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The Impact of Corporate Governance on Interim Earnings Quality

" An Empirical Study "

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Introduction and the problem of the study:

Earnings quality is a major dimension of the financial reporting quality, as earnings constitute a premier source of firm-specific information (Francis et al., 2004). Empirical research (e.g. Biddle et al., 1995; Liu et al., 2002; Francis et al., 2003) has documented that investors refer to earnings more than any other summary measure of firm performance, such as dividends and cash flows. Earnings are used as a primary input factor in asset valuation models (e.g. Ohlson, 1995; Pope and Wang, 2005).

Also, earnings play an important role in contracting being used in both debt covenants and compensation agreements (e.g. Watts and Zimmerman, 1986). Recent accounting failures in the USA (e.g. Enron, WorldCom), as well as in Europe (e.g. Ahold, Parmalat) have deteriorated the confidence in the financial reporting practices of public firms. Many reforms have been initiated to strengthen corporate governance practices and, therefore, restore investors' confidence in the integrity of the financial reporting process not only at the country level (e.g. the Sarbanes-Oxley Act of 2002 in the USA), but also at an international level (e.g. Organization for Economic Co-operation and Development) and at the supranational level (e.g. European Commission, 2003).

Corporate governance in the early twenty-first century after the collapse of big companies like Enron (largest Energy Company in the world) and WorldCom (the world's largest telecommunications company), again as one of the most important business issues is discussed (Tricker and Adrian, 2009). Policy makers now acknowledge that the issue of corporate governance principles can promote persistence in financial markets, encourage investment and also it leads economic growth. One of the most important tasks of corporate governance also ensured the quality of financial reporting (Mashyekhi and Bazaz, 2010).

Furthermore, corporate governance is one factor that can reduce agency costs; therefore, and limiting opportunistic behavior of management, can lead to improve quality and reliability of reporting and also increases the value of the company (Pergola et al., 2009).Effective governance is more strongly related to the likelihood of a management forecast in the face of bad news (Alexander et al., 2008). This evidence is consistent with the notion that governance matters and that better governance in public corporation is associated with less information asymmetry between management and shareholder (Ali-shah et al., 2009).

There are a number of standards and frameworks that define, describe and recommend the application of good corporate governance, all with the same objective of directing and controlling organizations to conduct business in such a way that it benefits all parties involved. A number of common elements that underlie good corporate governance can be found within these frameworks and standards. Examples of such standards are the Guidelines on Corporate Governance published by (OECD) Organization for Economic Co-operation and Development (Kearney, 2013).

Interim earnings are more subject to manager's discretion than annual earnings. Earnings in the fourth quarter are very different from those in the first three interim quarters because the fourth-quarter earnings are closely tied to the annual report, which is subject to more stringent financial accounting rules and more rigorous annual audits (Alexander et al., 2008).

So we can form the problem of the study in the following question:

What is the impact of corporate governance on interim earnings quality of companies listed in the Egyptian stock exchange?

The objective of the study:

Studying and testing the impact of corporate governance on interim earnings quality in companies listed in the Egyptian stock exchange.

The importance of the study:

1) Studying and testing Contribution of difference in the implementation level of corporate governance mechanisms in explaining the variation in the Interim earnings quality between companies listed in the Egyptian stock exchange.

2) Identify interim earnings quality of companies listed in the Egyptian stock

3) The results of the study contribute in Stimulate the companies to implementation corporate governance mechanisms, which are reflected on the decisions of investors.

4) Testing the variables that the researchers found to be significant in explaining the variance in interim earnings quality in foreign countries, and does it apply to Egyptian Companies.

Study Plan:

To realize the objective (aim) of the study, it will be divided as follows:

Frame work of Research:

The problem of the research, the aim or objective of research, the importance of the research, the methodology of the research, the limits of the research and the plan of the research.

First: Earnings Quality from Accounting Perspective.

Second: Corporate Governance from Accounting Perspective.

Third: Literature Review and Hypotheses Development

Fourth: Empirical study.

References.

Appendixes.

