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RESEARCH PAPER

The Effect of Institutional Investors on Enhancing Corporate Governance and Earnings Quality

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ABSTRACT
This study determines the effects of investment institutions on improving business earnings and governance quality in Jordanian industrial businesses for the period (2018-2023), using the descriptive analytical approach to accomplish study goals. The study participants included (46) Jordanian industrial companies while the sample amounted to (45.7%) of commercial enterprises' representatives research community. The annual reports of industrial businesses provided data for study variables found on the Amman Stock Exchange's website and on Securities Depository Center. Researchers used the descriptive and inferential statistical method; provided by E-Views software to accomplish the study's goals. The study results indicate that investing had a favorable impact for institutions on enhancing corporate governance, and a negative effect of investment institutions on the earnings quality. The study recommended encouraging investment institutions to increase their stakes in industrial companies to enhance oversight and transparency, and motivating them to adhere to governance standards by imposing regulations requiring them to apply good governance practices to ensure the sustainability of institutional investment, in addition to adhering to accounting practices.

KEYWORDS: *Investment institutions; Corporate governance; Earnings quality; Jordanian industrial companies.*

1. Introduction

The role of institutional investors forms one of the foundations of the modern global capital market and they have taken a decisive role in the corporate governance systems and the quality of financial reporting. Institutional investor refers to pension funds, mutual funds, sovereign wealth funds, and insurance companies, organizations that can be defined as having large amounts of capital and analytical expertise and with the explicit mandate to oversee the performance of firms. In most cases, these investors are actively involved in the monitoring of management practices and also in the establishment of strict accountability systems. Therefore, they are also seen as reform agents, both in developed and emerging economies [1, 2]. Institutional investors, by making managerial activities aligned with shareholders, increase transparency, protect the rights of minority shareholders and encourage the sustainability of corporate performance in the long-term.

This premise is well supported empirically. According to the studies by [3] and [4], institutional investors strengthen the governance frameworks by boosting the board independence, enhancing the quality of disclosure and lessening the managerial entrenchment. The governance benefits are particularly relevant to emerging economies where the regulatory framework can be inefficient, and enforcement can be lax and ownership can be highly concentrated. In this case, institutional investors act as external monitors that cannot be done without, and can substitute the lack of legal and institutional infrastructure.

The literature also confirms a strong relationship between the characteristics of corporate governance and the quality of the earnings. Such governance dimensions as the composition and independence of boards, the regularity and effectiveness of audit committee meetings, and the distribution of ownership are strongly associated with the quality

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of earnings. High quality earnings are a true measure of how an economic entity is doing and they cannot be manipulated or subjected to aggressive accrual accounting. Increasing standards of governance improves the reliability and informational usefulness of financial reporting by reducing earnings management and reducing the informational asymmetry between insiders and outsiders as stated by [5].

Available empirical literature has always shown that institutional investors have a direct impact on the quality of earnings by deterring opportunistic financial reporting behavior. As an illustration, [6] reported that institutional investors with large equity stakes tend to be more likely to question the financial statements, which seem to be overly aggressive or distorted. This extension of this monitoring role enhances effectiveness of audit committees and limits discretionary accrual use especially in the firms that do not have well-developed internal control systems through institutional ownership. These results are corroborated by [7], who carried out an empirical investigation of publicly traded companies in China and found that institutional ownership and earnings management are inversely related thus validating the external ownership as a disciplining force.

Despite the fact that the international literature on institutional investors and financial governance has grown, there are significant research gaps. Most of the empirical literature to date is focused on developed economies or use generalised cross-country data sets which might not be relevant in individual country situations. Specifically, little evidence exists in regard to the functioning of these dynamics in the industrial sector of Jordan, which is an environment marked by distinctive corporate forms, regulatory inconsistencies, and macroeconomic volatility. The Jordanian industrial sector is a rather diverse combination of family-owned and listed companies, which often feature ownership concentration and the lack of uniformity in observing the principles of governance. In this regard, the results of the research that was done in developed markets cannot be directly applied to the Jordanian context.

Moreover, in spite of the fact that the relationship between ownership structures and governance outcomes has been studied before, there is relatively little work that has focused on the exact mechanism through which institutional ownership influences the quality of earnings in emerging economies. Jordan, a country that is experiencing a changing set of norms of financial disclosure and a continuous reform of institutions, is a perfect setting to study these relations. However, there is limited empirical research that has been conducted to determine the combined effect of institutional investors on governance systems and the quality of earnings in Jordanian industrial companies.

The current study is based on the previous literature and seeks to determine the impact of institutional shareholders on corporate governance and earnings quality of Jordanian industrial firms listed on Amman Stock Exchange (ASE) in the period 20182023. It has the following research questions:

1. What role are institutional investors playing in the corporate governance of the Jordanian industrial companies?
2. What impact does institutional investors have on the quality of earnings of these firms?

In a bid to explain these problems, the study combines two theoretical perspectives. The agency theory envisions institutional investors as monitors who minimize principal-agent conflict by bringing disciplinary pressure on the managerial action, especially in those firms where ownership and control are separated. The resource-dependence theory views institutional investors as the strategic resource providers, i.e., capital access, legitimacy, and expertise, which enhances the governance mechanism and improves the standards of financial reporting. All these frameworks substantiate the hypothesis that institutional investors promote the quality of governance practices as well as the transparency and credibility of financial disclosures [8].

