	0.631
SIZE	+	0.000	0.002	0.030	0.974
LEV	?	0.028	0.017	1.660	0.097
GRW	+	−0.017	0.007	−2.580	0.010
IBOD	+	−0.086	0.016	−5.400	0.000
AUD_EXP	+	0.007	0.004	1.500	0.134
Constant		0.096	0.037	2.580	0.010
Number of Clusters (Company)			222	Number of Clusters (Year)	4
Adj. R-Squared			0.08	Number of Observations	809
F(8,800)			11.39	Prob > F	0.000
Root MSE			0.077		

Note. PC = political connections, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Table 6.25 presents the results of panel data regressions examining the relationship between accruals quality and politically connected family-owned Gulf firms, applying the two-way cluster-robust standard errors estimation for Equation A. The regression estimation results shown in Table 6.25 are similar to and consistent with the prior findings reported in this thesis. The results show a negative significant relationship between family ownership (OWN coefficient = −0.016; $p=0.038$) and discretionary accruals. This inverse result implies that Gulf family-owned firms have higher accruals quality and, therefore, higher earnings quality compared to non-family Gulf firms.

Further, there is a positive significant relationship between highly leveraged Gulf firms (LEV coefficient = 0.028; $p=0.097$) and discretionary accruals. This shows that

accruals in highly leveraged Gulf firms are of low quality and, hence, the quality of earnings is also low. The absolute values of residuals are negatively and significantly associated with firms' growth (GRW coefficient = -0.017 ; $p=0.010$) and independence of board of directors (IBOD coefficient = -0.086 ; $p=0.000$), meaning that Gulf firms experiencing growth in sales and with a higher proportion of independent directors on their boards have higher accruals quality and higher earnings quality.

Per expectations, the results show that in the GCC region, the quality of earnings (accruals) in politically connected family-owned firms and politically unconnected family-owned firms are virtually the same (PC*OWN coefficient = 0.012 ; $p=0.619$). This does not support earlier empirical findings reporting that, in general, politically connected family-owned firms perform better (e.g., Muttakin et al., 2015) and have higher accruals and earnings quality (e.g., Hashmi et al., 2018). The result supports the fourth null hypothesis (H_4).

6.3.4 Robustness Checks

This section presents the robustness checks for the results, employing an alternative regression estimation (i.e., random effects). The purpose of employing random effects as an alternative regression estimation is to provide assurance that the main reported multivariate regression results are not sensitive to other regression estimations. The researcher estimates the same exact models on the pooled sample of 1,332 firm-year observations, with the results presented in Tables 6.26–6.38.

6.3.4.1 Robust Analysis Results for Q2 (Hypothesis 1 (H_1))

Broadly, the results of random effects regression are consistent with the previously presented main regression results (see Table 6.13). The table shows that the coefficient of EPS (1.139 ; $p=0.000$ significant at 1%) is significant. Also, the coefficient on IFRS_EXP is positive and statistically significant (0.422 ; $p=0.043$). In relation to the variable of interest (i.e., EPS*IFRS_EXP), the findings in Table 6.26 show that Gulf

sample firms with longer IFRS adoption experience (EPS*IFRS_EXP; $p=0.000$, significant at 1%) are associated with lower earnings persistence. Thus, the null hypothesis (H_1) is rejected. Finally, the coefficients of the rest of the independent variables are not significant.

Table 6.26
Random Effects Regression Results of Q2 (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	1.139	0.079	14.460	0.000
IFRS_EXP	?	0.422	0.209	2.020	0.043
EPS*IFRS_EXP	?	-0.014	0.004	-3.690	0.000
SIZE	+	-0.176	0.559	-0.320	0.753
LEV	?	2.905	4.709	0.620	0.537
GRW	+	0.172	2.584	0.070	0.947
IBOD	+	7.249	6.538	1.110	0.268
AUD_EXP	+	-0.663	1.727	-0.380	0.701
Constant		-3.523	9.916	-0.360	0.722
Mean Dependent Variable		31.048	SD Dependent Variable		59.308
Overall R-Squared		0.76	Number of Observations		809
Chi ²		2296.793	Prob > Chi ²		0.000
R-Squared Within		0.000	R-squared Between		0.939

Note. EPS = earnings per share, IFRS_EXP = length of IFRS experience, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Table 6.27 presents the results of estimating the ROA model. The key results remain qualitatively similar to the previously reported results. Specifically, the coefficient of ROA is positive and significant (1.111; $p=0.000$) across all sample years. Further, except for the variable of interest (ROA*IFRS, -0.021; $p=0.004$), the table shows that the results remain consistent with the main findings as all other independent variables are not significant. Therefore, the result rejects the null hypothesis (H_1).

Table 6.27
Random Effects Regression Results of Q2 (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	1.111	0.166	6.670	0.000
IFRS_EXP	?	0.001	0.001	1.500	0.132
ROA*IFRS_EXP	?	-0.021	0.007	-2.900	0.004
SIZE	+	0.000	0.002	0.020	0.987
LEV	?	0.008	0.020	0.410	0.681
GRW	+	0.015	0.011	1.350	0.177
IBOD	+	0.022	0.027	0.820	0.412
AUD_EXP	+	0.000	0.007	-0.010	0.992
Constant		-0.021	0.041	-0.520	0.603
Mean Dependent Variable		0.055	SD Dependent Variable		0.167
Overall R-Squared		0.44	Number of Observations		809
Chi ²		622.380	Prob > Chi ²		0.000
R-Squared Within		0.000	R-squared Between		0.839

Note. ROA = return on assets, IFRS_EXP = length of IFRS experience, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Regarding the accruals quality models, no qualitative differences are found from the results reported earlier. First, Table 6.28 shows that changes in working capital accruals in the current period are negatively related to current cash flow from operations (Coefficient= -0.893, $p=0.000$) and positively related to past cash flow from operations (Coefficient= 0.295; $p=0.000$) and future cash flow from operations (Coefficient= 0.604; $p=0.000$).

Table 6.28					
<i>Random Effects Regression Results of Dechow and Dichev's (2002) Model</i>					
WC _t	Prediction	Coef.	SE	t	p
CFO _{t-1}	+	0.295	0.071	4.170	0.000
CFO	–	–0.893	0.071	–12.600	0.000
CFO _{t+1}	+	0.604	0.072	8.360	0.000
Constant		0.009	0.005	1.790	0.074
Mean Dependent Variable		0.009	SD Dependent Variable		0.126
Overall R-Squared		0.18	Number of Observations		870
Chi ²		186.787	Prob > Chi ²		0.000
R-squared within		0.200	R-squared between		0.112

Note. WC = working capital, CFO = cash flow from operations.

Second, Table 6.29 shows that the absolute values of the residuals still exhibit a negative and significant relationship between firm size and accruals quality (Coefficient= –0.004; $p=0.026$). Moreover, still, the table shows that there is a positive and significant relationship between IFRS experience and accruals quality (Coefficient= 0.003; $p=0.000$). Thus, the null hypothesis (H_1) is rejected.

Table 6.29
Random Effect Regression Results of Equation A (Q2) (H₁)

Absolute values of residuals	Prediction	Coef.	SE	t	p
IFRS_EXP	?	0.003	0.001	4.810	0.000
SIZE	—	−0.004	0.002	−2.230	0.026
LEV	?	0.020	0.015	1.310	0.191
GRW	—	−0.005	0.006	−0.890	0.372
IBOD	—	−0.018	0.022	−0.830	0.406
AUD_EXP	—	−0.001	0.006	−0.100	0.922
Constant		0.092	0.035	2.600	0.009
Mean Dependent Variable		0.077	SD Dependent Variable		0.081
Overall R-Squared		0.11	Number of Observations		809
Chi ²		44.873	Prob > Chi ²		0.000
R-squared within		0.000	R-squared between		0.178

Note. IFRS_EXP = length of IFRS experience, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

6.3.4.2 Robust Analysis Results for Q3 (Hypothesis 2 (H₂))

After re-running the family ownership model using random effects regression estimation, Table 6.30 shows that although the significance level of the variable of interest (EPS*OWN) is changed (Coefficient= 0.086 at 5%), the results are still qualitatively consistent with the previously reported findings. This result suggests that family-owned Gulf firms report higher persistent earnings compared to non-family Gulf firms. Therefore, H₂—that there is no significant relationship between family ownership and quality of reported earnings for listed firms in the GCC countries—is rejected. This result is consistent with most prior empirical findings (e.g., Che-Ahmad et al., 2020; Mengoli et al., 2019; Boonlert-U-Thai & Sen, 2019; Hashmi et al., 2018; Martin et al., 2016; Ali et al., 2007; Wang, 2006) but contradict the findings of Duréndez and Madrid-Guijarro (2018).

Table 6.30
Random Effects Regression Results of Q3 (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	0.818	0.025	32.470	0.000
OWN	?	0.527	2.459	0.210	0.830
EPS*OWN	?	0.086	0.036	2.370	0.018
SIZE	+	0.099	0.502	0.200	0.843
LEV	?	0.543	4.680	0.120	0.908
GRW	+	-1.086	2.566	-0.420	0.672
IBOD	+	2.639	5.225	0.500	0.614
AUD_EXP	+	-0.161	1.695	-0.090	0.924
Constant		0.829	9.917	0.080	0.933
Mean Dependent Variable		31.048	SD Dependent Variable		59.308
Overall R-Squared		0.76	Number of Observations		809
Chi ²		2316.260	Prob > Chi ²		0.000
R-Squared Within		0.000	R-squared Between		0.945

Note. EPS = earnings per share, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

In line with the explanation previously provided for the results in Table 6.19, this result suggests that managers' opportunistic behaviour within family-owned Gulf listed firms is less likely to affect these firms' earnings quality. This is due to Gulf families' effective and direct monitoring and supervision of managements' behaviour and decisions and Gulf families' knowledge about day-to-day business activities (Ali et al., 2007). Further, the findings agree with the notion that family firms suffer less from Type I agency problems than non-family firms. Minimising agency problems reduces earnings manipulation and, thus, leads to higher persistent earnings. Finally, EPS has a positive and significant relationship with EPS_{t+1} (Coefficient= 0.818 at 1%), while all other independent variables in this model appear to be not significantly associated with earning persistence.

The results shown in Table 6.31 complement those of the main analysis for all variables. Specifically, the random effects estimation provides robust evidence that the association between current earnings (ROA) and family-owned Gulf firms (OWN) with future earnings (ROA_{t+1}) is positive and significant ($p=0.000$ and $p=0.034$, respectively). In addition, similar to the main results, the variable of interest, ROA*OWN, is not significant. Hence, the second null hypothesis (H_2) is supported.

Table 6.31
Random Effect Regression Results of Q3 (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	0.652	0.035	18.840	0.000
OWN	?	0.021	0.010	2.120	0.034
ROA*OWN	?	-0.062	0.055	-1.130	0.258
SIZE	+	0.002	0.002	0.740	0.457
LEV	?	-0.009	0.020	-0.450	0.652
GRW	+	0.011	0.011	1.030	0.304
IBOD	+	0.009	0.022	0.410	0.683
AUD_EXP	+	0.000	0.007	0.040	0.969
Constant		-0.019	0.041	-0.460	0.644
Mean Dependent Variable		0.055	SD Dependent Variable	0.167	
Overall R-Squared		0.43	Number of Observations	809	
Chi ²		614.333	Prob > Chi ²	0.000	
R-Squared Within		0.000	R-squared Between	0.845	

Note. ROA = return on assets, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Based on the robust results of accruals quality, the key findings reported in Table 6.32 are broadly in line with the previously presented main regression results (see Table 6.19). For example, the coefficient of OWN is negative and significant (-0.019 ; $p=0.014$), indicating that family-owned Gulf firms have lower accruals and, consequently, higher earnings quality. Therefore, the second null hypothesis (H_2) is rejected.

Although the sign of sales growth (GRW) is consistent with the main results (–0.008), Table 6.32 shows that the variable is insignificant. Finally, the coefficient of independence of board of directors (IBOD) is negative and significant (–0.075; $p=0.000$), which is in conformity with the main analysis findings.

Table 6.32
Random Effect Regression Results of Equation A (Q3) (H₂)

Absolute values of residuals	Prediction	Coef.	SE	t	p
OWN	?	–0.019	0.008	–2.450	0.014
SIZE	–	0.000	0.002	–0.150	0.880
LEV	?	0.022	0.016	1.420	0.155
GRW	–	–0.008	0.006	–1.270	0.203
IBOD	–	–0.075	0.019	–4.040	0.000
AUD_EXP	–	0.005	0.006	0.830	0.407
Constant		0.102	0.037	2.780	0.005
Mean Dependent Variable		0.077	SD Dependent Variable		0.081
Overall R-Squared		0.08	Number of Observations		809
Chi ²		26.016	Prob > Chi ²		0.000
R-squared within		0.000	R-squared between		0.124

Note. OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

6.3.4.3 Robust Analysis Results for Q4 (Hypothesis 3 (H₃) and 4 (H₄))

6.3.4.3.1 Robust Analysis Results for Q4 (Hypothesis 3 (H₃))

Table 6.33 reports the regression results for estimating Equation 6.6. Overall, the results complement earlier findings and are qualitatively similar to those from the baseline analysis. The positive and significant magnitude of the coefficients of the first earnings persistence proxy (EPS) (0.839; $p=0.000$) and the interaction variable (EPS*PC) (0.102; $p=0.025$) remain robust after applying random effects estimation. Thus, the third null

hypothesis (H_3) is rejected. Last, Table 6.33 shows that the rest of the independent variables are insignificant.

Table 6.33
Random Effects Regression Results of Q4 (H_3) (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	0.839	0.021	40.790	0.000
PC	?	-3.852	2.833	-1.360	0.174
EPS*PC	?	0.102	0.046	2.230	0.025
SIZE	+	0.302	0.507	0.600	0.551
LEV	?	1.573	4.707	0.330	0.738
GRW	+	-0.949	2.566	-0.370	0.712
IBOD	+	2.813	5.288	0.530	0.595
AUD_EXP	+	-1.189	1.747	-0.680	0.496
Constant		-1.198	9.933	-0.120	0.904
Mean Dependent Variable		31.048	SD Dependent Variable		59.308
Overall R-Squared		0.75	Number of Observations		809
Chi ²		2274.145	Prob > Chi ²		0.000
R-Squared Within		0.000	R-squared Between		0.942

Note. EPS = earnings per share, PC = political connections, IFRS_EXP = length of IFRS experience, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

The results in Table 6.34 are largely consistent with those of the baseline estimation reported in Table 6.21. In Table 6.34, the second earnings persistence proxy (ROA) (0.595; $p=0.000$) and the interaction variable (ROA*PC) (0.274; $p=0.000$) are both associated with higher earnings persistence. Therefore, the third null hypothesis (H_3) is rejected.

Table 6.34
Random Effects Regression Results of Q4 (H₃) (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	0.595	0.029	20.510	0.000
PC	?	−0.012	0.011	−1.040	0.296
ROA*PC	?	0.274	0.073	3.770	0.000
SIZE	+	0.001	0.002	0.500	0.615
LEV	?	0.003	0.019	0.150	0.877
GRW	+	0.012	0.011	1.120	0.263
IBOD	+	0.006	0.022	0.280	0.781
AUD_EXP	+	−0.004	0.007	−0.500	0.618
Constant		−0.002	0.041	−0.040	0.967
Mean Dependent Variable		0.055	SD Dependent Variable		0.167
Overall R-Squared		0.44	Number of Observations		809
Chi ²		631.738	Prob > Chi ²		0.000
R-Squared Within		0.000	R-squared Between		0.835

Note. ROA = return on assets, PC = political connections, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Regarding the relationship between political connections and accruals quality, the results in Table 6.35 do not complement the earlier findings, except for IBOD (−0.072; $p=0.000$). Though the sign of PC remains negative, the robustness results do not confirm the significance of this variable when using an alternative regression estimation. Therefore, these results suggest that the third null hypothesis (H_3) is supported. Similarly, the other independent variables are not significant at any other level.

Table 6.35
Random Effect Regression Results of Equation A (Q4) (H₃)

Absolute values of residuals	Prediction	Coef.	SE	t	p
PC	?	−0.012	0.009	−1.340	0.180
SIZE	–	0.000	0.002	−0.130	0.894
LEV	?	0.019	0.016	1.200	0.229
GRW	–	−0.008	0.006	−1.410	0.159
IBOD	–	−0.072	0.019	−3.820	0.000
AUD_EXP	–	0.005	0.006	0.880	0.379
Constant		0.095	0.037	2.590	0.009
Mean Dependent Variable		0.077	SD Dependent Variable		0.081
Overall R-Squared		0.07	Number of Observations		809
Chi ²		21.500	Prob > Chi ²		0.001
R-squared within		0.000	R-squared between		0.113

Note. PC = political connections, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

6.3.4.3.2 Robust Analysis Results for Q4 (Hypothesis 4 (H₄))

Table 6.36 reports the regression results for estimating Equation 6.8 for testing the relationship between politically connected family-owned Gulf firms and earnings quality, proxied by EPS. The results conform with the previous conclusion that Gulf sample firms' current reported earnings (EPS; $p=0.000$) experienced a slight growth. The table also shows that there is a significant positive relationship between political connections and earnings quality (EPS*PC; $p=0.021$). This result confirms prior findings to that in Tables 6.20 and 6.23, suggesting that politically connected firms in the GCC reports experience higher persistent earning. However, regarding the relationship between family ownership and earnings quality, the results provide different evidence to that in Tables 6.17 and 6.23. Table 6.36 shows that family-owned Gulf listed firms appear to have higher persistent earnings (EPS*OWN; $p=0.018$). In line with the previously

reported results, the quality of earnings in politically connected family-owned Gulf listed firms is shown to be not significant at any level (EPS*PC*OWN; $p=0.409$). Therefore, this result supports the fourth null hypothesis (H_4).