First: The Earnings Quality

Earnings management has become a critical issue in the financial markets, because it was working with certain accounting strategies to show income declared in a natural look and in a target income, which makes the quality of earnings play an important role in the economic decisions.

Earnings are a great and important issue for companies, because it summarizes their performance to huge diverse uses. In scientific literature, the quality of the accounting information is always inspected by the quality of the recognized earnings. Therefore, the researchers have made the quality of accounting information realistically operational by improving different characteristics to detect earnings quality (Francis, et al., 2004).

1) Definitions of Earnings Management:

In order to understand more specifically about how earnings management is defined, we first consider a few definitions from previous literatures. Schipper (1989, p.92) defined earnings management as "an intervention to prepare and control the external financial reporting process, and obtain some special benefit (facilitating the operation process)".

Healy and Wahlen (1999, page 368) argue that earnings management "occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company, or to influence contractual outcomes that depend on reported accountings numbers "

Earnings management is considered to be one of the most important issues that affect the structure of financial statements, which may be changed to mislead the stockholders and other users of financial statements. Ronen and Yaari ,2008) organize the definitions of earnings management into three clusters, these are as follows:

1) Is taking advantage of the flexibility in the choice of accounting treatment to signal the manager's private information on future cash flow. (Dubbed "beneficial and white earnings management".)

2) Is choosing an accounting treatment that is either opportunistic (maximizing the utility of management only) or economically efficient. (Dubbed "neutral and grey earnings management".)

3) Is the practice of using tricks to misrepresent or reduce transparency of the financial reports? (Dubbed "pernicious and black earnings management").

Earnings management has been discussed under two points of views; According the first view Beidleman [1973] and Lipe [1990] earning management techniques reduce the variability of earnings. And, therefore, shareholders benefit because the reduced uncertainty and improved predictability of future earnings help in enhancing price earnings multiples. However, they claim that abnormal accruals over time tend to reverse and are readily detected by investors.

The second view (Schipper and Vincent, 2003) is that manipulating income in contravention of sound accounting practices adversely affects shareholder and in contrary to an underlying concept of "representational faithfulness" of earnings. Closely associated with earning management is the concept of earning quality, which according to Schipper and Vincent, is the extent to which reported earnings Faithfully corresponds to change in net economic assets other than transactions with owners. Their concept is a departure from the earnings quality constructs based on time series properties of earnings (i.e. persistence, predictability, and variability of earnings.

2) The Purpose of Earnings management:

Is to demonstrate reasonable earnings quality that meets either the shareholders' expectation, or the requirement of obtaining relevant authorization from regulators (Francis et al., 2008). Thus, earnings management has a lot in common with earnings quality.

For instance, high earnings management can produce low quality earnings (Lo, 2008), manipulate information may direct to an incorrect decision. However, the absence of earnings management is not enough to guarantee high quality of earnings, because other factors such as capital market and management compensation contribute to the earnings quality (Lo, 2008). Therefore, measuring the earnings quality and specifying the factors affecting them is important to stakeholders, which have addressed the correlation between the strength of corporate governance and the awareness of the higher earnings management (El-Sayed Ebaid, 2013).

3) Techniques of Earnings Management:

- Cookie jars reserve technique:

The cookie-jar technique deals with estimations of future events. According to GAAP, management has to estimate and record obligations that will be paid in the future as a result of events or transactions in the current fiscal year based on accrual basis. But there is always uncertainty surrounding the estimation process because future is not always certain. There is no correct answer; there may be reasonably possible answers. Management has to select a single amount according to GAAP so there is a chance of taking the advantage of earnings management. Under the cookie-jar technique, the corporation will try to overestimate expenses during the current period to manage earnings.

- Big Bath Techniques:

Although a rare occurrence, sometimes corporations may restructure debt, write-down assets or change and even close down an operating segment. In these instances, expenses are generally unavoidable. If the management record estimated charge (a loss) against earnings for the cost of implementing the change then it will negatively affect the cost of the share price. But the share price may go up rapidly if the charge for restructuring and related operational changes is viewed as positively. According to Big bath technique, if the managers have to report bad news i.e., a loss from substantial restructuring, it is better to report it all at once and get it out of the way.