Table 6.36
Random Effects Regression Results of Q4 (H_4) (EPS)

EPS _{t+1}	Prediction	Coef.	SE	t	p
EPS	+	0.790	0.028	28.220	0.000
PC	?	-4.149	2.935	-1.410	0.157
OWN	?	1.376	2.557	0.540	0.590
EPS*PC	?	0.138	0.060	2.310	0.021
EPS*OWN	?	0.095	0.040	2.370	0.018
EPS*PC*OWN	?	-0.065	0.079	-0.830	0.409
SIZE	+	0.157	0.508	0.310	0.758
LEV	?	1.970	4.744	0.420	0.678
GRW	+	-1.216	2.563	-0.470	0.635
IBOD	+	2.458	5.297	0.460	0.643
AUD_EXP	+	-1.009	1.747	-0.580	0.564
Constant		0.541	9.993	0.050	0.957
Mean Dependent Variable			31.048	SD Dependent Variable	59.308
Overall R-Squared			0.76	Number of Observations	809
Chi ²			2298.474	Prob > Chi ²	0.000
R-Squared Within			0.000	R-squared Between	0.941

Note. EPS = earnings per share, PC = political connections, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Similarly, the results from regressing the second earnings quality proxy model (ROA) do not change under a different estimation and are largely parallel with those of the main analysis. Table 6.37 shows that ROA ($p=0.000$), OWN ($p=0.033$) and ROA*PC ($p=0.007$) are positive and statistically significant. Finally, the results in Table 6.37 confirm the previously reported main results that the relationship between political

connections, family ownership and earnings proxied by ROA (PC*OWN*ROA) is not significant. Hence, this result supports the fourth null hypothesis (H_4).

Table 6.37
Random Effects Regression Results of Q4 (H_4) (ROA)

ROA _{t+1}	Prediction	Coef.	SE	t	p
ROA	+	0.620	0.037	16.840	0.000
PC	?	-0.018	0.012	-1.510	0.130
OWN	?	0.021	0.010	2.140	0.033
ROA*PC	?	0.256	0.095	2.680	0.007
ROA*OWN	?	-0.080	0.058	-1.370	0.171
ROA*PC*OWN	?	0.053	0.133	0.400	0.691
SIZE	+	0.001	0.002	0.590	0.558
LEV	?	-0.004	0.020	-0.210	0.835
GRW	+	0.010	0.011	0.950	0.341
IBOD	+	0.008	0.022	0.370	0.715
AUD_EXP	+	-0.004	0.007	-0.510	0.608
Constant		-0.010	0.041	-0.240	0.809
Mean Dependent Variable		0.055	SD Dependent Variable	0.167	
Overall R-Squared		0.45	Number of Observations	809	
Chi ²		638.523	Prob > Chi ²	0.000	
R-Squared Within		0.001	R-squared Between	0.826	

Note. ROA = return on assets, PC = political connections, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

In Table 6.38, where accruals quality is the dependent variable, the results of the random effects estimation do not differ much from those of the baseline regression. For instance, both family ownership ($p=-0.072$) and IBOD ($p=-0.000$) are negative and significant. As expected, Table 6.38 shows no statistically significant relationship between accruals quality and family ownership (PC*OWN; 0.003; $p=0.850$).

Consequently, the result supports null hypothesis (H_4). Finally, the table shows that all other independent variables in this model are not significant at any level.

Table 6.38
Random Effect Regression Results of Equation A (Q4) (H_4)

Absolute values of residuals	Prediction	Coef.	SE	t	p
PC	?	−0.005	0.014	−0.370	0.714
OWN	?	−0.016	0.009	−1.800	0.072
PC*OWN	?	−0.005	0.018	−0.270	0.783
SIZE	—	0.000	0.002	−0.070	0.945
LEV	?	0.022	0.016	1.410	0.159
GRW	—	−0.008	0.006	−1.280	0.199
IBOD	—	−0.073	0.019	−3.920	0.000
AUD_EXP	—	0.005	0.006	0.870	0.384
Constant		0.099	0.037	2.690	0.007
Mean Dependent Variable		0.077	SD Dependent Variable		0.081
Overall R-Squared		0.09	Number of Observations		809
Chi ²		26.678	Prob > Chi ²		0.000
R-squared within		0.000	R-squared between		0.126

Note. PC = political connections, OWN = family ownership, SIZE = firm size, LEV = leverage, GRW = growth, IBOD = independence of board of directors, AUD_EXP = accounting expertise within audit committee.

Taken together, the results of the robustness tests in this section largely conform with the main two-way cluster-robust standard errors regression findings. Regarding length of IFRS experience (IFRS_EXP), the overall conclusion, drawn from analysing the results on both earnings persistence models (EPS and ROA) and the accruals model, is that sample firms with longer IFRS experience tend to report lower persistent earnings and lower quality accruals compared to sample firms with less IFRS experience.

In relation to family ownership (OWN), the results slightly vary. Most of the random effects regression results confirm that family-owned Gulf firms experience higher

earnings quality (higher persistent earnings on the EPS model and higher accruals quality), while the main results show only the accruals model reporting similar findings. Regarding political connections (PC), the results of the alternative robust estimation confirm the main regression findings. Broadly, the results provide strong evidence that politically connected Gulf listed firms have better earnings quality (persistence) and accruals quality than their politically unconnected counterparts. However, both the baseline and alternative robust regression estimation techniques provide clear evidence that politically connected family-owned firms and politically connected non-family firms report the same earnings quality.

Chapter 7: Summary and Conclusion

7.1 Introduction

The vast majority of jurisdictions that have adopted the IFRS are developing countries and emerging economies, which feature weak institutional environments, high levels of corruption and low levels of accounting enforcement and transparency. Many scholars have questioned the relevance, effectiveness and suitability of adopting and implementing the IFRS in developing countries given their considerable differences (in economic, cultural, political and institutional environments) to developed countries.

Critics have argued that IFRS adoption has unintended consequences. First, IFRS adoption provides an appearance of legitimacy despite actual shortcomings in accounting enforcement and thus adoption could simply serve as a rubber stamp. Second, there is the question of whether financial reporting quality and the information environment can be improved without improving the institutional environments in adopting developing countries. Third, *de jure* IFRS adoption by developing countries can be very costly for developed countries due to the ‘free-rider’ problem. The literature on whether developing countries benefit from IFRS adoption is still emerging. Motivated by the dearth of research on these matters, this thesis proposes and answers four research questions in four studies. The thesis descriptively investigates the current status of IFRS implementation in the GCC region and examines whether the length of IFRS experience plays a role in improving financial reporting quality in the shape of earnings quality. The thesis also exploits the GCC region’s unique socio-political characteristics by scrutinising the relationship between political connections, family firms and earnings quality in this context.

This chapter summarises and discusses the results (Section 7.2), discusses the research contributions (Section 7.3) and limitations (Section 7.4), and provides directions for future research (Section 7.5).

7.2 Summary of Empirical Results

The first study in this thesis aims to descriptively investigate the status of mandatory IFRS implementation in the GCC region. The vast majority of countries that have adopted the IFRS are emerging economies, which feature weak institutional environments including weak accounting infrastructure. Critics have questioned the efficacy of IFRS adoption in terms of improving financial reporting quality in these economies. Also, despite the growing importance of the GCC region—comprised of six emerging economies/developing countries—in the global economy, the literature on IFRS adoption in the Middle East is still in its infancy. This thesis exploits the unique institutional setting and distinct socio-political, cultural and governance characteristics of the GCC region to measure a number of indicators of the IFRS's effectiveness in this context. To measure the extent of IFRS disclosure, the researcher develops a self-constructed unweighted index (IFRSx) comprising 24 applicable standards (seven IFRS and 17 IAS), with 219 disclosure items. The researcher hand-collects a dataset from the annual reports of 222 listed firms in Bahrain, Kuwait, Qatar and the UAE for the period 2012–2017.

The findings show that the average level of mandatory compliance for the full sample over the sample period is 34.25%. This indicates that, compared to developed countries, the overall level of IFRS disclosure and compliance is low in the GCC sample countries. The results also show a slight variation in the mandatory compliance practices across the four sample countries. The results provide an evidence that Qatari sample firms score the highest disclosure and compliance levels in the sample (37%), while Kuwaiti and Bahraini firms score the lowest disclosure and compliance levels (34%). The results

also show that IAS 27 ‘Separate Financial Statements’ tends to have the lowest mean score of compliance in all four sample countries (2%). Conversely, IAS 2 ‘Inventories’ have the highest mean score of compliance in all four sample countries (96%).

In-depth assessment of the level of disclosure and compliance with IAS 38 ‘Intangible Assets’ and its items provides findings that complemented the main results. The results suggest that sample countries disclose limited information about IAS 38 during the most recent three years (2015–2017) of the full sample period. In particular, the average level of compliance and disclosure with IAS 38 is 36% among all sample countries. Qatari sample firms have the highest mean of mandatory compliance with IAS 38 (54%) during that period, while Kuwaiti sample firms have the lowest score of (21%). The results show some evidence of a gradual improvement of compliance with IAS 38 within the GCC sample countries from 2015–2017. This confirms the notion that IFRS implementation, disclosure practices and enforcement is a learning process that takes place over a certain period.

In summary, although there is a gradual improvement in compliance with IAS 38 among GCC sample countries over time, overall compliance with the IFRS remains low. Further, there is clear information disparity among the sample countries. The overall low levels of compliance with the IFRS among the sample countries can be attributed to a number of reasons. First, the results support the criticism and doubts that the IFRS might not be applicable in and suitable for the region. Accounting standards and financial reporting practices are influenced and shaped by local socio-political and economic elements. The decision to adopting such a high-quality and sophisticated set of accounting and financial reporting standards without considering the significant differences in institutional, socio-political and economic factors among countries is naïve. As with most emerging economies, the GCC countries suffer from weak governance mechanisms and low financial reporting transparency. Domestic institutional settings and managerial

incentive problems have greatly affected compliance and disclosure practices in the region. The low compliance and disclosure practices also raise doubts about the effectiveness of enforcement in the GCC region. Second, the GCC countries feature extremely secretive societies, with a high preference for uncertainty avoidance, high power distance and low transparency. These unique institutional features have also contributed to the low compliance and disclosure levels in the region.

The second study in this thesis investigates the relationship between length of IFRS experience and earnings quality in the GCC region. The literature documents that the IFRS are a strict set of standards that contribute to limiting managerial discretion and incentives in manipulating financial information, which will, in turn, increase financial reporting quality in general and earnings quality in particular. Nevertheless, critics question whether adopting the IFRS will improve financial reporting quality without measures taken to improve the context's institutional environment. In particular, critics argue that the IFRS can serve as little more than a rubber stamp when emerging economies with weak institutional environments and poor enforcement mechanisms adopt them.

In this study, the researcher hand-collects financial and non-financial data from the annual reports of 222 listed firms in the four sample countries (Bahrain, Kuwait, Qatar and the UAE) for the period 2012–2017. Earnings quality is estimated by using two properties of reported earnings: earnings persistence and discretionary accruals. Earnings persistence is measured using two alternative measures (earnings per share and return on assets) and discretionary accruals is estimated in a two-step process. The first step consists of estimating normal accruals following Dechow and Dichev's (2002) model of accruals. Then, the residuals or error terms from estimating Dechow and Dichev's model are treated as abnormal or discretionary accruals and regressed on IFRS experience and other

control variables. Finally, IFRS experience is measured by subtracting the adoption date from the end of each calendar year in the sample.

The findings from the multivariate regression estimates based on two-way cluster-robust standard errors and random effects estimation suggest that earnings persistence (measured by both, earnings per share and return on assets) is decreasing as IFRS experience increases in the sample countries. Regarding accruals quality, the results in both regression estimations provide evidence that absolute discretionary accruals are positively associated with IFRS experience. Overall, the results are as earnings quality in the GCC region declines as length of IFRS experience increases. Two plausible explanations for these results are 1) a very low level of IFRS implementation and ineffective enforcement in the GCC region and 2) firms in the GCC region exploiting the ‘fair value’ focus of the IFRS in managing reported earnings.

The third and fourth studies in this thesis explore the effect of two distinctive institutional characteristics of the GCC region on earnings quality. The third study examines the relationship between family ownership and earnings quality in the GCC region. The fourth study investigates 1) the relationship between corporate–political connections and earnings quality and 2) how the relationship between family-owned firms and earnings quality is moderated by the presence of firm-level political connections. These two studies exploit the unique institutional setting of the GCC region, where businesses are predominantly controlled by families and many businesses have overt political connections with the ruling families.

Gulf political regimes and corporate settings are affected by favouritism towards family connections. Additionally, political connections and nepotism are relatively high in the GCC region. Prior research shows that family-owned firms exhibit higher quality of earnings compared to non-family firms, and politically connected firms have lower earnings quality compared to politically non-connected firms. Therefore, what role

corporate–political connections play in the association between family ownership and earnings quality is an empirical question. Despite these two distinctive institutional characteristics being prevalent in the MENA region, very little is known about the role of political connections in family and non-family firms in the GCC region. Further, the effect of corporate–political connections on financial reporting (i.e., earnings quality) in this context is virtually unknown.

Continuing with the approach applied in the second study, the researcher analyses cross-country sample of 222 listed firms from the same sample countries over the exact period. The researcher focuses on two properties of reported earnings: earnings persistence and accruals quality. Earnings persistence is measured using two alternative proxies (earnings per share and return on assets) and accruals quality is measured by the presence of working capital accruals that do not translate into cash flows over a three-year period.

In the third study, panel data estimations based on random effects suggest that family-owned firms exhibit higher earnings persistence (using the earnings per share model) compared to non-family firms. Moreover, the two-way cluster-robust standard errors and random effects estimations provide further evidence that family-owned firms have higher accruals quality than non-family firms. The results can be explained through the lenses of agency theory and the incentive alignment effect. Both theories propose that the reported earnings of family-owned firms are of a higher quality since concentrated ownership allows for highly effective monitoring by family directors, and managers in these firms have the incentive to report in good faith.

In the fourth study, two-way cluster-robust standard errors and random effects estimations provide evidence that politically connected firms have higher earnings persistence (in both the earnings per share and return on assets models) and higher accruals quality (in the two-way cluster-robust standard errors estimation) than politically

unconnected firms. However, in the fourth study, the earnings quality of politically connected family-owned firms is not significantly different from that of politically unconnected family-owned firms in all models. Thus, the presence of board members that are politically connected with the ruling families in the GCC region does not weaken the influence of family ownership on earnings quality.

7.3 Research Contributions

The findings in this thesis make a number of important contributions to the literature on global and regional IFRS use, corporate–political connections and family ownership. First, the results provide recent evidence on the status of IFRS adoption in the GCC region, greatly extending the nascent literature on this subject. Second, the findings confirm the sceptics’ criticism that mere adoption of higher quality standards such as the IFRS does not necessarily improve financial reporting quality and the information environment. Indeed, the widespread adoption of the IFRS by non-committing countries imposes costs on strong enforcers of the IFRS (i.e., developed countries) due to the free rider problem. Third, this thesis develops and proposes a new exploratory typology and measurement for the variable ‘family ownership’ that suits the unique institutional setting of the GCC region.

Fourth, this thesis contributes to the ongoing debate on corporate–political connections, family ownership and the effect of these unique institutional settings on earnings quality, thus adding to the scarce literature. Prior empirical research finds that the quality of reported earnings of family-owned firms is higher compared to that of non-family firms. Anecdotal evidence also suggests that politically connected firms suffer from lower quality earnings. The results of this thesis fill this gap in the literature and answer how earnings quality is affected when firms are politically connected and family owned. Finally, the findings can be generalised and used as a reference for newly adopting countries and other jurisdictions that share certain characteristics with the GCC region

(selective rule of law, weak external and internal governance structure, collectivism and large power distance in society). The regulatory bodies in newly adopting countries—especially developing countries—are subject to the danger that, unless there is a general awareness within the government and business communities regarding the role of enforcement mechanisms and other socio-political factors, IFRS implementation will be partial, particularly if managers have no motives or incentives to follow these standards.

7.4 Research Limitations

As the case in any other research, the findings from the four studies in this thesis should be interpreted with care due to a number of limitations. First, although the four studies cover the same sample and dataset, consisting of all listed firms in the four sample countries (aside from excluded firms; see Sections 5.3 and 5.4), the results are nevertheless subject to the small sample size. As previously discussed (see Section 5.3), two GCC countries (the KSA and Oman) were excluded from this research due to either their relatively recent adoption of the IFRS (the KSA) or their relatively much longer history of IFRS use (Oman). Second, the sample period was limited to six years (2012–2017) due to the general unavailability of financial data and annual reports for prior to 2012. Therefore, the researcher could not extend the sample period and undertake pre- and post-IFRS adoption analysis to examine the effect of IFRS adoption on earnings quality.

Third, this research suffered extreme disruption due to the global COVID-19 pandemic. Since the start of the pandemic in late 2019 up until the time of writing, all airports in the GCC sample countries have been closed. Thus, the researcher could not travel to the sample countries to collect additional financial data (e.g., share prices) that would allow for the employment of other proxies of accruals quality and earnings persistence models (e.g., Kothari et al., 2005) or timely loss recognition (TLR). The researcher attempted to communicate with the historical data departments in the sample

countries via phone and email, but this was not effective. Thus, these additional models were not included in the second, third and fourth studies as the necessary information was not available during data collection. Fourth, there is no official data base (such as Bloomberg) that grants the researcher access to collect summarised financial data about sample firms in the GCC region, therefore, the researcher collects all the data manually. Such limitation restricted the researcher from including more control variables into the second, third, and fourth studies.

Finally, some of the unique institutional settings of the GCC region played a key role in defining new typologies for certain independent variables. For example, due to the culture of secrecy in the GCC region, it was impossible to determine exactly how many shares each director holds (As previously discussed, the shareholding information provided by the official stock exchange websites and firms' websites are severely outdated by the time of publication; see Section 5.2.3.2). Consequently, the researcher develops a new typology and measurement for the variable 'family-owned firm/family ownership'. This measurement tends to be more exploratory than explanatory in research design.

7.5 Directions for Future Research

Some of the limitations of this thesis provide future research opportunities. First, due to data limitations, this thesis employs one measurement for accruals quality (Dechow and Dichev's [2002] model of accruals). Future research can address this by exploring other proxies of accruals quality models. Second, future research can attempt to increase the sample size by exploring and examining the extent of IFRS adoption in newly adopting countries in the region, such as the KSA. The KSA might provide an interesting case study of how a country heavily influenced by Islamic law reacts to the adoption of Western-based accounting standards. Exploration of this might provide insightful findings about 1) whether Islamic financial institutions in the GCC region

encounter disclosure and financial reporting problems due to the prohibition of charging interest (per Sharia law) compliant transactions and 2) whether the financial term ‘interest’ has other meanings and interpretations within the Islamic literature.

Third, one area that warrants future investigation is the potential influence/effect of other unique institutional and socio-political factors on financial reporting quality and disclosure practices in the GCC region. These might include secrecy, religion and enforcement levels. Also, the extend literature suggests that IFRS adoption in general improves earnings quality. However, whether earnings quality will depend on country specific social-economic and political factors as well (e.g., Ball, 2006; Ball et al, 2003). Because emerging economies in the world have economic social and political characteristics that are different from developed countries, research finding from developing countries cannot be always extrapolated to developing countries. Thus, Researchers examining accounting and governance issues need to remain vigilant of the local socio-economic and political factors that may influence their results.

Since the results of this thesis are mainly examined quantitatively, using qualitative methods such as interviews with external auditors and standard setters in the region could further enrich our understanding of the significance of these factors and their effects on the IFRS disclosure and compliance behaviour of GCC countries. Finally, the results of this thesis can be followed up by adding and proposing new measurements for family ownership and political connections. This is due to the fact that family ownership is the dominant business ownership type, and corporate–political connections an effective cultural tool, in other countries.

References

- Abdallah, A. A. & Ismail, A. K. (2017). Corporate governance practices, ownership structure, and corporate performance in the GCC countries. *Journal of International Financial Markets, Institutions and Money*, 46, 98–115.
- Abdelsalam, O., Mollah, S. & Tortosa-Ausina, E. (2017). *Political connection and bank in (efficiency)*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.2933403>
- Abdul Wahab, E. A., Mat Zain, M. & Abdul Rahman, R. (2015). Political connections: A threat to auditor independence? *Journal of Accounting in Emerging Economies*, 5(2), 222–246.
- Abdulla, A. (2010). *Contemporary socio-political issues of the Arab Gulf moment* (Report No. 11). The Kuwait Programme on Development, Governance and Globalisation in the Gulf States. <https://core.ac.uk/download/pdf/19578257.pdf>
- Abdullah, M., Evans, L., Fraser, I. & Tsalavoutas, I. (2015). IFRS mandatory disclosures in Malaysia: The influence of family control and the value (ir)relevance of compliance levels. *Accounting Forum*, 39(4), 328–348.
- Abdullah, M., Sulaiman, A., Ismail, K. & Sapiei, S. (2012). Compliance with International Financial Reporting Standards (IFRSs) in a developing country: Evidence from Malaysia. *Asian Journal of Accounting Perspectives*, 5, 23–34.
- Abdullah, N. & Ismail, K. (2016). Women directors, family ownership and earnings management in Malaysia. *Asian Review of Accounting*, 24(4), 525–550.
- Abdulqader, K. (2015). *GCC's economic cooperation and integration: Achievements and hurdles*. Retrieved from <http://studies.aljazeera.net/en/dossiers/2015/03/20153316186783839.html>

- About, A. & Roberts, C. (2018). Managers' segment disclosure choices under IFRS 8: EU evidence. *Accounting Forum*, 42(4), 293–308.
- Acemoglu, D., Johnson, S. & Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. *Handbook of Economic Growth*, 1, 385–472.
- Adams, J., Hayunga, D., Mansi, S., Reeb, D. & Verardi, V. (2019). Identifying and treating outliers in finance. *Financial Management*, 48(2), 345–384.
- Adetoso, J. A. & Oladejo, K. S. (2013). The relevance of International Financial Reporting Standards in the preparation and presentation of financial statements in Nigeria. *Research Journal of Finance and Accounting*, 4(7), 191–197.
- Adhikari, A., Derashid, C. & Zhang, H. (2006). Public policy, political connections, and effective tax rates: Longitudinal evidence from Malaysia. *Journal of Accounting and Public Policy*, 25(5), 574–595.
- Adina, C., Gabriela, C. & Roxana-Denisa, S. (2015). Country-of-origin effects on perceived brand positioning. *Procedia Economics and Finance*, 23, 422–427.
- Agbonifoh, B. A. & Elimimian, J. U. (1999). Attitudes of developing counties towards 'country-of-origin' products in an era of multiple brands. *Journal of International Consumer Marketing*, 11(4), 97–116.
- Ağca, A. & Aktaş, R. (2007). First time application of IFRS and its impact on financial ratios: A study on Turkish listed firms. *Problems and Perspectives in Management*, 5(2), 99–112.
- Agostino, M., Drago, D. & Silipo, D. B. (2011). The value relevance of IFRS in the European banking industry. *Review of Quantitative Finance and Accounting*, 36(3), 437–457.
- Agrawal, A. & Knoeber, C. R. (2001). Do some outside directors play a political role? *The Journal of Law and Economics*, 44(1), 179–198.

- Agyei-Mensah, B. K. (2019). IAS-38 disclosure compliance and corporate governance: Evidence from an emerging market. *Corporate Governance: The International Journal of Business in Society*, 19(3), 419–437.
- Ahmed, A. S., Neel, M. & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. *Contemporary Accounting Research*, 30(4), 1344–1372.
- Ahmed, K. & Alam, M. (2012). The effect of IFRS adoption on the financial reports of local government entities. *Australasian Accounting, Business and Finance Journal*, 6(3), 109–120.
- Ahmed, S. (2015). Determinants of the quality of disclosed earnings and value relevance across transitional Europe. *Journal of Accounting in Emerging Economies*, 5(3), 325–349.
- Akerlof, G. (1970). The market for ‘lemons’: Quality uncertainty and the market mechanism. *The Quarterly Journal of Economics*, 84(3), 488–500.
- Aksu, M., Muradoglu, Y. & Tansel Cetin, A. (2013). *Ownership concentration, IFRS adoption and earnings quality: Evidence from an emerging market*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.2382930>
- Al-Akra, M., Eddie, I. A. & Ali, M. J. (2010). The influence of the introduction of accounting disclosure regulation on mandatory disclosure compliance: Evidence from Jordan. *The British Accounting Review*, 42(3), 170–186.
- Alali, F. A. & Foote, P. S. (2012). The value relevance of International Financial Reporting Standards: Empirical evidence in an emerging market. *The International Journal of Accounting*, 47, 85–108.

- Al-Bannay, A. M. (2002). *Perceptions among accountants, auditors and users of IAS in preparing annual accounts: The case of Kuwait* (Unpublished doctoral dissertation). City University, London, UK.
- Al-dhamari, R. & Ismail, K. (2015). Cash holdings, political connections, and earnings quality: Some evidence from Malaysia. *International Journal of Managerial Finance*, 11(2), 215–231.
- Al-dhamari, R. & Ku Ismail, I. (2014). The association between board characteristics and earnings quality: Malaysian evidence. *Jurnal Pengurusan*, 41, 43–55.
- Alfaraih, M. & Alanezi, F. S. (2012). *Does voluntary disclosure level affect the value relevance of accounting information?* Retrieved from Social Science Research Network (SSRN) database website: <https://ssrn.com/abstract=1946949>
- Alfaraih, M. & Alanezi, F. S. (2015). The value relevance of mandatory corporate disclosures: Evidence from Kuwait. *International Journal of Business and Finance Research*, 9(3), 1–18.
- Alfredson, K., Leo, K., Picker, P., Clark, K. & Wise, V. (2009). *Applying International Financial Reporting Standards* (2nd ed.). Wiley. Retrieved from https://books.google.com.au/books/about/Applying_International_Financial_Reporting.html?id=UxJLwEACAAJ&redir_esc=y
- Al-Hadi, A., Al-Yahyaee, H., Hussain, M. & Taylor, G. (2018). Market risk disclosures, corporate governance structure and political connections: Evidence from GCC firms. *Applied Economics Letters*, 25(19), 1346–1350.
- Al-Hadi, A., Hasan, M., Taylor, G., Hossain, M. and Richardson, G. (2017). Market risk disclosures and investment efficiency: International evidence from the Gulf Cooperation Council financial firms. *Journal of International Financial Management & Accounting*, 28(3), 349–393.

- Al-Hadi, A., Taylor, G. & Al-Yahyaee, K. H. (2016). Ruling family political connections and risk reporting: Evidence from the GCC. *The International Journal of Accounting*, 51(4), 504–524.
- Al-Hashemi, M. (2015, 4 November). Time for Gulf stock market regulators to introduce short selling. *The National*. Retrieved from <https://www.thenationalnews.com/business/markets/time-for-gulf-stock-market-regulators-to-introduce-short-selling-1.14950>
- Alhashim, D. & Arpan, J. (1992). *International dimensions of accounting* (2nd ed.). PWS-Kent Publishing Company. Retrieved from https://books.google.com.au/books/about/International_Dimensions_of_Accounting.html?id=vfUJAQAAMAAJ&redir_esc=y
- Ali, A., Chen, T. Y. & Radhakrishnan, S. (2007). Corporate disclosures by family firms. *Journal of Accounting and Economics*, 44(1–2), 238–286.
- Al-Maliki, I., Hammami, H. & Mardini, G. H. (2015). Corporate financial reporting in Qatar: A study of individual investors' assessment of annual reports. *Middle East Journal of Management*, 2(1), 79–96.
- Al-Mannai, E. S. & Hindi, N. M. (2015). Adoption of IFRS by listed companies in Qatar: Challenges and solutions. *International Journal of Accounting and Finance*, 5(1), 1–26.
- Almujamed, H., Tahat, Y., Omran, M. & Dunne, T. (2017). Development of accounting regulations and practices in Kuwait: An analytical review. *Journal of Corporate Accounting & Finance*, 28(6), 14–28.
- Al-Mutawaa, A. & Hewaidy, A. M. (2010). Disclosure level and compliance with IFRSs: An empirical investigation of Kuwaiti companies. *The International Business & Economics Research Journal*, 9(5), 33–49.

- Al-Muzaiqer, M., Ahmad, M. & Hamid, F. (2016, 15–18 August). *Timeliness of financial reporting: Evidence from UAE*. Paper presented at the International Conference on Accounting Studies (ICAS), Kedah, Malaysia. Retrieved from https://www.researchgate.net/profile/Maslina-Ahmad/publication/306400060_Timeliness_of_financial_reporting_Evidence_from_UAE/links/58d1ed9992851cf4f8f4bc56/Timeliness-of-financial-reporting-Evidence-from-UAE.pdf
- Alnaas, A. & Rashid, A. (2019). Firm characteristics and compliance with IAS/IFRS. *Journal of Financial Reporting and Accounting*, 17(3), 383–410.
- Al-Qahtani, A. K. (2005). The development of accounting regulation in the GCC: Western hegemony or recognition of peculiarity? *Managerial Auditing Journal*, 20(3), 217–226.
- Al-Shammari, B., Brown, P. & Tarca, A. (2008). An investigation of compliance with International Accounting Standards by listed companies in the Gulf Cooperation Council member states. *International Journal of Accounting*, 43(4), 425–447.
- Al-Shayeb, A. M. (2003). Corporate financial reporting in the United Arab Emirates. *Arab Journal of Administrative Science*, 10(1), 109–125.
- Alves, S. (2014). The effect of board independence on the earnings quality: Evidence from Portuguese listed companies. *Australasian Accounting, Business and Finance Journal*, 8(3), 23–44.
- Al-Wasmi, M. (2011). *Corporate governance practice in the GCC: Kuwait as a case study* (Unpublished doctoral thesis). Retrieved from Brunel University database: <http://v-scheiner.brunel.ac.uk/bitstream/2438/6324/1/FulltextThesis.pdf>
- Aly, D., Simon, J. & Hussainey, K. (2010). Determinants of corporate internet reporting: Evidence from Egypt. *Managerial Auditing Journal*, 25(2), 182–202.

- Al-Yousef, Y. K. (2008). Opinion: When rulership becomes privileged booty (ghanimah): The condition of the Gulf Cooperation Council. *Contemporary Arab Affairs*, 1(4), 631–648.
- Al-Zarouni, A., Aljifri, K., Ng, C. & Tahir, M. (2012). The usefulness of corporate financial reports: Evidence from the United Arab Emirates. *Accounting & Taxation*, 3(1), 17–37.
- Amadeo, K. (2018, 20 July). Gulf Cooperation Council countries: Six rich countries that own the world's oil. *The Balance*. Retrieved from <https://www.thebalance.com/gulf-cooperation-council-3306357>
- Amanamah, R. B. (2017). Benefits and challenges of International Financial Reporting Standards adoption in Ghana: Accounts and business managers' perspective. *International Journal of Accounting and Financial Reporting*, 7(2), 178–193.
- Amenta, E. (2000). *Bold relief: Institutional politics and the origins of modern American social policy*. Princeton University Press. Retrieved from https://books.google.com.au/books/about/Bold_Relief.html?id=a2-2QgAACAAJ&redir_esc=y
- Amico, A. (2014). *Corporate governance enforcement in the Middle East and North Africa: Evidence and priorities* (OECD Corporate Governance Working Papers No. 15). Retrieved from <http://www.oecd-ilibrary.org/docserver/download/5jxws6scxg7c-en.pdf?expires=1520836930&id=id&accname=guest&checksum=FACD2E7B1BFD26B84334DB19216A1988>
- Ammann, M., Oesch, D. & Schmid, M. (2013). Product market competition, corporate governance, and firm value: Evidence from the EU area. *European Financial Management*, 19(3), 452–469.

- Amore, M. D. & Bennedsen, M. (2013). The value of local political connections in a low-corruption environment. *Journal of Financial Economics*, 110(2), 387–402.
- An, Y. (2015). The impact of family ownership on firm value and earnings quality: Evidence from Korea. *International Business Management*, 9(4), 625–636.
- An, Y. (2017). Measuring earnings quality over time. *International Journal of Economics and Financial Issues*, 7(3), 82–87.
- Anderson, R. C. & Reeb, D. M. (2003). Founding-family ownership and firm performance: Evidence from the S&P 500. *The Journal of Finance*, 58(3), 1301–1328.
- André, P., Dionysiou, D. & Tsalavoutas, I. (2018). Mandated disclosures under IAS 36 impairment of assets and IAS 38 intangible assets: Value relevance and impact on analysts' forecasts. *Applied Economics*, 50(7), 707–725.
- Apergis, N. (2015). The role of IFRS in financial reporting quality: Evidence from a panel of MENA countries. *International Journal of Economics and Finance*, 7(10), 182–191.
- Armstrong, C. S., Barth, M. E., Jagolinzer, A. D. & Riedl, E. J. (2010). Market reaction to the adoption of IFRS in Europe. *The Accounting Review*, 85(1), 31–61.
- Aronoff, C. E. & Ward, J. L. (1995). Family-owned businesses: A thing of the past or a model for the future? *Family Business Review*, 8(2), 121–130.
- Arouri, H., Hossain, M. & Badrul Muttakin, M. (2014). Effects of board and ownership structure on corporate performance: Evidence from GCC countries. *Journal of Accounting in Emerging Economies*, 4(1), 117–130.
- Artiach, C. & Clarkson, M. (2011). Disclosure, conservatism and the cost of equity capital: A review of the foundation literature. *Accounting & Finance*, 51(1), 2–49.

- Asare, K. (2019). Earnings persistence and levels of the accrual ratio and discretionary accruals. *Journal of Business, Economics and Technology*, 1–17.
- Ashbaugh, H. (2001). Non-US firms' accounting standard choices. *Journal of Accounting and Public Policy*, 20(2), 129–153.
- Ashbaugh, H. & Pincus, M. (2001). Domestic accounting standards, International Accounting Standards, and the predictability of earnings. *Journal of Accounting Research*, 39(3), 417–434.
- Ashbaugh, H., LaFond, R. & Mayhew, W. (2003). Do nonaudit services compromise auditor independence? Further evidence. *The Accounting Review*, 78(3), 611–639.
- Athanasakou, V. & Olsson, P. (2016). *Managerial discretion and firm fundamentals*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.2715636>
- Atiyyah, H. S. (1992). Research note: Research in Arab countries, published in Arabic. *Organization Studies*, 13(1), 105–110.
- Aubert, F. & Grudnitski, G. (2011). The impact and importance of mandatory adoption of International Financial Reporting Standards in Europe. *Journal of International Financial Management & Accounting*, 22(1), 1–26.
- Aydin, A. (2013). Hereditary oil monarchies: Why Arab spring fails in GCC Arabian states? *Journal of Social Sciences*, 30, 123–138.
- Azmi, A. & English, L. (2016). IFRS disclosure compliance in Malaysia: Insights from a small-sample analytical study. *Australian Accounting Review*, 26(4), 390–414.
- Badolato, G., Donelson, C. & Ege, M. (2014). Audit committee financial expertise and earnings management: The role of status. *Journal of Accounting and Economics*, 58(2–3), 208–230.

- Bahrain Accountants Association (2021, 9 March). *The objectives of Bahrain Accountants Association*. Retrieved from <http://www.bahaccountants.com.bh/>
- Baird, G. L. & Bieber, S. L. (2016). The Goldilocks dilemma: Impacts of multicollinearity—A comparison of simple linear regression, multiple regression, and ordered variable regression models. *Journal of Modern Applied Statistical Methods*, 15(1), 332–357.
- Ball, R. (2001). Infrastructure requirements for an economically efficient system of public financial reporting and disclosure. *Brookings-Wharton Papers on Financial Services*, 2001(1), 127–169.
- Ball, R. (2006). International Financial Reporting Standards (IFRS): Pros and cons for investors. *Accounting and Business Research*, 36(Suppl. 1), 5–27.
- Ball, R. & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. *Journal of Accounting and Economics*, 39(1), 83–128.
- Ball, R., Robin, A. & Wu, J. (2003). Incentives versus standards: Properties of accounting income in four East Asian countries. *Journal of Accounting and Economics*, 36, 235–270.
- Ball, R., Kothari, S. P. & Robin, A. (2000). The effect of international institutional factors of properties of accounting earnings. *Journal of Accounting and Economics*, 29(1), 1–51.
- Balsari, C. K., Ozkan, S. & Durak, G. (2010). Earnings conservatism in pre and post IFRS periods in Turkey: Panel data evidence on firm specific factors. *Journal of Accounting & Management Information Systems*, 9(3), 402–421.
- Barry, C. B. & Brown, S. J. (1985). Differential information and security market equilibrium. *Journal of Financial and Quantitative Analysis*, 20(4), 407–422.

- Barth, M. E. (2008). Global financial reporting: Implications for US academics. *The Accounting Review*, 83(5), 1159–1179.
- Barth, M. E., Landsman, W. R. & Lang, M. (2008). International Accounting Standards and accounting quality. *Journal of Accounting Research*, 46(3), 467–498.
- Barth, M. E., Landsman, W. R., Lang, M. & Williams, C. (2012). Are IFRS-based and US GAAP-based accounting amounts comparable? *Journal of Accounting and Economics*, 54(1), 68–93.
- Barth, M. E., Landsman, W. R., Lang, M. & Williams, C. (2013). *Effects on comparability and capital market benefits of voluntary adoption of IFRS by US firms: Insights from voluntary adoption of IFRS by non-US firms*. Retrieved from Social Science Research Network (SSRN) database website:
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2196247
- Barth, M. E., Landsman, W. R., Young, D. & Zhuang, Z. (2014). Relevance of differences between net income based on IFRS and domestic standards for European firms. *Journal of Business Finance and Accounting*, 43, 297–327.
- Bartov, E., Goldberg, S. R. & Kim, M. (2005). Comparative value relevance among German, U.S., and international accounting standards: A German stock market perspective. *Journal of Accounting, Auditing and Finance*, 20, 95–119.
- Bassemir, M. (2018). Why do private firms adopt IFRS? *Accounting and Business Research*, 48(3), 237–263.
- Batta, G., Sucre Heredia, R. & Weidenmier, M. (2014). Political connections and accounting quality under high expropriation risk. *European Accounting Review*, 23(4), 485–517.
- Baysinger, B. (1984). Domain maintenance as an objective of business political activity: An expanded typology. *Academy of Management Review*, 9, 248–258.