- Big Bet on the Future technique:

When an acquisition occurs, the corporation acquiring the other is said to have made a big bet on the future. Under Generally Accepted Accounting Principles (GAAP) regulations, an acquisition must be reported as a purchase. This leaves two doors open for earnings management. In the first instance, a company can write off continuing R&D costs against current earnings in the acquisition year, protecting future earnings from these charges. This means that when the costs are actually incurred in the future, they will not have to be reported and thus future earnings will receive a boost. The second method is to claim the earnings of the recently acquired corporation. When the acquired corporation consolidated with parent company earnings, then immediately receive a boost in the current year's earnings. By acquiring another company, the parent company buys a guaranteed boost in current or future earnings through big bet technique.

- Throw out a problem child:

To increase the earnings of future period, the company can sell the subsidiary which is not performed well i. e. "the problem child" subsidiary may be "thrown out". Earnings can be managed through sell the subsidiary, exchange the stock in an equity method subsidiary and spin off the subsidiary. A gain or loss is reported in the current period statement when a subsidiary is sold. The existing shareholders become the owner of the problem child by distributing or exchanging the shares of a subsidiary with the current shareholders. As a result, no gain or loss is normally reported on a spin off. Moreover, it is possible to "swap" the stock in an equity method subsidiary without having any recordable gain or loss.

- Introducing new standard:

New rules and regulations are introduced in GAAP due to changing demand of business environment. Accounting principles can be modified in a way that will not change the earnings. When a new accounting standard is adopted it takes two to three years to adopt the standard. Voluntary early adoption may provide an opportunity to manage the earnings. A company can take the advantage of manage earnings by changing the time an accrual basis rather than cash basis those are recorded as expense on a cash basis. Moreover, timely adoption of a better revenue recognition rule will provide a new window to manage the earnings.

4) Definitions of Earnings Quality:

The Statement of Financial Accounting Concepts No. 1 (SFAC No. 1) by the Financial Accounting Standards Board (FASB) defines earnings quality as follows:

"Higher quality earnings provide more information about the features of a firm's financial performance that are relevant to a specific decision made by a specific decision-maker" (Dechow, Ge, & Schrand, 2010, p. 344).If the specific decision-maker is a credit institution facing the decision to enter a loan contract with a third party, earnings quality can represent a crucial information resource. Therefore, the next sections will discuss the informational value of reported earnings and reasons why accounting data can be of low quality.

Earnings are a summary measure of firm performance under the accrual basis of accounting. Empirical research shows that investors rely on earnings more than any other alternative measures of performance, such as cash flows, earnings before interest, taxes, depreciation and amortization, or sales (Biddle et al. 1995; Francis et al. 2003; Liu et al. 2002). The quality of earnings can be considered as an expression of the power of forecasting the earnings; as a consequence, earnings have good quality when the past earnings are highly related to the future earnings (Mikhail et al., 2003).

5) Differences in interim and annual financial reporting/audit processes:

Earnings in the fourth quarter are very different from those in the first three interim quarters because the fourth-quarter earnings are closely tied to the annual report, which is subject to more stringent financial accounting rules and more rigorous annual audits.

Financial accounting standards are more lenient on interim reporting. Accounting Principles Board Opinion No. 28, Interim Financial Reporting, adopts an integral approach for interim reporting and views each interim period primarily as an integral part of the fiscal year period (AICPA 1973). Under such an approach, managers exert more professional judgment in arriving at interim earnings than annual earnings, due to the fact that all the allocations in each quarter depend on managers' anticipation for the rest of the fiscal year (AICPA 1972).

Indeed, Elliott and Shaw (1988) find that a majority of write-offs take place at the end of the fiscal year rather than during interim quarters, which is consistent with managers having more discretion in expense
Recognition in interim quarters.

Second: Corporate Governance

Corporate governance in the early twenty-first century after the collapse of big companies like Enron (largest Energy Company in the world) and WorldCom is considered one of the most important business issues that is discussed. Policy makers now acknowledge that the issue of corporate governance principles can promote persistence in financial markets and encourage investment and also it leads to economic growth. Corporate governance in developed market economies has been built gradually over several centuries as a consequence of the economic development of industrial capitalism (Chowdary, 2003).

1) Definitions of Corporate Governance:

The practices of corporate governance differ among countries and they are usually based on the individual corporate governance code and the legal system within the country. Donaldson (1990, page 376) defines corporate governance as a "structure whereby managers at the organization apex are controlled through the board of directors, its associated structures, executive initiative and other schemes of monitoring and bonding.

Shleifer and Vishny (1997, page 737) define corporate governance as "dealing with the ways in which suppliers of finance to corporations assure themselves of getting return on their investment". Sternberg (2004) defines corporate governance as the methods the firms use to achieve the objectives of shareholders by directing the corporation's transactions, agents and assets.

Gabrielle O'Donovan defines corporate governance as an internal system encompassing policies, processes, and people that serve the needs of shareholders and other stakeholders by directing and controlling management activities with good business practices, objectivity, and integrity. Sound corporate governance is reliant on external marketplace commitment and legislation, as well as a healthy board culture that safeguards policies and processes.

In another definition, The Organization of Economic Cooperation and Development (OECD, 2004) defines corporate governance as "one key element in improving economic efficiency and growth as well as enhancing investor confidence. Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined".

2) Importance of Corporate Governance:

Corporate governance promotes efficient use of resources within the firm and the larger economy. It also helps firm's to attract low cost investment capital through improved investor and creditor confidence, both nationally and internationally. It also increases the firms' responsiveness to the need of the society and results in improving long-term performance (Gregory & Simms 1999).

Furthermore, good governance can also benefit a company through better flow of funds and improved access to low cost capital, strong internal controls and discipline, and might achieve better credit ratings which would lead to lower debt funding and higher stock price valuation which can result in equity dilution when additional stock is floated.

According to (Keong, 2002) good corporate governance brings better management and prudent allocation of the company's resources, and enhances corporate performance which would significantly contribute to the company's share price, increasing the value of a shareholder's holdings. Investors and shareholders of a corporate company need protection for their investment due to lack of adequate standards of financial reporting and accountability.

3) Characteristics of Good Corporate Governance:

- Clear Strategy:

Good corporate governance starts with a clear strategy for the organization. For example, a furniture company's management team might research the market to identify a profitable niche, create a product line to meet the needs of target market and then advertise its wares with a marketing campaign that reaches those consumers directly. At each stage, knowing the overall strategy helps the company's workforce stay focused on the organizational mission: meeting the needs of the consumers in that target market.

- Effective Risk Management:

Even if your company implements smart policies, competitors might steal your customers, unexpected disasters might cripple your operations and economy fluctuations might erode the buying capabilities of your target market. You can't avoid risk, so it's vital to implement effective strategic risk management. For example, a company's management might decide to diversify operations so the business can count on revenue from several different markets, rather than depend on just one.

- Discipline:

Corporate policies are only as effective as their implementation. A company's management can spend years developing a strategy to push into new markets, but if it can't mobilize its workforce to implement the strategy, the initiative will fail. Good corporate governance requires having the discipline and commitment to implement policies, resolutions and strategies.

- Fairness:

Fairness must always be a high priority for management. For example, managers must push their employees to be their best, but they should also recognize that a heavy workload can have negative long-term effects, such as low morale and high turnover. Companies also must be fair to their customers, both for ethical and public-relations reasons. Treating customers unfairly, whatever the short-term benefits, always hurts a company's long-term prospects.

Managers sometimes keep their own counsel, limiting the information that filters down to employees. But corporate transparency helps unify an organization: When employees understand management's strategies and are allowed to monitor the company's financial performance, they understand their roles within the company. Transparency is also important to the public, who tend not to trust secretive corporations.

- Social Responsibility:

Social responsibility at the corporate level is increasingly a topic of concern. Consumers expect companies to be good community members, for example, by initiating recycling efforts and reducing waste and pollution. Good corporate governance identifies ways to improve company practices and also promotes social good by re-investing in the local community.