- Bazaz, M. S. & Mashayekhi, B. (2010). The effects of corporate governance on earnings quality: Evidence from Iran. *Asian Journal of Business and Accounting*, 3(2), 71–100.
- Beattie, V., McInnes, B. & Fearnley, S. (2004). A methodology for analysing and evaluating narratives in annual reports: A comprehensive descriptive profile and metrics for disclosure quality attributes. *Accounting Forum*, 28(3), 205–236.
- Beatty, A., Liao, S. & Yu, J. J. (2013). The spillover effect of fraudulent financial reporting on peer firms' investments. *Journal of Accounting and Economics*, 55(2–3), 183–205.
- Bebchuk, L. A. & Weisbach, M. S. (2010). The state of corporate governance research. *Review of Financial Studies*, 23(3), 939–961.
- Becker, L., DeFond, L., Jambalvo, J. & Subramanyam, R. (1998). The effect of audit quality on earnings management. *Contemporary Accounting Research*, 15(1), 1–24.
- Bédard, J., Chtourou, M. & Courteau, L. (2004). The effect of audit committee expertise, independence, and activity on aggressive earnings management. *Auditing: A Journal of Practice & Theory*, 23(2), 13–35.
- Belghitar, Y., Clark, E. & Saeed, A. (2019). Political connections and corporate financial decision making. *Review of Quantitative Finance and Accounting*, 53(4), 1099–1133.
- Belkaoui R. A. (1983). Economic, political and civil indicators and reporting and disclosure adequacy: Empirical investigation. *Journal of Accounting and Public Policy*, 2, 356–412.
- Belkaoui, R. A. (2004). Politically-connected firms: Are they connected to earnings opacity? *Research in Accounting Regulation*, 17, 25–38.

- Bell, A., Fairbrother, M., & Jones, K. (2019). Fixed and random effects models: Making an informed choice. *Quality & Quantity*, 53(2), 1051–1074.
- Ben-Nasr, H., Boubakri, N. & Cosset, J. C. (2015). Earnings quality in privatized firms: The role of state and foreign owners. *Journal of Accounting and Public Policy*, 34(4), 392–416.
- Beretta, S. & Bozzolan, S. (2008). Quality versus quantity: The case of forward-looking disclosure. *Journal of Accounting, Auditing & Finance*, 23(3), 333–376.
- Berle, A. A. & Means, G. C. (1991). *The modern corporation and private property*. New Brunswick, NJ: Transaction Publishers.
- Bertani, A., Di Paola, G., Russo, E. & Tuzzolino, F. (2018). How to describe bivariate data. *Journal of Thoracic Disease*, 10(2), 1133–1137.
- Bertrand, M., Kramarz, F., Schoar, A. & Thesmar, D. (2007). *Politicians, firms and the political business cycle: Evidence from France* (Unpublished working paper). University of Chicago, IL.
- Bertrand, M., Kramarz, K., Schoar, A. & Thesmar, D. (2004). *Politically connected CEOs and corporate outcomes: Evidence from France* (Working paper). Retrieved from <https://pdfs.semanticscholar.org/f03a/aa381231b4610b9a76d593c6219140a39633.pdf>
- Bhattacharjee S. & Islam M. Z. (2009). Problems of adoption and application of International Financial Reporting Standards (IFRS) in Bangladesh. *International Journal of Business and Management*, 4(12), 165–175.
- Bilal, Chen, S. & Komal, B. (2018). Audit committee financial expertise and earnings quality: A meta-analysis. *Journal of Business Research*, 84, 253–270.

- Blanchette, M., Racicot, F. É., Sedzro, K. & Simonova, E. (2013). *IFRS adoption in Canada: An empirical analysis of the impact on financial statements*. Retrieved from <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.660.1220&rep=rep1&type=pdf>
- Bliss, M. A. & Gul, F. A. (2012a). Political connection and cost of debt: Some Malaysian evidence. *Journal of Banking & Finance*, 36(5), 1520–1527.
- Bliss, M. A. & Gul, F. A. (2012b). Political connection and leverage: Some Malaysian evidence. *Journal of Banking & Finance*, 36(8), 2344–2350.
- Boonlert-U-Thai, K. & Sen, P. K. (2019). Family ownership and earnings quality of Thai firms. *Asian Review of Accounting*, 27(1), 112–136.
- Botosan, C. A. & Plumlee, A. (2002). A re-examination of disclosure level and the expected cost of equity capital. *Journal of Accounting Research*, 40(1), 21–40.
- Boubakri, F. (2012). The relationship between accruals quality, earnings persistence and accruals anomaly in the Canadian context. *International Journal of Economics and Finance*, 4(6), 51–62.
- Boubakri, N., Cosset, J. C. & Saffar, W. (2008). Political connections of newly privatized firms. *Journal of Corporate Finance*, 14(5), 654–673.
- Boubakri, N., Cosset, J. C. & Saffar, W. (2012). The impact of political connections on firms' performance and financing decisions. *Journal of Financial Research*, 35(3), 397–423.
- Bova, F. & Pereira, R. (2012). The determinants and consequences of heterogeneous IFRS compliance levels following mandatory IFRS adoption: Evidence from a developing country. *Journal of International Accounting Research*, 11(1), 83–111.

- Bozec, R. & Bozec, Y. (2012). The use of governance indexes in the governance-performance relationship literature: International evidence. *Canadian Journal of Administrative Sciences*, 29(1), 79–98.
- Braam, G., Nandy, M., Weitzel, U. & Lodh, S. (2015). Accrual-based and real earnings management and political connections. *The International Journal of Accounting*, 50(2), 111–141.
- Bradbury, M., Mak, T. & Tan, M. (2006). Board characteristics, audit committee characteristics and abnormal accruals. *Pacific Accounting Review*, 18(2), 47–68.
- Bravo, F. & Reguera-Alvarado, N. (2018). Do independent director's characteristics influence financial reporting quality? *Spanish Journal of Finance and Accounting/Revista Española de Financiación y Contabilidad*, 47(1), 25–43.
- Brown, P. (2011). International Financial Reporting Standards: What are the benefits? *Accounting and Business Research*, 41(3), 269–285.
- Brown, P. & Tarca, A. (2012). Ten years of IFRS: Practitioners' comments and suggestions for research. *Australian Accounting Review*, 22(4), 319–330.
- Brownen-Trinh, R. (2019). Effects of winsorization: The cases of forecasting non-GAAP and GAAP earnings. *Journal of Business Finance & Accounting*, 46(1–2), 105–135.
- Bryan, D. B. & Mason, T. W. (2020). Independent director reputation incentives, accruals quality and audit fees. *Journal of Business Finance & Accounting*, 47, 982–1011.
- Bryce, M., Ali, J. and Mather, R. (2015). Accounting quality in the pre-/post-IFRS adoption periods and the impact on audit committee effectiveness. *Pacific-Basin Finance Journal*, 35, 163–181.

- Budhwar, P., Pereira, V., Mellahi, K. & Singh, S. K. (2019). The state of HRM in the Middle East: Challenges and future research agenda. *Asia Pacific Journal of Management*, 36(4), 905–933.
- Bunkanwanicha, P. & Wiwattanakantang, Y. (2009). Big business owners in politics. *The Review of Financial Studies*, 22(6), 2133–2168.
- Bunkanwanicha, P., Fan, J. P. & Wiwattanakantang, Y. (2013). The value of marriage to family firms. *Journal of Financial and Quantitative Analysis*, 48(2), 611–636.
- Burkart, M., Panunzi, F. & Shleifer, A. (2003). Family firms. *The Journal of Finance*, 58(5), 2167–2201.
- Burton, A. (2020). OLS (linear) regression. In C. Barnes & D. Forde (Eds.), *The encyclopedia of research methods and statistical techniques in criminology and criminal justice* (pp. 1–12). New York, NY: Wiley.
- Bushman, M., Piotroski, D. & Smith, J. (2004). What determines corporate transparency? *Journal of Accounting Research*, 42(2), 207–252.
- Cai, F. & Wong, H. (2010). The effect of IFRS adoption on global market integration. *The International Business & Economics Research Journal*, 9(10), 25–34.
- Cai, L., Rahman, A. & Courtenay, S. (2008). *The effect of IFRS and its enforcement on earnings management: An international comparison*. Retrieved from Social Science Research Network (SSRN) database website:
<http://dx.doi.org/10.2139/ssrn.1473571>
- Cai, L., Rahman, A. & Courtenay, S. (2012, January). *It is IFRS adoption or convergence to IFRS that matters*. Paper presented at TIJA Symposium, Massey University School of Accountancy, New Zealand, Auckland. Retrieved from
<https://pages.business.illinois.edu/zimmerman/wp-content/uploads/sites/56/2015/08/060-Cai.pdf>

- Cai, L., Rahman, A. & Courtenay, S. (2014). The effect of IFRS adoption conditional upon the level of pre-adoption divergence. *The International Journal of Accounting*, 49(2), 147–178.
- Callao, S. & Jarne, J. I. (2010). Have IFRS affected earnings management in the European Union? *Accounting in Europe*, 7(2), 159–189.
- Cameron, C. & Miller, L. (2015). A practitioner's guide to cluster-robust inference. *Journal of Human Resource*, 50, 317–372.
- Cameron, C., Gelbach, B. & Miller, L. (2011). Robust inference with multi-way clustering. *Journal of Business and Economic Statistics*, 29, 238–249.
- Canova, S., Cortinovis, D. L. & Ambrogi, F. (2017). How to describe univariate data. *Journal of Thoracic Disease*, 9(6), 1741–1743.
- Capkun, V., Collins, D. W. & Jeanjean, T. (2013). The effect of IAS/IFRS adoption on earnings management (smoothing): A closer look at competing explanations. *Journal of Accounting and Public Policy*, 35(4), 352–394.
- Capkun, V., Jeny-Cazavan, A., Jeanjean, T. & Weiss, L. A. (2011). *Setting the bar: Earnings management during a change in accounting standards*. Retrieved from Social Science Research Network (SSRN) database website:
<http://dx.doi.org/10.2139/ssrn.1870007>
- Cascino, S. & Gassen, J. (2015). What drives the comparability effect of mandatory IFRS adoption? *Review of Accounting Studies*, 20(1), 242–282.
- Cascino, S., Pugliese, A., Mussolino, D. & Sansone, C. (2010). The influence of family ownership on the quality of accounting information. *Family Business Review*, 23(3), 246–265.

- Center for International and Regional Studies (CIRS). (2011). *The political economy of the Gulf summary report: CIRS summary report*. Retrieved from https://repository.library.georgetown.edu/bitstream/handle/10822/558542/CIRS_SummaryReport3PoliticalEconomyoftheGulf2011.pdf;sequence=5
- Chalmers, K. G., Clinch, G. & Godfrey, J. M. (2011). Changes in value relevance of accounting information upon IFRS adoption: Evidence from Australia. *Australian Journal of Management*, 36(2), 151–173.
- Chamisa, E. E. (2000). The relevance and observance of the IASC standards in developing countries and the particular case of Zimbabwe. *The International Journal of Accounting*, 35(2), 267–286.
- Chand, P. (2005). Convergence of accounting standards in the South Pacific island nations. *Journal of Pacific Studies*, 28(2), 269–290.
- Chaney, K., Faccio, M. & Parsley, D. (2011). The quality of accounting information in politically connected firms. *Journal of Accounting and Economics*, 51(1–2), 58–76.
- Charumilind, C., Kali, R. & Wiwattanakantang, Y. (2006). Connected lending: Thailand before the financial crisis. *The Journal of Business*, 79(1), 181–218.
- Che-Ahmad, A., Abdulmalik, S. & Yusof, M. (2020). CEO career horizons and earnings quality in family firms. *Asian Review of Accounting*, 28(2), 153–172.
- Chebaane, S. & Othman, H. (2014). The impact of IFRS adoption on value relevance of earnings and book value of equity: The case of emerging markets in African and Asian regions. *Social and Behavioural Sciences*, 145, 70–80.
- Chen, C. J., Li, Z., Su, X. & Sun, Z. (2011). Rent-seeking incentives, corporate political connections, and the control structure of private firms: Chinese evidence. *Journal of Corporate Finance*, 17(2), 229–243.

- Chen, C., Chen, Z. & Wei, J. (2009). Legal protection of investors, corporate governance, and the cost of equity capital. *Journal of Corporate Finance*, 15(3), 273–289.
- Chen, E., Gaviglio, I. & Lev, B. (2017). The positive externalities of IFRS R&D capitalization: Enhanced voluntary disclosure. *Review of Accounting Studies*, 22(2), 677–714.
- Chen, H., Tang, Q., Jiang, Y. & Lin, Z. (2010). The role of international financial reporting standards in accounting quality: Evidence from the European Union. *Journal of International Financial Management & Accounting*, 21(3), 220–278.
- Chen, J., Ding, Y. & Xu, B. (2014). Convergence of accounting standards and foreign direct investment. *The International Journal of Accounting*, 49(1), 53–86.
- Chen, L. H. & Sami, H. (2008). Trading volume reaction to the earnings reconciliation from IAS to U.S. GAAP. *Contemporary Accounting Research*, 25(1), 15–53.
- Chi, C. W., Hung, K., Cheng, H. W. & Lieu, P. T. (2015). Family firms and earnings management in Taiwan: Influence of corporate governance. *International Review of Economics & Finance*, 36, 88–98.
- Cho, H. & Song, B. (2017). Politically connected audit committees, earnings quality and external financing: Evidence from Korea. *Asia-Pacific Journal of Financial Studies*, 46(4), 609–634.
- Choi, F. D. S. & Meek, G. K. (2005). *International accounting* (5th ed.). Pearson Prentice Hall. Retrieved from https://books.google.com.au/books/about/International_Accounting.html?id=BVVaAAAAYAAJ&redir_esc=y
- Choi, F. & Meek, G. (2008). *International accounting* (6th ed.). Upper Saddle River, NJ: Pearson Education.

- Chrisman, J. J., & Patel, P. C. (2012). Variations in R&D investments of family and nonfamily firms: Behavioral agency and myopic loss aversion perspectives. *Academy of Management Journal*, 55(4), 976–997.
- Christensen, H. B. (2012). Why do firms rarely adopt IFRS voluntarily? Academics find significant benefits and the cost appear to be low. *Review of Accounting Studies*, 17(3), 518–525.
- Christensen, H. B., Hail, L. & Leuz, C. (2013). Mandatory IFRS reporting and changes in enforcement. *Journal of Accounting and Economics*, 56(2–3), 147–177.
- Christensen, H. B., Lee, E., Walker, M. & Zeng, C. (2015). Incentives or standards: What determines accounting quality changes around IFRS adoption. *European Accounting Review*, 24(1), 31–61.
- Chung, K. H. & Zhang, H. (2011). Corporate governance and institutional ownership. *Journal of Financial and Quantitative Analysis*, 46(1), 247–273.
- Claessens, S., Djankov, S. & Lang, L. H. (2000). The separation of ownership and control in East Asian corporations. *Journal of Financial Economics*, 58(1–2), 81–112.
- Claessens, S., Feijen, E. & Laeven, L. (2008). Political connections and preferential access to finance: The role of campaign contributions. *Journal of Financial Economics*, 88(3), 554–580.
- Clarkson, P., Hanna, J. D., Richardson, G. D. & Thompson, R. (2011). The impact of IFRS adoption on the value relevance of book value and earnings. *Journal of Contemporary Accounting & Economics*, 7(1), 1–17.
- Collischon, M. & Eberl, A. (2020). Let's talk about fixed effects: Let's talk about all the good things and the bad things. *KZfSS Kölner Zeitschrift für Soziologie und Sozialpsychologie*, 72(2), 289–299.

- Colombo, J. (2006). Kuwait's Souk Al-Manakh stock bubble [Web log post]. Retrieved from <http://www.thebubblebubble.com/souk-al-manakh/>
- Colton, N. A. (2011). *Social stratification in the Gulf Cooperation Council states* (Report No. 14). The Kuwait Programme on Development, Governance and Globalisation in the Gulf States. Retrieved from https://eprints.lse.ac.uk/55242/1/Colton_2011.pdf
- Conner, K. R. (1991). A historical comparison of resource-based theory and five schools of thought within industrial organization economics: do we have a new theory of the firm?. *Journal of management*, 17(1), 121–154.
- Cooke, T. E. (1989). Voluntary corporate disclosure by Swedish companies. *Journal of International Financial Management & Accounting*, 1(2), 171–195.
- Cooke, T. E. (1993). Disclosure in Japanese corporate annual reports. *Journal of Business Finance & Accounting*, 20(4), 521–535.
- Cooke, T. E. & Wallace, R. O. (1990). Financial disclosure regulation and its environment: A review and further analysis. *Journal of Accounting and Public Policy*, 9(2), 79–110.
- Cope, A. & Clarke, C. (2003, 22 September). *Financial reporting: IFRS conversion - managing the people impact*. The Accountancy Live. Retrieved from CCH Daily Database: <https://www.accountancylive.com/financial-reporting-ifrs-conversion-managing-people-impact>
- Crystal, J. (1995). *Oil and politics in the Gulf: Rulers and merchants in Kuwait and Qatar*. Cambridge, UK: Cambridge University Press.
- Cull, R. & Xu, L. C. (2005). Institutions, ownership, and finance: The determinants of profit reinvestment among Chinese firms. *Journal of Financial Economics*, 77(1), 117–146.

- Daily, C. M. & Dollinger, M. J. (1992). An empirical examination of ownership structure in family and professionally managed firms. *Family Business Review*, 5(2), 117–136.
- Darjezi, J. I. Z. (2016). The role of accrual estimation errors to determine accrual and earnings quality. *International Journal of Accounting & Information Management*, 24(2), 98–115.
- Daske, H. (2006). Economic benefits of adopting IFRS or US-GAAP: Have the expected costs of equity capital really decreased? *Journal of Business Finance and Accounting*, 33(3), 329–373.
- Daske, H. & Gebhardt, G. (2006). International Financial Reporting Standards and experts' perceptions of disclosure quality. *Abacus*, 42, 461–498.
- Daske, H., Hail, L., Leuz, C. & Verdi, R. (2008). Mandatory IFRS reporting around the world: Early evidence on the economic consequences. *Journal of Accounting Research*, 46(5), 1085–1142.
- Daske, H., Hail, L., Leuz, C. & Verdi, R. (2013). Adopting a label: Heterogeneity in the economic consequences around IAS/IFRS adoptions. *Journal of Accounting Research*, 51(3), 495–547.
- Davidson, R., Goodwin-Stewart, J. & Kent, P. (2005). Internal governance structures and earnings management. *Accounting & Finance*, 45(2), 241–267.
- Dawd, I. (2018). Aggregate financial disclosure practice: Evidence from the emerging capital market of Kuwait. *Journal of Applied Accounting Research*, 19(4), 626–647.
- De George, E. T., Li, X. & Shivakumar, L. (2016). A review of the IFRS adoption literature. *Review of Accounting Studies*, 21(3), 898–1004.

- De Soto, H. (1989). *The other path: The invisible revolution in the third worlds*. Harper & Row. Retrieved from https://books.google.com.au/books/about/The_Other_Path.html?id=uSa6AAAAIAAJ&redir_esc=y
- de Sousa, E. F. & Galdi, F. C. (2016). The relationship between equity ownership concentration and earnings quality: Evidence from Brazil. *Revista de Administração*, 51(4), 331–343.
- DeAngelo, H., DeAngelo, L. & Gilson, C. (1994). The collapse of first executive corporation junk bonds, adverse publicity, and the ‘run on the bank’ phenomenon. *Journal of Financial Economics*, 36(3), 287–336.
- Dechow, P. & Dichev, I. D. (2002). The quality of accruals and earnings: The role of accrual estimation errors. *The Accounting Review*, 77(1), 35–59.
- Dechow, P. & Schrand, C. (2004). *Earnings quality*. CFA Institute Research Foundation. Retrieved from <https://www.cfainstitute.org/research/foundation/2004/earnings-quality>
- Dechow, P., Ge, W. & Schrand, C. (2010). Understanding earnings quality: A review of the proxies, their determinants and their consequences. *Journal of Accounting and Economics*, 50(2–3), 344–401.
- Dechow, P., Sloan, G. & Sweeney, P. (1996). Causes and consequences of earnings manipulation: An analysis of firms subject to enforcement actions by the SEC. *Contemporary Accounting Research*, 13(1), 1–36.
- DeFond, M., Hu, X., Hung, M. & Li, S. (2011). The impact of mandatory IFRS adoption on foreign mutual fund ownership: The role of comparability. *Journal of Accounting and Economics*, 51(3), 240–258.
- Demerjian, R., Lev, B., Lewis, F. & McVay, E. (2013). Managerial ability and earnings quality. *The Accounting Review*, 88(2), 463–498.

- den Besten, S., Georgakopoulos, G., Vasileiou, Z. & Ereiotis, N. (2015). The impact of IFRS adoption on earnings quality: A study conducted on foreign issuers in the United States. *International Business Research*, 8(11), 139–155.
- Desoky, A. M. & Mousa, G. A. (2014). The value relevance and predictability of IFRS accounting information: The case of GCC stock markets. *International Journal of Accounting and Financial Reporting*, 4(2), 215–235.
- Devalle, A., Rizzato, F. & Busso, D. (2016). Disclosure indexes and compliance with mandatory disclosure: The case of intangible assets in the Italian market. *Advances in Accounting*, 35, 8–25.
- Diamond, D. W. & Verrecchia, R. E. (1991). Disclosure, liquidity, and the cost of capital. *The Journal of Finance*, 46(4), 1325–1359.
- Dinç, S. (2005). Politicians and banks: Political influences on government-owned banks in emerging markets. *Journal of Financial Economics*, 77(2), 453–479.
- Ding, S., Jia, C., Wu, Z. & Zhang, X. (2014). Executive political connections and firm performance: Comparative evidence from privately-controlled and state-owned enterprises. *International Review of Financial Analysis*, 36, 153–167.
- Ding, Y., Hope, O. K., Jeanjean, T. & Stolowy, H. (2007). Differences between domestic accounting standards and IAS: Measurement, determinants and implications. *Journal of Accounting and Public Policy*, 26(1), 1–38.
- Dittmar, A. & Duchin, R. (2016). Looking in the rearview mirror: The effect of managers' professional experience on corporate financial policy. *The Review of Financial Studies*, 29(3), 565–602.
- Dombrovsky, V. (2008). *Do political connections matter? Firm-level evidence from Latvia*. Retrieved from Baltic International Centre for Economic Policy Studies website: <http://www.biceps.org/assets/docs/izpetes-raksti/ResearchPaperNo3>

- Dombrovsky, V. (2011). *Do political connections matter? Firm-level evidence from Latvia*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.1168702>
- Doukakis, C. (2010). The persistence of earnings and earnings components after the adoption of IFRS. *Managerial Finance*, 36(11), 969–980.
- Doukakis, L. C. (2014). The effect of mandatory IFRS adoption on real and accrual-based earnings management activities. *Journal of Accounting and Public Policy*, 33(6), 551–572.
- Doupnik, T. & Salter, S. (1995). External environment, culture, and accounting practice: A preliminary test of a general model of international accounting development. *The International Journal of Accounting*, 30(3), 189–202.
- Dudley, D. (2017, 26 January). The most (and least) corrupt countries in the Middle East. *Forbes*. Retrieved from <https://www.forbes.com/sites/dominicdudley/2017/01/26/the-most-and-least-corrupt-countries-in-the-middle-east/#43948b9e3434>
- Dunne, T., Fifield, S., Finningham, G., Fox, A., Hannah, G., Helliard, C., Power, D., Fifield, S., Fox, Alison, Helliard, C. & Veneziani, M. (2008). *The implementation of IFRS in the UK, Ireland and Italy*. Retrieved from The Institute of Chartered Accountants of Scotland website: https://www.icas.com/_data/assets/pdf_file/0013/10552/17-The-Implementation-of-IFRS-in-the-UK-Italy-and-Ireland-ICAS.pdf
- Duréndez, A. & Madrid-Guijarro, A. (2018). The impact of family influence on financial reporting quality in small and medium family firms. *Journal of Family Business Strategy*, 9(3), 205–218.

- Ebihara, T., Kubota, K., Takehara, H. & Yokota, E. (2015). Ownership, quality of earnings, and family firms in Japan. *The Journal of Musashi University*, 63(1), 71–87.
- El Shamy, M. A. & Kaled, M. A. (2005). The value relevance of earning and book values in equity valuation: An international perspective: The case of Kuwait. *International Journal of Commerce and Management*, 14, 68–79.
- El-Mahjoub, E. & Dicko, S. (2017). The impact of IFRS adoption on Canadian firms' disclosure levels. *International Journal of Accounting and Financial Reporting*, 7(1), 227–248.
- Emeni, F. K. & Urhoghide, R. (2014). Network effects in African countries' adoption of International Financial Reporting Standards (IFRS). *ICAN Journal of Accounting & Finance (IJAF)*, 3(1), 15–26.
- Erdogdu, M. & Christiansen, B. (2016). *Comparative political and economic perspectives on the MENA region*. IGI Global. Retrieved from <https://books.google.com.au/books?id=noVACwAAQBAJ>
- European Central Bank. (2014). *Emerging economies*. Retrieved from <https://www.ecb.europa.eu/ecb/tasks/global/emerging/html/index.en.html>
- European Union. (2017). *2017 EU: Gulf Cooperation Council investment report*. Retrieved from http://trade.ec.europa.eu/doclib/docs/2018/april/tradoc_156661.pdf
- Ewert, R. & Wagenhofer, A. (2005). Economic effects of tightening accounting standards to restrict earnings management. *The Accounting Review*, 80(4), 1101–1124.
- Ewert, R. & Wagenhofer, A. (2011). *Earnings quality metrics and what they measure*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.1697042>

- Faccio, M. (2006). Politically connected firms. *American Economic Review*, 96(1), 369–386.
- Faccio, M. (2010). Differences between politically connected and nonconnected firms: A cross-country analysis. *Financial Management*, 39(3), 905–928.
- Faccio, M. & Lang, L. H. (2002). The ultimate ownership of Western European corporations. *Journal of Financial Economics*, 65(3), 365–395.
- Faccio, M., Masulis, R. W. & McConnell, J. (2006). Political connections and corporate bailouts. *The Journal of Finance*, 61(6), 2597–2635.
- Fama, F. (1980). Agency problems and the theory of the firm. *The Journal of Political Economy*, 88, 288–307.
- Fan, J. P. & Wong, T. J. (2002). Corporate ownership structure and the informativeness of accounting earnings in East Asia. *Journal of Accounting and Economics*, 33(3), 401–425.
- Fan, J. P., Wei, K. J. & Xu, X. (2011). Corporate finance and governance in emerging markets: A selective review and an agenda for future research. *Journal of Corporate Finance*, 17(2), 207–214.
- Fan, J. P., Wong, T. J. & Zhang, T. (2007). Politically connected CEOs, corporate governance, and post-IPO performance of China's newly partially privatized firms. *Journal of Financial Economics*, 84(2), 330–357.
- Fang, V. W., Huang, A. H. & Karpoff, J. M. (2016). Short selling and earnings management: A controlled experiment. *The Journal of Finance*, 71(3), 1251–1294.
- Faraj, S. & El-Firjani, E. (2014). Challenges facing IASs/IFRS implementation by Libyan listed companies. *Universal Journal of Accounting and Finance*, 2(3), 57–63.

- Fearnley, S. & Hines, T. (2007). How IFRS has destabilised financial reporting for UK non-listed entities. *Journal of Financial Regulation and Compliance*, 15(4), 394–408.
- Fernández-Val, I. & Weidner, M. (2018). Fixed effects estimation of large-T panel data models. *Annual Review of Economics*, 10, 109–138.
- Financial Accounting Standard Board. (2013). *Comparability in International Accounting Standards - an overview*. Retrieved from <https://www.fasb.org/jsp/FASB/Page/SectionPage&cid=1176156306962>
- Financial Accounting Standards Board. (2015). *Comments on proposed changes to Topic 606 of the FASB Accounting Standards Codification* (Comment Letter No. 27). Retrieved from http://www.fasb.org/cs/BlobServer?blobkey=id&blobnocache=true&blobwhere=1175831177821&blobheader=application%2Fpdf&blobheadername2=Content-Length&blobheadername1=Content-Disposition&blobheadervalue2=565571&blobheadervalue1=filename%3DRR_DEFER.ED.0027.FOUR_REPRESENTATIVES_OF_THE_CONTRACT_MANUFACTURING_INDUSTRY_SEE_LISTED.pdf&blobcol=urldata&blobtable=MungoBlobs.
- Fox, J. (2016). *Applied regression analysis and generalized linear models* (3rd ed.). Thousand Oaks, CA: SAGE.
- Francis, J. & Wang, D. (2008). The joint effect of investor protection and Big 4 audits on earnings quality around the world. *Contemporary Accounting Research*, 25(1), 157–191.
- Francis, J., Khurana, I., Martin, X. & Pereira, R. (2008). The role of firm-specific incentives and country factors in explaining voluntary IAS adoptions: Evidence from private firms. *European Accounting Review*, 17(2), 331–360.

- Francis, J., LaFond, R., Olsson, P. & Schipper, K. (2004). Costs of equity and earnings attributes. *The Accounting Review*, 79(4), 967–1010.
- Francis, J., LaFond, R., Olsson, P. & Schipper, K. (2005). The market pricing of accruals quality. *Journal of Accounting and Economics*, 39(2), 295–327.
- Fuad, F., Juliarto, A. & Harto, P. (2019). Does IFRS convergence really increase accounting qualities? Emerging market evidence. *Journal of Economics, Finance and Administrative Science*, 24(48), 205–220.
- Gaio, C. (2010). The relative importance of firm and country characteristics for earnings quality around the world. *European Accounting Review*, 19(4), 693–738.
- Galeeva, D. (2018, 9 April). *The Gulf Cooperation Council (GCC): A comprehensive view*. Al-Mesbar Studies and Research Centre. Retrieved from <https://mesbar.org/the-gulf-cooperation-council-gcc-a-comprehensive-view/>
- Garanina, T., Nikulin, E. & Frangulants, O. (2016). Earnings management and R&D costs capitalization: Evidence from Russian and Germany markets. *Investment Management and Financial Innovations*, 13(1), 206–214.
- Garboise, C., Laroche, O. & Bhatnagar, M. (2010). *Family business in the GCC: Putting your house in order*. Retrieved from <https://silo.tips/download/family-business-in-the-gcc-putting-your-house-in-order-improve-governance-refocus>
- Gassen, J. & Sellhorn, T. (2006). *Applying IFRS in Germany: Determinants and consequences*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.906802>
- Gendron, Y., Be´dard, J. & Gosselin, M. (2004). Getting inside the black box: A field study of practices in ‘effective’ audit committees. *Auditing: A Journal of Practice & Theory*, 23(1), 153–171.
- Gilliver, S. & Valveny, N. (2016). How to interpret and report the results from multivariable analyses. *Medical Writing*, 25, 37–42.

- Givoly, D., Hayn, K. & Katz, P. (2010). Does public ownership of equity improve earnings quality? *The Accounting Review*, 85(1), 195–225.
- Givoly, D., Hayn, K. & Natarajan, A. (2007). Measuring reporting conservatism. *The Accounting Review*, 82(1), 65–106.
- Goldman, E., Rocholl, J. & So, J. (2013). Politically connected boards of directors and the allocation of procurement contracts. *Review of Finance*, 17(5), 1617–1648.
- Goncharov, I. & Zimmermann, J. (2006). *Do accounting standards influence the level of earnings management? Evidence from Germany*. Retrieved from Social Science Research Network (SSRN) database website:
<http://dx.doi.org/10.2139/ssrn.386521>
- Gordon, L. A., Loeb, M. P. & Zhu, W. (2012). The impact of IFRS adoption on foreign direct investment. *Journal of Accounting and Public Policy*, 31(4), 374–398.
- Gorgan, C. & Gorgan, V. (2014). Study on disclosure level of companies listed on the Bucharest stock exchange in accordance with International Financial Reporting Standards: The case of intangible assets. *Annals-Economy Series*, 2, 104–115.
- Graham, B. & Dodd, D. (2004). *Security analysis* (3rd ed.). Boston, MA: McGraw-Hill.
- Gray, S. (1988). Towards a theory of cultural influence on the development of accounting systems internationally. *Abacus*, 24(1), 1–15.
- Gray, S., Harymawan, I. & Nowland, J. (2016). Political and government connections on corporate boards in Australia: Good for business? *Australian Journal of Management*, 41(1), 3–26.
- Grill, C. (2017). Longitudinal data analysis, panel data analysis. In J. Matthes, C. Davis & F. Potter (Eds.), *The international encyclopedia of communication research methods* (pp. 1–9). Retrieved from
<https://onlinelibrary.wiley.com/doi/epdf/10.1002/9781118901731.iecrm0134>

- Gu, F. & Wang, W. (2005). Intangible assets, information complexity, and analysts' earnings forecasts. *Journal of Business Finance & Accounting*, 32(9–10), 1673–1702.
- Guedhami, O., Pittman, J. A. & Saffar, W. (2014). Auditor choice in politically connected firms. *Journal of Accounting Research*, 52(1), 107–162.
- Gujarati, D. N. (2019). *Basic econometrics* (6th ed.). New York, NY: McGraw-Hill.
- Gujarati, D. N. & Porter, D. C. (2017). *Basic econometrics* (6th ed.). USA: McGraw-Hill/Irwin.
- Gul, F. (2006). Auditors' response to political connections and cronyism in Malaysia. *Journal of Accounting Research*, 44(5), 931–963.
- Günther, N., Gegenfurtner, B., Kaserer, C. & Achleitner, A. K. (2009). *International Financial Reporting Standards and earnings quality: The myth of voluntary vs. mandatory adoption* (CEFS Working Paper No. 2009-09). Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1413145
- Gyasi, A. (2009). *Adoption of International Financial Reporting Standards in developing countries: The case of Ghana* (Unpublished bachelor's thesis). Vaasan ammattikorkeakoulu [Vaasa University of Applied Sciences], Vasa, Finland. Retrieved from Researchgate.net database: <https://pdfs.semanticscholar.org/6f44/c9a825c2df36d2a49fbc724731af8ad235b7.pdf>
- Habbershon, T. G., & Williams, M. L. (1999). A resource-based framework for assessing the strategic advantages of family firms. *Family Business Review*, 12(1), 1–25.
- Hail, L., Leuz, C. & Wysocki, P. (2010). Global accounting convergence and the potential adoption of IFRS by the U.S. (Part 1): Conceptual underpinnings and economic analysis. *Accounting Horizons: American Accounting Association Journal*, 24(3), 355–394.

- Halabi, H. & Yi, L. (2015). *Mandatory IFRS adoption and earnings quality: The impact of country-specific factors*. Retrieved from http://www.efmaefm.org/0EFMAMEETINGS/EFMA%20ANNUAL%20MEETINGS/2015-Amsterdam/papers/EFMA2015_0227_fullpaper.pdf
- Halawi, A. & Davidson, B. (2008). *Power matters: A survey of Gulf Cooperation Council boards*. Retrieved from https://www.hawkamah.org/uploads/1469026337_578f90218eb7c_Powermatters.pdf
- Hansmann, H. & Kraakman, R. (2012). Reflections on ‘The End of History for Corporate Law’. In O. Wallace, A. Rasheed & T. Yoshikawa (Eds.), *The convergence of corporate governance* (pp. 32–48). London, UK: Palgrave Macmillan.
- Haris, M., Yao, H., Tariq, G., Javaid, M. & Ain, U. (2019). Corporate governance, political connections, and bank performance. *International Journal of Financial Studies*, 7(4), 62–99.
- Harris, T. & Muller, K. (1999). The market valuation of IAS versus US-GAAP accounting measures using Form 20-F reconciliations. *Journal of Accounting and Economics*, 26(1–3), 285–312.
- Harymawan, I. & Nowland, J. (2016). Political connections and earnings quality: How do connected firms respond to changes in political stability and government effectiveness? *International Journal of Accounting & Information Management*, 24(4), 339–356.
- Harymawan, I., Nasih, M., Madyan, M. & Sucahyati, D. (2019). The role of political connections on family firms’ performance: Evidence from Indonesia. *International Journal of Financial Studies*, 7(4), 55–69.