4) Principles of Corporate Governance:

- The board approves corporate strategies that are intended to build sustainable long-term value; selects a chief executive officer (CEO); oversees the CEO and senior management in operating the company's business, including allocating capital for long-term growth and assessing and managing risks; and sets the "tone at the top" for ethical conduct.

- Management develops and implements corporate strategy and operates the company's business under the board's oversight, with the goal of producing sustainable long-term value creation.

- Management, under the oversight of the board and its audit committee, produces financial statements that fairly present the company's financial condition and results of operations and makes the timely disclosures investors need to assess the financial and business soundness and risks of the company.

- The audit committee of the board retains and manages the relationship with the outside auditor, oversees the company's annual financial statement audit and internal controls over financial reporting, and oversees the company's risk management and compliance programs.

- The corporate governance committee of the board plays a leadership role in shaping the corporate governance of the company, strives to build an engaged and diverse board whose composition is appropriate in light of the company's needs and strategy, and actively conducts succession planning for the board.

Third: Literature Review:

- Study (Klein, 2002):

This study aims to test the relationship between the characteristics of Board of Directors and the Audit Committee and earnings management for corporate. The Multiple regression models were used to test the relationship between the independent variables and earnings management and the independent variables were Board independence and Audit Committee Composition. The study found the following results that there is a negative relationship between the independence of the Audit Committee and earnings management and there is a negative relationship between Audit Committee and earnings management and there is a positive relationship between the participation of the Executive Director and earnings management.

- Study (Dhaliwal et al. 2004):

This study aims to test the relationship between corporate governance mechanisms and interim earnings quality. The Multiple regression models were used to test the relationship between the independent variables and interim earnings quality and the independent variables were Audit Committee size, Audit Committee Composition, Audit Committee meeting .The study found the following results that There is a positive relationship between Audit Committee size and interim earnings quality and There is no relationship between the Audit Committee and interim earnings quality and Found that firms decrease their annual effective tax rate (ETR) from the third to the fourth quarter as earnings absent tax expense management fall short of the consensus forecast.

- Study (Lobo et al, 2006):

This study aims to indicate the role of corporate governance to reduce the management practices within companies. The Multiple regression models were used to test the relationship between the independent variables and earnings management and the independent variables were Board Size, Board independence, The number of Board meetings, Audit Committee size, Audit Committee Composition, Audit Committee meeting. The study found the following results that there is a negative relationship between the Audit Committee independence and earnings management and there is a negative relationship between the Audit Committee size and earnings management and there is a negative relationship between the number of Board meetings and earnings management.

- Study (Brown and Pinello, 2007):

This study aims to indicate the role of corporate governance to reduce the management practices within companies. The Multiple regression models were used to test the relationship between the independent variables and interim earnings quality and the independent variables were Board Size, CEO duality. The study found the following results that There is a positive relationship between the Board size and interim earnings quality and There is a positive relationship between the CEO duality and interim earnings quality and Interim earnings are subject to less stringent financial accounting standards and therefore managers have much more discretion (particularly over expense recognition) in the quarterly reports and Discovered that although interims are beneficial to investors, the level varies according to the types of professional investors. They also determined that despite the timeliness of interims, the annual report is more beneficial to investors because interims are less reliable and investors are not accustomed to the newly published interims.

- Study (Chang and Sun, 2008):

This study aims to test the relationship between corporate governance on interim earnings quality. The Multiple regression models were used to test the relationship between the independent variables and interim earnings quality and the independent variables were Board independence, CEO duality, Audit Committee Size, Audit Committee Composition .The study found the following results that There is a negative relationship between Board independence and interim earnings quality and There is a negative relationship between the Audit Committee independence and interim earnings quality and There is a positive relationship between the CEO duality and interim earnings quality and There is a negative relationship between Audit Committee Size and interim earnings quality.