- Hashmi, M. A., Brahmana, R. K. & Lau, E. (2018). Political connections, family firms and earnings quality. *Management Research Review*, 41(4), 414–432.
- Hassan, O., Romilly, P., Giorgioni, G. & Power, D. (2009). The value relevance of disclosure: Evidence from the emerging capital market of Egypt. *The International Journal of Accounting*, 44(2), 79–102.
- He, X., Wong, T. J. & Young, D. (2012). Challenges for implementation of fair value accounting in emerging markets: Evidence from China. *Contemporary Accounting Research*, 29(2), 538–562.
- Healy, M. & Palepu, G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, 31(1–3), 405–440.
- Healy, M., Hutton, P. & Palepu, K. G. (1999). Stock performance and intermediation changes surrounding sustained increases in disclosure. *Contemporary Accounting Research*, 16(3), 485–520.
- Hellman, J., Jones, J. & Kaufmann, D. (2003). Seize the state, seize the day. State capture, corruption, and influence in transition. *Journal of Comparative Economics*, 31(4), 751–773.
- Hellman, N., Carenys, J. & Moya Gutierrez, S. (2018). Introducing more IFRS principles of disclosure: Will the poor disclosers improve? *Accounting in Europe*, 15(2), 242–321.
- Hellström, K. (2006). The value relevance of financial accounting information in a transition economy: The case of the Czech Republic. *European Accounting Review*, 15(3), 325–349.
- Herbert, W. E. & Tsegba, I. N. (2013). Economic consequences of International Financial Reporting Standards (IFRS) adoption: Evidence from a developing country. *European Journal of Business and Management*, 5(28), 80–99.

- Hertog, S. (2012). *How the GCC did it: Formal and informal governance of successful public enterprise in the Gulf Co-operation Council countries*. In Organisation for Economic Co-operation and Development (Ed.), *Towards new arrangements for state ownership in the Middle East and North Africa* (pp. 71–92). Retrieved from https://books.google.com.au/books/about/Towards New Arrangements for State Owner.html?id=DmkR34lue5wC&printsec=frontcover&source=kp_read_button&redir_esc=y#v=onepage&q&f=false
- Hertog, S. (2018, 25 July). *The political decline and social rise of tribal identity in the GCC*. The LSE Middle East Centre Blog. Retrieved from <https://blogs.lse.ac.uk/mec/2018/07/25/the-political-decline-and-social-rise-of-tribal-identity-in-the-gcc/>
- Heykal, M., Siagian, P. & Iswandi. (2014). Impact analysis of Indonesian financial accounting standard based on the IFRS implementation for financial instruments in the Indonesian commercial bank. *Procedia-Social and Behavioral Sciences*, 109, 1247–1250.
- Hillman, A. J. (2005). Politicians on the board of directors: Do connections affect the bottom line? *Journal of Management*, 31(3), 464–481.
- Hines, T. M. (2007). International Financial Reporting Standards: A guide to sources for international accounting standards. *Journal of Business & Finance Librarianship*, 12(3), 3–26.
- Hoang, T. C., Abeysekera, I. & Ma, S. (2017). The effect of board diversity on earnings quality: An empirical study of listed firms in Vietnam. *Australian Accounting Review*, 27(2), 146–163.
- Holderness, C. (2003). A survey of blockholders and corporate control. *Economic Policy Review*, 4, 51–64.

- Holt, P. (2013). Earnings quality as measured by predictability of reported earnings. *Advances in Business Research*, 4(1), 49–53.
- Hong, H., Hung, M. & Lobo, G. (2014). The impact of mandatory IFRS adoption on IPOs in global capital markets. *The Accounting Review*, 89(4), 1365–1397.
- Hoogendoorn, M. (2006). International accounting regulation and IFRS implementation in Europe and beyond – experiences with first-time adoption in Europe. *Accounting in Europe*, 3(1), 23–26.
- Hope, O. K., Jin, J. & Kang, T. (2006). Empirical evidence on jurisdictions that adopt IFRS. *Journal of International Accounting Research*, 5(2), 1–20.
- Horton, J., Serafeim, G. & Serafeim, I. (2008). *Does mandatory IFRS adoption improve the information environment?* (Harvard Business School Working Paper No. 1264101). Retrieved from <http://www.lse.ac.uk/accounting/news/MAFG/Serafeimpaper.pdf>
- Horton, J., Serafeim, G. & Serafeim, I. (2013). Does mandatory IFRS adoption improve the information environment? *Contemporary Accounting Research*, 30(1), 388–423.
- Hossain, M. (2008). The extent of disclosure in annual reports of banking companies: The case of India. *European Journal of Scientific Research*, 23(4), 660–681.
- Houqe, M. N. & Monem, R. M. (2016). IFRS adoption, extent of disclosure, and perceived corruption: A cross-country study. *The International Journal of Accounting*, 51(3), 363–378.
- Houqe, M. N., Monem, R. M., Tareq, M. & Van Zijl, T. (2016). Secrecy and the impact of mandatory IFRS adoption on earnings quality in Europe. *Pacific-Basin Finance Journal*, 40, 476–490.

- Houqe, N., Monem, R. & Clarkson, P. (2013). *Understanding IFRS adoption: A review of current debate and consequences*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.2265728>
- Houqe, N., van Zijl, T., Dunstan, K. & Karim, W. (2012). The effect of IFRS adoption and investor protection on earnings quality around the world. *The International Journal of Accounting*, 47(3), 333–355.
- Hung, M. & Subramanyam, K. R. (2007). Financial statement effects of adopting International Accounting Standards: The case of Germany. *Review of Accounting Studies*, 12, 623–657.
- Hunt, H. (1985). Potential determinants of corporate inventory accounting decisions. *Journal of Accounting Research*, 23(2), 448–467.
- Huse, M. (1994). Board-management relations in small firms: The paradox of simultaneous independence and interdependence. *Small Business Economics*, 6(1), 55–72.
- Hvidt, M. (2013). *Economic diversification in GCC countries: Past record and future trends*. Retrieved from http://eprints.lse.ac.uk/55252/1/Hvidt%20final%20paper%2020.11.17_v0.2.pdf
- Iatridis, G. & Rouvolis, S. (2010). The post-adoption effects of the implementation of International Financial Reporting Standards in Greece. *Journal of International Accounting, Auditing and Taxation*, 19(1), 55–65.
- Ibrahim, H. & Abdul Samad, F. A. (2010). Family business in emerging markets: The case of Malaysia. *African Journal of Business Management*, 4(13), 2586–2595.
- Imhof, M. J., Seavey, S. E. & Watanabe, O. V. (2018). Competition, proprietary costs of financial reporting, and financial statement comparability. *Journal of Accounting, Auditing & Finance*, 1–29.
<https://doi.org/10.1177%2F01485558X18814599>

- International Accounting Standards Plus. (2017a). *IFRS compliance, presentation, and disclosure checklist 2017*. Retrieved from <https://www.iasplus.com/en/publications/global/models-checklists/2017/ifrs-checklist>
- International Accounting Standards Plus. (2017b). *Preface to International Financial Reporting Standards*. Retrieved from <https://www.iasplus.com/en/standards/other/preface>
- International Accounting Standards Plus. (2020). *IFRS compliance, presentation, and disclosure checklist 2017*. Retrieved from <https://www.iasplus.com/en/standards/ias/ias29>
- International Financial Reporting Standards. (2017). *Analysis of use of IFRS standards around the world*. Retrieved from <http://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/#analysis>
- International Financial Reporting Standards. (2018). *Why global accounting standards?* Retrieved from <https://www.ifrs.org/use-around-the-world/why-global-accounting-standards/>
- International Financial Reporting Standards. (2020). *IAS 29 financial reporting in hyperinflationary economies*. Retrieved from <https://www.ifrs.org/issued-standards/list-of-standards/ias-29-financial-reporting-in-hyperinflationary-economies/>
- Irvine, H. (2008). The global institutionalization of financial reporting: The case of the United Arab Emirates. *Accounting Forum*, 32(2), 125–142.
- Irvine, H. & Lucas, N. (2006). The globalization of accounting standards: The case of the United Arab Emirates. In *Proceedings of the 3rd International Conference on Contemporary Business* (pp. 1–24). Brisbane, Australia: Charles Sturt University.

- Ismail, K. & Rahman, A. (2011). Audit committee and the amendments of quarterly financial reports among Malaysian companies. *UKM Journal of Management*, 32, 3–12.
- Ismail, W., Kamarudin, K., van Zijl, T. & Dunstan, K. (2013). Earnings quality and the adoption of IFRS based accounting standards: Evidence from an emerging market. *Asian Review of Accounting*, 21(1), 53–73.
- Jackling, B., Howieson, B. & Natoli, R. (2012). Some implications of IFRS adoption for accounting education. *Australian Accounting Review*, 22(4), 331–340.
- Jarva, H. & Lantto, A. M. (2010). The value-relevance of IFRS versus domestic accounting standards: Evidence from Finland. *The Finnish Journal of Business Economics*, 2, 141–177.
- Jayaraman S. & Verdi, R. (2013). *The effect of economic integration on accounting comparability: Evidence from the adoption of the Euro*. Retrieved from Social Science Research Network (SSRN) database website:
<http://dx.doi.org/10.2139/ssrn.2286699>
- Jeanjean, T. & Stolowy, H. (2008). Do accounting standards matter? An exploratory analysis of earnings management before and after IFRS adoption. *Journal of Accounting and Public Policy*, 27(6), 480–494.
<https://doi.org/10.1016/j.jaccpubpol.2008.09.008>
- Jensen, M. C. & Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360.
- Jermakowicz, E. & Gornik-Tomaszewski, S. (2006). Implementing IFRS from the perspective of EU publicly traded companies. *Journal of International Accounting, Auditing and Taxation*, 15(2), 170–196.

- Johl, S., Fugaban Murphy, G. & Khan, A. (2010). *Family firms and earnings quality: Evidence from top 500 ASX companies*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.1717196>
- Johnson, S. & Mitton, T. (2003). Cronyism and capital controls: Evidence from Malaysia. *Journal of Financial Economics*, 67(2), 351–382.
- Johnston, R., Jones, K. & Manley, D. (2018). Confounding and collinearity in regression analysis: A cautionary tale and an alternative procedure, illustrated by studies of British voting behaviour. *Quality & Quantity*, 52(4), 1957–1976.
- Jones, J. (1991). Earnings management during import relief investigations. *Journal of Accounting Research*, 29(2), 193–228.
- Joshi, P. L., & Al-Basteki, H. (1999). Development of accounting standards and adoption of IASs: Perceptions of accountants from a developing country. *Asian Review of Accounting*, 7(2), 96–117.
- Joshi, P. L. & Ramadhan, S. (2002). The adoption of International Accounting Standards by small and closely held companies: Evidence from Bahrain. *The International Journal of Accounting*, 37(4), 429–440.
- Joshi, P. L. & Wakil, A. (2004). A study of the audit committees' functioning in Bahrain: Empirical findings. *Managerial Auditing Journal*, 19(7), 832–858.
- Judge, W., Li, S. & Pinsker, R. (2010). National adoption of International Accounting Standards: An institutional perspective. *Corporate Governance: An International Review*, 18(3), 161–174.
- Juhmani, O. (2017). Corporate governance and the level of Bahraini corporate compliance with IFRS disclosure. *Journal of Applied Accounting Research*, 18(1), 22–41.

- Kaaya, I. D. (2015). The impact of International Financial Reporting Standards (IFRS) on earnings management: A review of empirical evidence. *Journal of Finance and Accounting*, 3(3), 57–65.
- Kabir, M. H., Laswad, F. & Ainul Islam, M. (2010). Impact of IFRS in New Zealand on accounts and earnings quality. *Australian Accounting Review*, 20(4), 343–357.
- Kamrava, M., Nonneman, G., Nosova, Anastasia. & Valeri, M. (2016). *Ruling families and business elites in the Gulf monarchies: Ever closer?* Retrieved from <https://www.chathamhouse.org/sites/default/files/publications/research/2016-11-03-ruling-families-business-gulf-kamrava-nonneman-nosova-valeri.pdf>
- Kapoor, N. & Goel, S. (2019). Do diligent independent directors restrain earnings management practices? Indian lessons for the global world. *Asian Journal of Accounting Research*, 4(1), 52–69.
- Kargin, S. (2013). The impact of IFRS on the value relevance of accounting information: Evidence from Turkish firms. *International Journal of Economics and Finance*, 5(4), 71–80.
- Katz, M. L. & Shapiro, C. (1985). Network externalities, competition and compatibility. *American Economic Review*, 75(3), 424–440.
- Kaufmann, D., Kraay, A. & Mastruzzi, M. (2011). The worldwide governance indicators: Methodology and analytical issues. *Hague Journal on the Rule of Law*, 3(2), 220–246.
- Khalife, H. (2015, 18 September). UAE accountants among highest paid in GCC. *Gulf News*. Retrieved from <https://gulfnews.com/business/uae-accountants-among-highest-paid-in-gcc-1.1590621>
- Khanagha, J. B. (2011). Value relevance of accounting information in the United Arab Emirates. *International Journal of Economics and Financial Issues*, 1(2), 33–45.

- Khanna, T. & Palepu, K. (2000). Is group affiliation profitable in emerging markets? An analysis of diversified Indian business groups. *The Journal of Finance*, 55(2), 867–891.
- Khanna, T. & Rivkin, J. W. (2001). Estimating the performance effects of business groups in emerging markets. *Strategic Management Journal*, 22, 45–74.
- Khedhiri, S. & Muhammad, N. (2011). Empirical analysis of the UAE stock market volatility. *Middle East Business and Economic Review*, 3, 74–85.
- Khelif, H. & Souissi, M. (2010). The determinants of corporate disclosure: A meta-analysis. *International Journal of Accounting & Information Management*, 18(3), 198–219.
- Khwaja, A. I. & Mian, A. (2005). Do lenders favour politically connected firms? Rent provision in an emerging financial market. *The Quarterly Journal of Economics*, 120(4), 1371–1411.
- Kim, H. Y. (2013). Statistical notes for clinical researchers: Assessing normal distribution (2) using skewness and kurtosis. *Restorative Dentistry & Endodontics*, 38(1), 52–54.
- Kim, J. & Shi, H. (2010). *Voluntary IFRS adoption and stock price synchronicity: Do analyst following and institutional infrastructure matter?* Retrieved from Social Science Research Network (SSRN) database website:
<http://dx.doi.org/10.2139/ssrn.1586657>
- Kirschenheiter, M. & Melumad, N. (2004). *Earnings' quality and smoothing*. Retrieved from Social Science Research Network (SSRN) database website:
<https://pdfs.semanticscholar.org/71eb/7322d59bee32d20ec789cd809575eedea9d7.pdf>

- Klapper, L. F. & Love, I. (2004). Corporate governance, investor protection, and performance in emerging markets. *Journal of Corporate Finance*, 10(5), 703–728.
- Klein, A. (2002). Economic determinants of audit committee independence. *The Accounting Review*, 77(2), 435–452.
- Klein, P., Shapiro, D. & Young, J. (2005). Corporate governance, family ownership and firm value: The Canadian evidence. *Corporate Governance: An International Review*, 13(6), 769–784.
- Kline, R. B. (2011). *Principles and practice of structural equation modeling* (3rd ed.). New York, NY: Guilford.
- Kolsi, M. C. & Zehri, F. (2013). *The determinants of IAS/IFRS adoption by emergent countries* (Working Paper). Emirates College of Technology, Abu Dhabi.
- Kormendi, R. & Lipe, R. (1987). Earnings innovations, earnings persistence, and stock returns. *Journal of Business*, 60, 323–345.
- Kothari, P., Leone, A. & Wasley, C. (2005). Performance matched discretionary accrual measures. *Journal of Accounting and Economics*, 39(1), 97–163.
- Kshetri, N. & Ajami, R. (2008). Institutional reforms in the Gulf Cooperation Council economies: A conceptual framework. *Journal of International Management*, 14(3), 300–318.
- Kvaal, E. & Nobes, C. (2012). IFRS policy changes and the continuation of national patterns of IFRS practice. *European Accounting Review*, 21(2), 343–371.
- Kwak, K. & Kim, H. (2017). Statistical data preparation: Management of missing values and outliers. *Korean Journal of Anesthesiology*, 70(4), 407–411.
- Kwon, Y., Na, K. & Park, J. (2019). The economic effects of IFRS adoption in Korea. *Asia-Pacific Journal of Accounting & Economics*, 26(4), 321–361.

- La Porta, R., Lopez-de-Silanes, F. & Sheifer, A. (1999). Corporate ownership around the world. *The Journal of Finance*, 54(2), 471–517.
- La Porta, R., Lopez-de-Silanes, F. & Shleifer, A. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113–1154.
- La Porta, R., Lopez-de-Silanes, F., Shleifer, A. & Vishny, R. (2000). Investor protection and corporate governance. *Journal of Financial Economics*, 58(1), 3–27.
- Lagarde, C. (2016). *The role of emerging markets in a new global partnership for growth by IMF managing director Christine Lagarde*. Retrieved from http://www.imf.org/en/News/Articles/2015/09/28/04/53/sp020416#P26_3019
- Lahmar, A. T. & Ali, A. (2017). Factors influence adoption of International Financial Reporting Standards (IFRS) adoption in Libya. *Global Journal of Accounting and Finance*, 1, 18–32.
- Lang, H. & Lundholm, J. (1996). Corporate disclosure policy and analyst behavior. *The Accounting Review*, 71(4), 467–492.
- Lang, M. & Stice-Lawrence, L. (2015). Textual analysis and international financial reporting: Large sample evidence. *Journal of Accounting and Economics*, 60(2), 110–135.
- Lang, M., Maffett, M.G. & Owens, E. L. (2010). *Earnings comovement and accounting comparability: The effects of mandatory IFRS adoption*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.1676937>
- Laupe, S. (2018). Role of culture and law enforcement in determining the level of IFRS adoption. *European Research Studies Journal*, 21(1), 56–64.
- Leal, Y., Girao, P., Lucena, L. & Martins, G. (2017). Persistence, vale relevance, and accruals quality in extreme earnings and cash flow situations. *Revista de Administração Mackenzie (RAM)*, 18(3), 203–231.

- Lee, J., Li, Y. & Yue, H. (2006). Performance, growth and earnings management. *Review of Accounting Studies*, 11(2-3), 305–334.
- Lee, Y. C. (2013). Can independent directors improve the quality of earnings? Evidence from Taiwan. *Advances in Management and Applied Economics*, 3(3), 45–66.
- Leigh, L. (2011). Breaking down corporate secrecy in the Middle East: Lessons from a successful ‘infomediary’. *European Business Review*, 23(2), 154–166.
- Lemma, T., Negash, M. & Mlilo, M. (2013). *Determinants of earnings management: Evidence from around the world*. Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.2370926>
- Leone, A. J., Minutti-Meza, M. & Wasley, C. E. (2019). Influential observations and inference in accounting research. *The Accounting Review*, 94(6), 337–364.
- Leung, R. & Ilsever, J. (2013). Review of evidence between corporate governance and mandatory IFRS adoption from the perspective of agency theory and information asymmetry. *Universal Journal of Accounting and Finance*, 1(3), 85–94.
- Leuz, C. (2003). IAS versus U.S. GAAP: Information asymmetry-based evidence from Germany’s New Market. *Journal of Accounting Research*, 41(3), 445–472.
- Leuz, C. & Oberholzer-Gee, F. (2006). Political relationships, global financing, and corporate transparency: Evidence from Indonesia. *Journal of Financial Economics*, 81, 411–439.
- Leuz, C. & Verrecchia, R. (2000). The economic consequences of increased disclosure. *Journal of Accounting Research*, 38, 91–124.
- Leuz, C., Nanda, D. & Wysocki, P. D. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics*, 69(3), 505–527.

- Levitt, A. (1998). The importance of high quality accounting standards. *Accounting Horizons*, 12(1), 79–82.
- Leys, C., Delacre, M., Mora, Y. L., Lakens, D. & Ley, C. (2019). How to classify, detect, and manage univariate and multivariate outliers, with emphasis on pre-registration. *International Review of Social Psychology*, 32(1), 1–10.
- Li, F. (2008). Annual report readability, current earnings, and earnings persistence. *Journal of Accounting and Economics*, 45(2–3), 221–247.
- Li, F., Abeysekera, I. & Ma, S. (2014). The effect of financial status on earnings quality of Chinese-listed firms. *Journal of Asia-Pacific Business*, 15(1), 4–26.
- Li, H., Meng, L., Wang, Q. & Zhou, L. A. (2008). Political connections, financing and firm performance: Evidence from Chinese private firms. *Journal of Development Economics*, 87(2), 283–299.
- Li, S. (2010). Does mandatory adoption of International Financial Reporting Standards in the European Union reduce the cost of equity capital? *The Accounting Review*, 85(2), 607–636.
- Li, V. (2019). The effect of real earnings management on the persistence and informativeness of earnings. *The British Accounting Review*, 51(4), 402–423.
- Liao, F. N. & Chen, F. W. (2020). Independent director interlocks: Effects and boundary on the earnings persistence of the firm. *Economic Research-Ekonomska Istraživanja*, 34(1), 383–409.
- Liao, Q., Sellhorn, T. & Skaife, H. (2012). The cross-country comparability of IFRS earnings and book values: Evidence from France and Germany. *Journal of International Accounting Research*, 11(1), 155–184.
- Libby, R., Libby, P. A. & Short, D. G. (2011). *Financial accounting* (7th ed.). Retrieved from <https://financeasim.files.wordpress.com/2014/08/financial-accounting-7th-edition-robert-libbydaniel-short-mcgraw-hill.pdf>

- Liebowitz, S. J. & Margolis, S. E. (1994). Network externality uncommon tragedy. *Journal of Economic Perspectives*, 8(2), 133–150.
- Liebowitz, S. J. & Margolis, S. E. (1998). Network externalities (effects). In P. Newman (Ed.), *The new Palgrave's dictionary of economics and the law* (pp. 671–674). London, UK: Palgrave MacMillan.
- Lin, S. (2012). Discussion of the determinants and consequences of heterogeneous IFRS compliance levels following mandatory IFRS adoption: Evidence from a developing country. *Journal of International Accounting Research*, 11(1), 113–118.
- Lisboa, I. & Costa, A. (2020). The impact of corporate governance on earnings management of Portuguese listed firms. In D. Crowther & S. Seifi (Eds.), *Governance and sustainability* (pp. 81–99). Retrieved from https://link.springer.com/chapter/10.1007%2F978-981-15-6370-6_5
- Liu, G. & Sun, J. (2015). Did the mandatory adoption of IFRS affect the earnings quality of Canadian firms? *Accounting Perspectives*, 14(3), 250–275.
- Liu, Y., Li, X., Zeng, H. & An, Y. (2017). Political connections, auditor choice and corporate accounting transparency: Evidence from private sector firms in China. *Accounting & Finance*, 57(4), 1071–1099.
- Lourenço, I. M., Branco, M. E. & Castelo, D. (2015). Main consequences of IFRS adoption: Analysis of existing literature and suggestions for further research. *Revista Contabilidade & Finanças*, 26(68), 126–139.
- Lungu, I., Caraiani, C. & Dascălu, C. (2017). The impact of IFRS adoption on foreign direct investments: Insights for emerging countries. *Accounting in Europe*, 14((3), 331–357.
- Mardini, G., Wadi, R. & Mah'd, O. (2019). Empirical evidence of the suitability of IFRS in emerging markets. *Accounting Research Journal*, 32(4), 553–567.

- Markaz. (2019). *6 lessons for our economic sustainability: Souq Al-Manakh & five other GCC crises*. Kuwait Financial Centre 'Markaz'. Retrieved from <https://www.markaz.com/getmedia/2a1ba951-45f8-4708-a748-bf041f6237fa/Markaz-6-Lessons-for-our-Economic-Sustainability-En.pdf.aspx>
- Marra, A. & Mazzola, P. (2014). Is corporate board more effective under IFRS or 'it's just an illusion'? *Journal of Accounting, Auditing & Finance*, 29(1), 31–60.
- Marston, L. & Shrives, J. (1991). The use of disclosure indices in accounting research: A review article. *British Accounting Review*, 23, 195–210.
- Martin, G., Campbell, J. T. & Gomez-Mejia, L. (2016). Family control, socioemotional wealth and earnings management in publicly traded firms. *Journal of Business Ethics*, 133(3), 453–469.
- Masoud, N. (2017). The effects of mandatory IFRS adoption on financial analysts' forecast: Evidence from Jordan. *Cogent Business & Management*, 4(1), 1–18.
- Mauro, P. (1995). Corruption and growth. *The Quarterly Journal of Economics*, 110(3), 681–712.
- Mazaheri, N. (2013). The Saudi monarchy and economic familism in an era of business environment reforms. *Business and Politics*, 15(3), 295–321.
- Mazzi, F., Slack, R. & Tsalavoutas, I. (2018). The effect of corruption and culture on mandatory disclosure compliance levels: Goodwill reporting in Europe. *Journal of International Accounting, Auditing and Taxation*, 31, 52–73.
- McConnell, J. J. & Servaes, H. (1990). Additional evidence on equity ownership and corporate value. *Journal of Financial Economics*, 27(2), 595–612.
- Melumad, D., Nissim, D. & Mcvay, E. (2010). Line-item analysis of earnings quality. *The Accounting Review*, 85(3), 1121–1122.

- Mengoli, S., Pazzaglia, F. & Sandri, S. (2019). Family firms, institutional development and earnings quality: Does family status complement or substitute for weak institutions? *Journal of Management and Governance*, 24, 1–28.
- Mindermann, T. & Brosel, G. (2009). Does the capitalization of internally generated intangible assets according to IAS 38 really provide useful information? *Ekonomia Menedżerska*, 6, 7–16.
- Monem, R. (2013). Determinants of board structure: Evidence from Australia. *Journal of Contemporary Accounting & Economics*, 9(1), 33–49.
- Mongrut, S., & Winkelried, D. (2019). Unintended effects of IFRS adoption on earnings management: The case of Latin America. *Emerging Markets Review*, 38, 377–388.
- Moqbel, M. & Bakay., A. (2010). *Are US academics and professionals ready for IFRS?* Retrieved from Social Science Research Network (SSRN) database website: <http://dx.doi.org/10.2139/ssrn.1662162>
- Morck, R. Shleifer, A. & Vishny, R. (1988). Management ownership and market valuation: An empirical analysis. *Journal of Financial Economics*, 20(1), 293–315.
- Morris, R. D. (1987). Signalling, agency theory and accounting policy choice. *Accounting and Business Research*, 18(69), 47–56.
- Morris, R. D., Susilowati, I. & Gray, S. J. (2012). *The impact of IFRS adoption on corporate disclosure levels in the Asian region* (Working Paper). University of New South Wales, Australia.
- Morunga, M. & Bradbury, M. (2012). The impact of IFRS on annual report length. *Australasian Accounting, Business and Finance Journal*, 6(5), 47–62.
- Moscatello, L. (1990). The pitcairns want you. *Family Business Magazine*, 19(2), 135–145.

- Mouselli, S., Jaafar, A. & Goddard, J. (2013). Accruals quality, stock returns and asset pricing: Evidence from the UK. *International Review of Financial Analysis*, 30, 203–213.
- Muttakin, M. B., Monem, R. M., Khan, A. & Subramaniam, N. (2015). Family firms, firm performance and political connections: Evidence from Bangladesh. *Journal of Contemporary Accounting & Economics*, 11(3), 215–230.
- Narayanaswamy, R. (2013). Political connections and earnings quality: Evidence from India (Indian Institute of Management [IIM] Working Paper No. 433). Retrieved from <https://dx.doi.org/10.2139/ssrn.2359322>
- Nasser, Z. A. (2019). The effect of royal family members on the board on firm performance in Saudi Arabia. *Journal of Accounting in Emerging Economies*, 10(3), 487–518.
- Nautiyal., S. (2018, 9 June). What is the importance of the GCC countries? *Quora*. Retrieved from <https://www.quora.com/What-is-the-importance-of-the-GCC-countries>
- Neuman, W. L. (2003). *Social research methods: Qualitative and quantitative approaches* (5th ed.). Boston, MA: Allyn and Bacon.
- Ngangan, K., Saudagaran, M. & Clarke, L. (2005). Cultural influences on indigenous users' perceptions of the importance of disclosure items: Empirical evidence from Papua New Guinea. *Advances in International Accounting*, 18, 27–51.
- Nield, R. (2008). The need for greater independence. *Middle East Economic Digest*, 52(27), 32–4.
- Niessen, A. & Ruenzi, S. (2009). *Political connectedness and firm performance: Evidence from Germany* (Working Paper No. 07-15). Centre for Financial Research (CFR), University of Cologne, Germany.

- Niessen, A. & Ruenzi, S. (2010). Political connectedness and firm performance: Evidence from Germany. *German Economic Review*, 11(4), 441–464.
- Nobes, C. (2011). *International variations in IFRS adoption and practice*. Retrieved from <http://www.accaglobal.com/content/dam/acca/global/PDF-technical/financial-reporting/rr-124-001.pdf>
- Ntoung, L. T., Santos de Oliveira, H. M., Sousa, B. D., Pimentel, L. M., & Bastos, S. C. (2020). Are family firms financially healthier than non-family firm?. *Journal of Risk and Financial Management*, 13(1), 1–18.
- Oei, R., Ramsay, A. & Mather, P. (2008). Earnings persistence, accruals and managerial share ownership. *Accounting and Finance*, 48(3), 475–502.
- Olken, B. & Pande, R. (2012). Corruption in developing countries. *Annual Review of Economics*, 4(1), 479–509.
- Omar, B. & Simon, J. (2011). Corporate aggregate disclosure practices in Jordan. *Advances in Accounting*, 27(1), 166–186.
- Organisation for Economic Co-operation and Development. (2010). *Assessing investment policies of member countries of the Gulf Cooperation Council*. Retrieved from <http://www.oecd.org/mena/competitiveness/Preliminary%20assessment%20GCC%20inv%20policies.pdf>
- Owusu-Ansah, S. (1998). The impact of corporate attributes on the extent of mandatory disclosure and reporting by listed companies in Zimbabwe. *International Journal of Accounting*, 33(5), 605–631.
- Owusu-Ansah, S. & Yeoh, J. (2005). The effect of legislation on corporate disclosure practices. *Abacus*, 41(1), 92–109.

Paananen, M. (2008). *The IFRS adoption's effect on accounting quality in Sweden*.

Retrieved from Social Science Research Network (SSRN) database website:

<http://dx.doi.org/10.2139/ssrn.1097659>

Paananen, M. & Lin, H. (2009). The development of accounting quality of IAS and IFRS over time: The case of Germany. *Journal of International Accounting Research*, 8(1), 31–55.

Paglietti, P. (2009). Earnings management, timely loss recognition and value relevance in Europe following the IFRS mandatory adoption: Evidence from Italian listed companies. *Economia Aziendale Online*, 1(4), 97–117.

Paiva, S., Lourenço, C. & Dias Curto, J. (2019). Earnings management in family versus non-family firms: The influence of analyst coverage. *Spanish Journal of Finance and Accounting*, 48(2), 113–133.

Palea, V. (2013). IAS/IFRS and financial reporting quality: Lessons from the European experience. *China Journal of Accounting Research*, 6(4), 247–263.

Partrick, N. (2011). *The GCC: Gulf state integration or leadership cooperation?*

(Report No. 19). The Kuwait Programme on Development, Governance and Globalisation in the Gulf States. Retrieved from

http://eprints.lse.ac.uk/55660/1/_lse.ac.uk_storage_LIBRARY_Secondary_library_shared_repository_Content_Kuwait%20Programme_Patrick%202011%20paper.pdf

Pawsey, N. L. (2017). IFRS adoption: A costly change that keeps on costing. *Accounting Forum*, 41(2), 116–131.

Peasnell, V., Pope, F. & Young, S. (2005). Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business Finance & Accounting*, 32(7–8), 1311–1346.

- Pedersen and Partners. (2014). *Corporate governance is the key GCC family business groups need to unlock full potential*. Retrieved from <https://www.pedersenandpartners.com/news/corporate-governance-key-gcc-family-business-groups-need-unlock-full-potential>
- Penman, S. H. & Zhang, X. J. (2002). Accounting conservatism, the quality of earnings, and stock returns. *The Accounting Review*, 77(2), 237–264.
- Pfeffer, J., & Salancik, G. (1978). *The external control of organizations: A resource-dependence perspective*. New York, NY: Harper & Row.
- Phan, D. H., Joshi, M. & Mascitelli, B. (2016). Are Vietnamese accounting academics and practitioners ready for International Financial Reporting Standards (IFRS)? In E. Uchenna, M. Nnadi, S. Tanna & F. Iyoha (Eds.), *Economics and political implications of International Financial Reporting Standards* (pp. 27–46). Retrieved from http://www.academia.edu/32609139/Chapter_03_Are_Vietnamese_Accounting_Academics_and_Practitioners_Ready_for_IFRS
- Pilcher, R. & Dean, G. (2009). Implementing IFRS in local government: Value adding or additional pain? *Qualitative Research in Accounting & Management*, 6(3), 180–196.
- Pimentel, C. & de Aguiar, B. (2012). Persistence of quarterly earnings: An empirical investigation in Brazil. *BBR-Brazilian Business Review*, 9, 38–54.
- Piotroski, J. D. & Wong, T. J. (2009). Institutions and information environment of Chinese listed firms. In J. P. Fan & R. Morck (Eds.), *Capitalizing China* (pp. 201–242). Chicago, IL: University of Chicago Press.
- Pivac, S., Vuko, T. & Cular, M. (2017). Analysis of annual report disclosure quality for listed companies in transition countries. *Economic Research*, 30(1), 721–731.

- Platikanova, P. & Perramon, J. (2012). Economic consequences of the first-time IFRS adoption in Europe. *Spanish Journal of Finance and Accounting*, 41, 497–519.
- Polsiri, P. & Jiraporn, P. (2012). Political connections, ownership structure, and financial institution failure. *Journal of Multinational Financial Management*, 22(1–2), 39–53.
- Popova, T., Georgakopoulos, G., Sotiropoulos, I. & Vasileiou, Z. (2013). Mandatory disclosure and its impact on the company value. *International Business Research*, 6(5), 1–16.
- Prada, M. (2014). *Intergovernmental working group of experts on International Standards of Accounting and Reporting (ISAR): Key foundations for high-quality reporting: Good practices of monitoring and enforcement, and compliance*. Retrieved from http://unctad.org/meetings/es/Presentation/ciisar31_1510AM_MPrada_en.pdf
- Prawat, B. (2011). *Earnings persistence, value relevance, and earnings timeliness: The case of Thailand* (Unpublished doctoral thesis). Durham University, Durham, UK. Retrieved from http://etheses.dur.ac.uk/1378/1/prawat_thesis2011.pdf?DDD2
- Pricope, C. F. (2017). The implications of IFRS adoption on foreign direct investment in poor countries. *The Audit Financiar Journal*, 15(146), 218–229.
- Prior, D., Surroca, J. & Tribo, J. (2008). *Earnings management and corporate social responsibility* (Universidad Carlos III de Madrid Working Paper No. 06-23). Retrieved from <https://e-archivo.uc3m.es/bitstream/handle/10016/428/wb062306.pdf?sequence=1>
- Pucheta-Martínez, M. C. & García-Meca, E. (2014). Institutional investors on boards and audit committees and their effects on financial reporting quality. *Corporate Governance: An International Review*, 22, 347–363.

- Puig, G. V. & Al-Haddab, B. (2013). The protection of minority shareholders in the Gulf Cooperation Council. *Journal of Corporate Law Studies*, 13(1), 123–149.
- Punch, K. F. (2005). *Introduction to social research: Quantitative and qualitative approaches* (2nd ed.). Thousand Oaks, CA: SAGE.
- Purkayastha, S. & Veliyath, R. (2016). *Primary and secondary agency conflicts in family firms: An empirical investigation* (Kennesaw State University Working Paper Series). Retrieved from <http://coles.kennesaw.edu/research/docs/spring-2016/SPRING16-03.pdf>
- Ramanna, K. & Roychowdhury, S. (2010). Elections and discretionary accruals: Evidence from 2004. *Journal of Accounting Research*, 48(2), 445–475.
- Ramanna, K. & Sletten, E. (2008). *Network effects in countries' adoption of IFRS* (Harvard Business School Working Paper No. 10-092). Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1590245
- Ramanna, K. & Sletten, E. (2014). Network effects in countries' adoption of IFRS. *The Accounting Review*, 89(4), 1517–1543.
- Ramanna, K. & Sletten, E. (2009). *Why do countries adopt International Financial Reporting Standards?* (Harvard Business School Working Paper No. 09-102). Retrieved from https://www.hbs.edu/ris/Publication%20Files/09-102_1bc06d7-7340-4f0a-b638-e23211a40c41.pdf
- Rampershad, A. & De Villiers, C. (2019). The association between dividends and accruals quality. *Australian Accounting Review*, 29(1), 20–35.
- Rasheed, A. & Yoshikawa, T. (2012). *The convergence of corporate governance: Promise and prospects*. Retrieved from <https://link.springer.com/content/pdf/10.1057%2F9781137029560.pdf>
- Reifman, A. & Keyton, K. (2010). Winsorize. In N. J. Salkind (Ed.), *Encyclopedia of research design* (pp. 1636–1638). Thousand Oaks, CA: SAGE.