- **Study (Murhadi, 2009):**

This study aims to test the relationship between corporate governance and earnings management. The Multiple regression models were used to test the relationship between the independent variables and earnings management and the independent variables were Board independence, Audit Committee size, CEO duality, Ownership Concentration. The study found the following results that There is a negative relationship between the proportion of independent directors (non-executive) and earnings management and There is a negative relationship between the Board size and earnings management and There is a negative relationship between the proportion of non-executive directors within the Audit Committee and earnings management and There is a negative relationship between the meetings of the Audit Committee and earnings management.

Comments on Literature review:

1) In light of what has been referred to by previous studies that addressed the relationship between corporate governance mechanisms and interim earnings quality can refer to:

2) All of the studies agreed on the multiple regression models to test the impact of corporate governance on interim earnings quality.

3) Most studies have agreed to measure the dependent variable with Discretionary Accruals.

4) The above studies do not agree on a standardized form of mechanisms for corporate governance.

5) Some of the findings of the previous studies referred to that there is a negative relationship between corporate governance mechanisms and interim earnings quality.

6) Previous studies differed in some independent variables that represent corporate governance.

7) This is a difference in some of the results of previous studies may be due to different application environment and the period of application.

Fourth: Empirical study

Method:

1. Hypothesis:

$H_0$1: There is a no relationship between Board Size and interim earnings quality.

$H_0$2: There is no relationship between Board Independence and interim earnings quality.

$H_0$3: There is no relationship between CEO Duality and interim earnings quality.

$H_0$4: There is no relationship between ownership Concentration and interim earnings quality.

$H_0$5: There is no relationship between Audit Firm Size and interim earnings quality.

2. Regression Model:

This study employs Multiple Regression model to testing the impact of corporate governance on interim earnings quality. So we can Design the research model of the study is as follows:

$$\boxed{\begin{aligned} IEQ = {} & \beta_0 + \beta_1\, BDSIZE + \beta_2\, BDIND + \beta_3\, CEOD + \beta_4\, OWNCON + \beta_5\, BIG4 \\ & + \beta_6\, SIZE + \beta_7\, LEV + \beta_8\, FP + \varepsilon \end{aligned}}$$

Where:

IEQ: Interim Earnings Quality.

β_0: Constant of regression.

β_1-β_5: Regression Coefficient of Independent Variables.

β_6-β_8: Regression Coefficient of Control Variables.

BDSIZE: Board Size.

BDIND: Board Independence.

CEOD: Duality of the role of the Chief Executive Officer.

OWNCON: Ownership Concentration.

Big4: Audit Firm Size.

SIZE: Firm Size.

LEV: Financial Leverage.

FP: Financial Performance.

ε = Random Error.

- Variables of the Study and Operational Definition:

Table (1): Dependent variable: Interim Earnings Quality

Dependent variable		Operational Definition
Conceptual Definition	**Abbreviation**	
Interim Earnings Quality	**IEQ**	The value of discretionary accruals by Jones model (1991).

Table (2): Operational definitions for independent and control variables of the study

Independent variables		Operational Definition
Conceptual Definition	**Abbreviation**	
Board Size	**BDSIZE**	Number of directors on the board.
Board Independence	**BDIND**	Percentage of independent directors (non-executive) on the board to total board of directors.
CEO Duality	**CEOD**	Dummy variable that took the value of (1) if the chairperson of the board was also the Chief Executive Officer and (0) otherwise.
Ownership Concentration.	**OWNCON**	Ownership percentage equal or more than 5%.
Audit Firm Size	**Big4**	Dummy variable that took the value of (1) if the auditor belongs to Big4 and (0) otherwise.

Table (3) Control Variables

Control variables		Operational Definition
Conceptual Definition	Abbreviation	
Company Size	**SIZE**	The natural logarithm of total assets.
Leverage	**LEV**	Total Liabilities / Total Firm Assets.
Financial Performance	**FP**	Return on assets.

3) Sample Selection:

The study population includes all firms in the Egyptian Stock Exchange, after excluding banks and financial institutions due to the nature of their financial reports.

A random sample of 26 firms from 2014-2016 is selected from 13 different sectors, to obtain 312 observations for each variable in the study , and 9 firm-year observations are then eliminated ,because they are detected as extreme values (outliers). Then 303 firm-year observations are the used to study the between the corporate governance and the interim earnings quality.

4) Sources of data:

All data collected from audited financial reports of firms in the sample from:

1) Egyptian Stock Exchange web site.
2) Web sites of firms listed in the sample.
3) Mubasher information web site.

5. Model Validation

Multiple linear regression analysis:

This research uses the Ordinary Least Square (OLS) method to estimate the research model. OLS assumptions are tested as follows:

First: Autocorrelation

The first assumption of the Ordinary least square method is autocorrelation, which mean that there is a correlation between the members of series observations ordered in time series data or space in cross sectional data (Gujarati, 2003). Durbin Watson test is used to detect autocorrelation between observations. The Durbin Watson d statistic is 2.177434. Based on the sample size and the number of explanatory variables at the level of significance 5%. Accepting the null hypothesis states that there is no autocorrelation. As a result there is no auto correlation in the research model.

Second: Multi-collinearity

The Second assumption of the Ordinary least square method is Multi-collinearity, which means there is a perfect or exact linear relationship between some of the independent variables of the regression model of the study. The Variance inflation factors (VIF) will be checked for Multi-collinearity, which indicates a linear relationship between the potential independent variables. As the degree of Multi-collinearity increases, the estimated coefficients will become unstable as well as the standard errors. A VIF higher than 10 will lead to the conclusion that there is Multi-collinearity (Gujarati, 2003).

Third: Normality

The third assumption of the Ordinary least square method requires that the residuals follow the normal distribution with zero mean and constant variance. The normality of residuals assumption is not necessary for the estimation of regression parameters, but it is necessary for the statistical inference namely hypotheses tests (Gujarati, 2003). The Jarque Bera Test is used to test the normality of residuals.

6. Descriptive Statistics

Descriptive statistics provide simple summaries about the sample and the observations that have been made; it is used to describe the initial characteristics of the data and to provide background information on the data used in the study (Gujarati, 2003).

Table (4) Descriptive Statistics

	Mean	Maximum	Minimum	Std. Dev.
IEQ	-0.035640	0.308900	-3.087600	0.271843
BDSIZE	9.009901	17.00000	4.000000	3.312114
BDIND	0.666373	0.938000	0.000000	0.235098
CEOD	0.623762	1.000000	0.000000	0.485242
OWNCON	1.235690	92.52200	0.000000	7.125658
BIG4	0.419142	1.000000	0.000000	0.494235
SIZE	19.49488	23.88000	12.18000	2.521630
LEV	0.459281	11.17000	0.013000	0.725837
FP	0.005106	0.843000	-4.933000	0.294001

The descriptive statistics of the variables used in the analysis are presented in table (4).

IEQ (The dependent variable) has a mean value of -0.035640 and maximum of 0.308900 while the minimum of -3.087600 and the standard deviation of 0.271843. The BDSIZE (The independent variable) has a mean value of 9.009901 and maximum of 17.00000 while the minimum of 4.000000 and the standard deviation of 3.312114.

The BDIND (The independent variable) has a mean value of 0.666373 and maximum of 0.938000 while the minimum of 0.000000 and the standard deviation of 0.235098. The CEOD (The independent variable) has a mean value of 0.623762 and maximum of 1.000000.While the minimum of 0.000000 and the standard deviation of 0.485242.

The OWNCON (The independent variable) has a mean value of 1.235690 and maximum of 92.52200 while the minimum of 0.000000 and the standard deviation of 7.125658.The BIG4 (The independent variable) has a mean value of 0.419142 and maximum of 1.000000 while the minimum of 0.000000 and the standard deviation of 0.494235.

The SIZE (control variable) has a mean value of 19.49488 and maximum of 23.88000 while the minimum of 12.18000 and the standard deviation of 2.521630. The LEV (control variable) has a mean value of 0.459281 and maximum of 11.17000.The minimum of 0.013000 and the standard deviation of 0.725837. The FP (control variable) has a mean value of 0.005106 and maximum of 0.843000 while the minimum of -4.933000 and the standard deviation of 0.294001.