- Reyna, J. (2018). The effect of ownership composition on earnings management: Evidence for the Mexican stock exchange. *Journal of Economics, Finance and Administrative Science*, 23(46), 289–305.
- Rezaee, Z., Smith, L. M. & Szendi, J. Z. (2010). Convergence in accounting standards: Insights from academicians and practitioners. *Advances in Accounting*, 26(1), 142–154.
- Richardson, S. A., Sloan, R. G., Soliman, M. T. & Tuna, I. (2005). Accrual reliability, earnings persistence and stock prices. *Journal of Accounting and Economics*, 39(3), 437–485.
- Rogers, W. (1993). Regression standard errors in clustered samples. *Stata Technical Bulletin*, 3, 19–23.
- Rottig, D. (2016). Institutions and emerging markets: Effects and implications for multinational corporations. *International Journal of Emerging Markets*, 11(1), 2–17.
- Sadiq, M. & Othman, Z. (2017). Earnings manipulations in politically influenced firms. *Corporate Ownership & Control*, 15(1), 65–71.
- Salvato, C. & Moores, K. (2010). Research on accounting in family firms: Past accomplishments and future challenges. *Family Business Review*, 23, 193–215.
- Samaha, K. & Khlif, H. (2016). Adoption of and compliance with IFRS in developing countries: A synthesis of theories and directions for future research. *Journal of Accounting in Emerging Economies*, 6(1), 33–49.
- Sandilands, D. (2014). Bivariate analysis. In A. C. Michalos (Ed.), *Encyclopedia of quality of life and well-being research* (pp. 1–14). Netherlands: Springer.

- Santos, M. A. (2015). *Integrated ownership and control in the GCC corporate sector* (International Monetary Fund Working Paper No. 15-184). Retrieved from <https://www.imf.org/en/Publications/WP/Issues/2016/12/31/Integrated-Ownership-and-Control-in-the-GCC-Corporate-Sector-43156>
- Santos, S., Ponte, R. & Mapurunga, R. (2014). Mandatory IFRS adoption in Brazil (2010): Index of compliance with disclosure requirements and some explanatory factors of firms reporting. *Revista Contabilidade & Finanças*, 25(65), 161–176.
- Santy, P., Tawakkal, T. & Pontoh, G. (2016). The impact of IFRS adoption on earnings management in banking companies in Indonesia stock exchange. *Jurnal Akuntansi dan Auditing*, 13(2), 176–190.
- Saona, P., Muro, L. & Alvarado, M. (2020). How do the ownership structure and board of directors' features impact earnings management? The Spanish case. *Journal of International Financial Management & Accounting*, 31(1), 98–133.
- Sapienza, P. (2004). The effects of government ownership on bank lending. *Journal of Financial Economics*, 72(2), 357–384.
- Sarkissian, S. & Schill, M. J. (2004). The overseas listing decision: New evidence of proximity preference. *The Review of Financial Studies*, 17(3), 769–809.
- Schipper, K. (2005). The introduction of International Accounting Standards in Europe: Implications for international convergence. *European Accounting Review*, 14(1), 101–126.
- Schipper, K. & Vincent, L. (2003). Earnings quality. *Accounting Horizons*, 17, 97–110.
- Schober, P., Boer, C. & Schwarte, L. A. (2018). Correlation coefficients: Appropriate use and interpretation. *Anesthesia & Analgesia*, 126(5), 1763–1768.
- Scott, G. M., Enthoven, A. J. H., Jain, T., Most, K. S., Said, K. E. & Sycip, W. (1976). Report of the Committee on Accounting in Developing Countries. *The Accounting Review*, 51(4), 198–212.

- Sellami, Y. & Fendri, H. (2017). The effect of audit committee characteristics on compliance with IFRS for related party disclosures: Evidence from South Africa. *Managerial Auditing Journal*, 32(6), 603–626.
- Sellami, Y. M. & Tahari, M. (2017). Factors influencing compliance level with AAOIFI financial accounting standards by Islamic banks. *Journal of Applied Accounting Research*, 18(1), 137–159.
- Shapiro, C. & Varian, H. R. (1998). *Information rules: A strategic guide to the network economy* (1st ed.). Retrieved from https://books.google.com.au/books?id=aE_J4Iv_PVEC&q=network+effect#v=onepage&q=network%20effect&f=false
- Sharma, N. (2013). Theoretical framework for corporate disclosure research. *Asian Journal of Finance & Accounting*, 5(1), 183–196.
- Shima, K. M. & Yang, D. C. (2012). Factors affecting the adoption of IFRS. *International Journal of Business*, 17(3), 276–298.
- Shleifer, A. & Vishny, R. W. (1986). Large shareholders and corporate control. *Journal of Political Economy*, 94(3), 461–488.
- Shleifer, A. & Vishny, R. W. (1989). Management entrenchment: The case of manager-specific investments. *Journal of Financial Economics*, 25(1), 123–139.
- Shleifer, A. & Vishny, R. W. (1997). A survey of corporate governance. *Journal of Finance*, 52(2), 737–784.
- Shrestha, N. (2020). Detecting multicollinearity in regression analysis. *American Journal of Applied Mathematics and Statistics*, 8(2), 39–42.
- Shuaib, S. (1998, June). *Evolution of accounting standards in Kuwait* (Industrial Bank of Kuwait Papers Series No. 53). Kuwait City, Kuwait: Industrial Bank of Kuwait.

- Silveira, D., Barros, C. & Famá, R. (2008). Atributos corporativos e concentração acionária no Brasil [Corporate attributes and ownership concentration in Brazil]. *Revista de Administração de Empresas*, 48(2), 51–66.
- Simpson, J. (2007). Financial integration in the GCC stock markets: Evidence from the early 2000s development phase. *Journal of Economic Cooperation*, 29(1), 1–28.
- Skinner, J. & Sloan, G. (2002). Earnings surprises, growth expectations, and stock returns or don't let an earnings torpedo sink your portfolio. *Review of Accounting Studies*, 7(2–3), 289–312.
- Skinner, J. & Soltes, E. (2011). What do dividends tell us about earnings quality? *Review of Accounting Studies*, 16(1), 1–28.
- Sloan, A. (1996). Do stock prices fully reflect information in accruals and cash flows about future earnings? *The Accounting Review*, 71(3), 289–315.
- Smith, W. & Watts, L. (1992). The investment opportunity set and corporate financing, dividend, and compensation policies. *Journal of Financial Economics*, 32(3), 263–292.
- Soderstrom, N. S. & Sun, K. J. (2007). IFRS adoption and accounting quality: A review. *European Accounting Review*, 16(4), 675–702.
- Song, Y., Wang, L. & Yan, Z. (2011, August). Impacts of political connections on earnings quality of Chinese private listed companies. In M. Zhou (Ed.), *Advances in education and management. International Symposium, ISAEBD 2011, Dalian, China, August 6-7, 2011, Proceedings, Part IV* (pp. 85–92). Berlin, Germany: Springer. Retrieved from https://link.springer.com/chapter/10.1007/978-3-642-23062-2_13
- Spence, M. (1973). Job market signalling. *Quarterly Journal of Economics*, 87(3), 355–379.

- Stein, J. C. (1988). Takeover threats and managerial myopia. *Journal of Political Economy*, 96(1), 61–80.
- Stiglitz, J. E. & Edlin, A. S. (1992). Discouraging rivals: Managerial rent-seeking and economic inefficiencies. *The American Economic Review*, 85(5), 1301–1312.
- Stoltenberg, C., George, B. C., Lacey, K. A. & Cuthbert, M. (2011). The past decade of regulatory change in the US and EU capital market regimes: An evolution from national interests toward international harmonization with emerging G-20 leadership. *Berkeley Journal of International Law*, 29(2), 577–745.
- Subramanyam, K. R. & Wild, J. J. (2009). *Financial statement analysis* (10th ed.). Boston, MA: McGraw-Hill.
- Sun, J., Cahan, F. & Emanuel, D. (2011). How would the mandatory adoption of IFRS affect the earnings quality of US firms? Evidence from cross-listed firms in the US. *Accounting Horizons*, 25(4), 837–860.
- Sun, L., Huang, Y. H. & Ger, T. B. (2018). Two-way cluster-robust standard errors: A methodological note on what has been done and what has not been done in accounting and finance research. *Theoretical Economics Letters*, 8(9), 1639–1655.
- Sun, N., Salama, A. & Hussainey, K. (2010). Corporate environmental disclosure, corporate governance and earnings management. *Managerial Auditing Journal*, 25(7), 679–700.
- Sunder, S. (2011). IFRS monopoly: The pied piper of financial reporting. *Accounting and Business Research*, 41(3), 291–306.
- Tagiuri, R. & Davis, J. (1996). Bivalent attributes of the family firm. *Family Business Review*, 9(2), 199–208.

- Tahat, A., Dunne, T., Fifield, S. & Power, M. (2016). The impact of IFRS 7 on the significance of financial instruments disclosure: Evidence from Jordan. *Accounting Research Journal*, 29(3), 241–273.
- Tanaka, G. (2013). The influence of the cultural, legal, economic and financial, historical and political factors on the accounting system: Peruvian case. *Studies in Business and Accounting*, 7, 25–45.
- Tarca, A. (2004). International convergence of accounting practices: Choosing between IAS and US GAAP. *Journal of International Financial Management & Accounting*, 15(1), 60–91.
- Tawiah, V. & Boolaky, P. (2019). Determinants of IFRS compliance in Africa: Analysis of stakeholder attributes. *International Journal of Accounting & Information Management*, 27(4), 573–599.
- Teas, R. K. & Agarwal, S. (2000). The effects of extrinsic product cues on consumers' perceptions of quality, sacrifice, and value. *Journal of the Academy of Marketing Science*, 28(2), 278–290.
- Tee, M. & Rasiah, P. (2020). Earnings persistence, institutional investors monitoring and types of political connections. *Asian Review of Accounting*, 28(3), 309–327.
- Templ, M., Gussenbauer, J. & Filzmoser, P. (2020). Evaluation of robust outlier detection methods for zero-inflated complex data. *Journal of Applied Statistics*, 47(7), 1144–1167.
- Thompson, B. (2011). Simple formulas for standard errors that cluster by both firm and time. *Journal of Financial Economics*, 99, 1–10.
- Thompson, G., Kim, S., Aloe, M. & Becker, J. (2017). Extracting the variance inflation factor and other multicollinearity diagnostics from typical regression results. *Basic and Applied Social Psychology*, 39(2), 81–90.

- Thompson, S. C. (2016). *Accounting for a developing world: A look at international standards on developing countries* (Unpublished honours thesis). University of Tennessee, Knoxville, TN. Retrieved from University of Tennessee Honours Program at TRACE (Tennessee Research and Creative Exchange) database: http://trace.tennessee.edu/cgi/viewcontent.cgi?article=2938&context=utk_chanhonoproj
- Timmerman, L. & Doorman, A. (2002). Rights of minority shareholders in the Netherlands. *Electronic Journal of Comparative Law*, 6(4), 181–211.
- Tiscini, R. & Di Donato, F. (2008). *The impact of family control and corporate governance practices on earnings quality of listed companies: A study of the Italian case* (Working Paper). Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1346457
- Tiscini, R. & Di Donato, F. (2012). Earnings quality in listed firms: How much an active family governance is desirable? *Corporate Ownership & Control*, 10(1), 681–691.
- Tong, Y. H. (2007). Financial reporting practices of family firms. *Advances in Accounting*, 23, 231–261.
- Tower, G., Vu, A. & Scully, G. (2011). Corporate communication for Vietnamese listed firms. *Asian Review of Accounting*, 19(2), 125–146.
- Trabelsi, N. S. & Trabelsi, M. (2014). The value relevance of IFRS in the UAE banking industry: Empirical evidence from Dubai Financial Market, 2008-2013. *International Journal of Accounting, Finance and Management Sciences*, 4(4), 60–71.
- Transparency International. (2020). *Corruption perception index 2020*. Retrieved from <https://www.transparency.org/en/cpi/2020/index/nzl#>

- Trembley, M. A. (1989). Accounting method choice in the software industry: Characteristics of firms electing early adoption of SFAS No. 86. *The Accounting Review*, 64(3), 529–538.
- Tsalavoutas, I., André, P. & Dionysiou, D. (2014). *Worldwide application of IFRS 3, IAS 38 and IAS 36, related disclosures, and determinants of non-compliance* (ACCA Research Report 134). Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2603572
- Tsalavoutas, I., Evans, L. & Smith, M. (2010). Comparison of two methods for measuring compliance with IFRS mandatory disclosure requirements. *Journal of Applied Accounting Research*, 11(3), 213–228.
- Tulloc, G. (1987). *Autocracy*. Springer Science & Business Media. Retrieved from <https://books.google.com.au/books?id=YMKLBQAAQBAJ&pg=PR5&lpg=PR5&dq=Tullock++Autocracy+1987&source=bl&ots=YlnpXA9tr7&sig=cODdDRNhvWmrf61myW-SwlcDAUI&hl=en&sa=X&ved=0ahUKEwjVq4rr5erZAhWJebwKHSgqA4UQ6AEIRjAE#v=onepage&q=Tullock%20%20Autocracy%201987&f=false>
- Tweedie, D. (2006). *Prepared statement of Sir David Tweedie, Chairman of the International Accounting Standards Board before the Economic and Monetary Affairs Committee of the European Parliament*. Retrieved from <http://www.iasplus.com/resource/0601tweedieuspeech.pdf>
- United Nations Conference on Trade and Development. (2008). *Practical implementation of International Financial Reporting Standards: Lessons learned*. Retrieved from http://unctad.org/en/docs/diaeed20081_en.pdf
- Urquiza, B., Navarro, A., Trombetta, M. & Lara, G. (2010). Disclosure theories and disclosure measures. *Spanish Journal of Finance and Accounting*, 39(147), 393–420.

- Van Tendeloo, B. & Vanstraelen, A. (2005). Earnings management under German GAAP versus IFRS. *European Accounting Review*, 14(1), 155–180.
- Wang, D. (2006). Founding family ownership and earnings quality. *Journal of Accounting Research*, 44, 619–656.
- Wang, D., Ma, G., Song, X. & Liu, Y. (2016). Political connection and business transformation in family firms: Evidence from China. *Journal of Family Business Strategy*, 7(2), 117–130.
- Wang, J. & Yu, W. (2009, 26–27 June). *The information content of stock prices, reporting incentives, and accounting standards: International evidence*. Paper presented at the China Accounting and Finance Review International Symposium 2009, Nanjing, China. Retrieved from https://www.researchgate.net/publication/228258469_The_Information_Content_of_Stock_Prices_Reporting_Incentives_and_Accounting_Standards_International_Evidence
- Wang, X. (2019). Compliance over time by Australian firms with IFRS disclosure requirements. *Australian Accounting Review*, 29(4), 679–691.
- Ward, J. L. (1988). The special role of strategic planning for family businesses. *Family Business Review*, 1(2), 105–118.
- Ward, J. L. & Aronoff, C. E. (1991). Trust gives you the advantage. *Nation's Business*, 79(8), 42–45.
- Watts, L. & Zimmerman, L. (1990). Positive accounting theory: A ten year perspective. *The Accounting Review*, 65(1), 131–156.
- Weber, J., Lavelle, L., Lowry, T., Zellner, W. & Barnett, A. (2003). Family, Inc. *BusinessWeek*, 10, 100–114.

- Woolley, S., Handel, G., Bronsvort, M., Schoenebeck, J. & Clements, N. (2020). Is it time to stop sweeping data cleaning under the carpet? A novel algorithm for outlier management in growth data. *PloS One*, 15(1), 1–21.
- World Bank. (2020). *Inflation, consumer prices (annual %) - Bahrain, Kuwait, Qatar, United Arab Emirates*. Retrieved from https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG?end=2017&locations=BH-KW-QA-AE&most_recent_year_desc=true&start=2012
- Xu, N., Xu, X. & Yuan, Q. (2013). Political connections, financing friction, and corporate investment: Evidence from Chinese listed family firms. *European Financial Management*, 19(4), 675–702.
- Xu, N., Yuan, Q., Jiang, X. & Chan, K. C. (2015). Founder's political connections, second generation involvement, and family firm performance: Evidence from China. *Journal of Corporate Finance*, 33, 243–259.
- Yang, M. L. (2010). The impact of controlling families and family CEOs on earnings management. *Family Business Review*, 23(3), 266–279.
- Yip, R. W. & Young, D. (2012). Does mandatory IFRS adoption improve information comparability? *The Accounting Review*, 87(5), 1767–1789.
- Yom, S. L. & Gause III, G. (2012). Resilient royals: How Arab monarchies hang on. *Journal of Democracy*, 23(4), 74–88.
- Zahlan, R. S. (1998). *The making of the modern Gulf states: Kuwait, Bahrain, Qatar, the United Arab Emirates and Oman*. Reading, UK: Ithaca Press.
- Zeff, S. A. (2007). The SEC rules historical cost accounting: 1934 to the 1970s. *Accounting and Business Research*, 37(3), 49–62.
- Zeghal, D. & Mhedhbi, K. (2006). An analysis of the factors affecting the adoption of International Accounting Standards by developing countries. *The International Journal of Accounting*, 41(4), 373–386.

- Zehri, F. & Chouaibi, J. (2013). Adoption determinants of the International Accounting Standards IAS/IFRS by the developing countries. *Journal of Economics Finance and Administrative Science*, 18(35), 56–62.
- Zhang, Z. (2016). Univariate description and bivariate statistical inference: The first step delving into data. *Annals of Translational Medicine*, 4(5), 91–97.
- Zhou, H., Xiong, Y. & Ganguli, G. (2009). Does the adoption of International Financial Reporting Standards restrain earnings management? Evidence from an emerging market. *Academy of Accounting and Financial Studies Journal*, 13, 43–56.
- Zikmund, W. G. (2010). *Business research methods* (8th ed.). Mason, OH: South Western Cengage Learning.