7. Testing of Hypotheses

Regression results:

The multiple linear regression model results enable the measurement of the relationship between the dependent variable interim earnings quality and the independent variables of the study corporate governance.

Previously it is clear that the most important conditions for using the regression model and the absence of estimated regression models from any standard problems affect its results.

Depending on the program (E -Views version 9) in conducting statistical analyzes and the Panel Data regression analysis was used to Access to any explanatory variables has an effect on the dependent variable. As well as to indicate the contribution rate of each variable explaining the relationship to the dependent variable, as follows:

Table (4): Regression results

Explanatory Variable	Coefficient (B)	Std. Error	T-Test	Prob.	VIF
Constant	-0.056810	0.127829	-0.444426	0.6571	
BDSIZE	0.016967	0.005650	3.003223	0.0029	1.469
BDIND	-0.118305	0.077878	-1.519106	0.1298	1.406
CEOD	0.024288	0.034999	0.693969	0.4882	1.210
OWNCON	0.000245	0.002176	0.112824	0.9102	1.008
BIG4	0.078100	0.034909	2.237244	0.0260	1.249
SIZE	-0.004692	0.006887	-0.681310	0.4962	1.265
LEV	-0.020999	0.036848	-0.569892	0.5692	3.001
FP	0.011731	0.091032	0.128872	0.8975	3.005

Adjusted R2 = 0.025719
F statistics = 1.996534
Prob.(F statistics) = 0.046707
Durbin – Watson test = 2.177434
Jarque-Bera = 0.293502

7. Discussion of Results

The estimated value of (B1) indicates that the degree of Board Size (BDSIZE) has a significant positive effect on interim earnings quality at significant level of 5%. This result is consistent with results of the following studies:

(Landsman et al., 2002; Lobo et al., 2006; Car cello et al., 2006; Brown and Pinello, 2007; Gulzar and Wang, 2011; Waweru and Riro, 2013; Patrick et al., 2015). Which found a positive significant relationship between the corporate governance and interim earnings quality.However, this result is not consistent with the results of the following studies:(Klein, 2002; Dhaliwal et al. 2004; Chen et al, 2007; Chang and Sun, 2008; Comprix et al., 2009; Murhadi, 2009).

The estimated value of (B5) indicates that the degree of Audit Firm Size (Big4) has significant positive effect on interim earnings quality at significant level of 5%. This result is consistent with results of the following studies:

(Landsman et al., 2002; Dhaliwal et al., 2004; Lobo et al., 2006; Car cello et al., 2006; Chang and Sun., 2008; Alkdai and Hanefah, 2012).This found a positive significant relationship between the corporate governance and interim earnings quality.However, this result is not consistent with the results of the following studies: (Brown and Pinello, 2007; Chen et al., 2007; Comprix et al., 2009; Pergola et al., 2009; Gulzar and Wang, 2011).

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Appendix: List of companies included in the sample

Sector	Company
Food and Beverage	Delta Sugar
Food and Beverage	Ismailia National Food Industries
Food and Beverage	East Delta Flour Mills
Real Estate	Egyptians for Housing
Real Estate	El Shams Housing & Urbanization
Real Estate	Zahraa El Maadi
Construction and Materials	Lift Slab Egypt
Construction and Materials	Lecico Egypt
Industrial Goods and Services and Automobiles	Engineering Industries (ICON)
Industrial Goods and Services and Automobiles	Arab Engineering Industries
Healthcare and Pharmaceuticals	Arab Pharmaceuticals
Healthcare and Pharmaceuticals	Glasgow Smithkline
Basic Resources	Egyptian Iron and Steel
Basic Resources	Ezz Steel
Household products	Arab Cotton Ginning
Household products	Oriental Weavers
Chemicals	Sidi Kerir Petrochemicals
Chemicals	Egyptian chemical industries(CEMA)
Travel & Leisure	Sham Dreams
Travel & Leisure	Egyptian Resorts
Telecommunications	Telecom Egypt
Telecommunications	Mobinil (Orange)
The facilities	Gas of Egypt
The facilities	National Drilling
media	Media Production City
Information Technology	Raya Holding For Technology And Communications