Methodologically, the research uses a descriptive and inferential statistical analysis using secondary data that was collected through the audited annual financial reports of 25 industrial firms that are listed in the ASE. A total of 46 firms were used as a population of which those that were delisted, liquidated, or incomplete at the time of study were excluded. A corporate governance index was used to measure governance quality and it included 15 binary indicators. The quality of earnings was measured by using the Modified Jones Model (1995) which is a common proxy of measuring the earnings manipulation through discretionary accruals. To test the hypotheses, panel data regression models, fixed effects and random effects were used in E-Views. The Hausman and

Lagrange Multiplier tests were used to determine model specification. This article involves an empirical analysis of the behaviour of institutional investors within a geographical setting that has been under-represented in the literature on governance, hence expanding the scope of the literature. It combines the corporate-governance and earnings-quality analysis into a single analytical framework and provides a more holistic picture of how institutional actors influence the governance structures, as well as the integrity of financial reporting in the emerging economies.

On a policy-making level, the results have a number of implications: regulators should consider tightening governance criteria and disclosure requirements in order to enhance institutional engagement; corporate leaders should consider aligning internal governance policies with institutional demands in order to gain long-term financing and strengthen firm credibility; and institutional investors should balance between short-term financial goals and long-term integrity of financial statements in a complex trade-off.

The paper continues as follows: Section 2: literature review; Section 3: methodology; Section 4: empirical results; Section 5: discussion of the results in terms of theoretical expectations and previous research; and Section 6: conclusion including managerial and policy implications and future research.

2. Literature Review

The modern literature is more and more recognizing the rising power of institutional investors on corporate governance and financial reporting practices, especially in the emerging markets where there are institutional gaps and weak regulatory environments. Empirical research has focused on developed economies, and the processes by which institutional presence influences corporate behaviour in transitional environments, as in the case of Jordan, are relatively understudied. This review summarizes the previous theoretical and empirical research in five interconnected areas: (1) institutional investors and their monitoring role; (2) governance mechanisms; (3) earnings quality; (4) institutional influence on earnings management; and (5) interaction between governance structures and earnings quality.

2.1. Institutional investors and their role

Institutional investors, which include mutual funds, insurance companies, pension funds and sovereign wealth funds, have taken a dominant role in corporate ownership structure. Their impact is also based on the size of their equity holdings as well as their greater analytical strengths and governance-enforcement instruments. These investors have significant leverage over the behaviour of managers when they aim at active ownership, thus making the executive behaviour consistent with shareholder interests [9]. This proposition is supported by empirical studies: [10] concludes that local institutional investors enhance corporate monitoring, especially in firms that have their stock listed in two stock markets; and [4] shows that foreign institutional investors spread governance practices into markets with low regulatory control, hence increasing transparency and accountability. In the capital markets in Southeast Asia, [11] affirms that hybrid ownership structures that combine institutional investors lead to stricter governance discipline. Taken together, these papers show that institutional investors serve as de facto governance agents, particularly in those settings in which legal enforcement mechanisms are less than perfect.

2.2. Corporate governance and its mechanisms

Corporate governance is a set of institutional and structural frameworks, such as the composition of the board of directors, audit procedures and ownership patterns among others, which aim at ensuring that managerial decision making is in line with the interests of shareholders. According to empirical evidence, good governance structures minimize the agency cost, information asymmetry and improve financial performance [12]. There is an emerging academic literature that attributes the ability of governance mechanisms to curb opportunistic financial practices. As an example, [13] and [7] show that independent audit committees, in conjunction with good board oversight, reduce earnings manipulation and increase the quality of disclosures. In addition, [11] state that institutional investors who promote board independence and performance reviews can significantly enhance the effectiveness of governance. The correlation between board accountability and investor confidence of firms in the Middle East and North Africa is further supported by [14] who state that adherence to governance standards reduces the occurrence of financial restatements and enhances investor confidence. Collectively, these studies highlight the fact that governance is both structural and process-driven, and it requires the involvement of major stakeholders like institutional investors.

2.3. Earnings quality and its importance

Earnings quality refers to the degree to which a firm reports its financial performance reflect its economic performance. Credibility, consistency, and transparency are the characteristics that define high-quality earnings and therefore facilitate informed decision-making by the stakeholders. As [15] argues, good corporate governance plays a central role in controlling opportunistic accrual accounting and maintaining earnings integrity. Similarly, [1] associate institutional environments with earnings quality in MENA markets and indicate that companies operating in more stringent institutional environments have more informative earnings. The presence of two institutional forces of pressure, that is, corporate governance and regulatory enforcement, has been linked with improved financial disclosure especially when the market is restructuring or when the macro-economy is experiencing instability. The literature, therefore, recognizes the earnings quality as a consequence as well as indication of good internal controls and external monitoring.

2.4. Interplay between institutional investors and earnings quality

The extent of the impact that institutional investors have on the quality of earnings is also becoming an issue of growing concern in the current scholarship, especially in the context of earnings management. Institutional investors are widely recognized as good monitors that limit the opportunism of managers by discouraging discretionary accruals. [16] Empirically determine that their existence reduces the level of manipulation of earnings. However, one should acknowledge the diversity of the institutional investor world. [17] Show that, although long-term investors, including banks and insurance companies, are likely to form a check on aggressive accounting practices, institutions focused on trading can intensify it. Such divergence implies that the governance role of institutional investors is dependent on investment horizon and strategic orientation. In addition, [11] believe that long-term institutional investors serve as a check on income-smoothing activities, particularly in companies that face poor audit conditions. Institutional ownership therefore cannot be considered as a unitary entity, but it has to be assessed in terms of its composition and the behavioral aspects.

2.5. Linking corporate governance and earnings quality

Empirical studies have continuously revealed that strong corporate governance is positively related to the quality of earnings. [18] Show that institutional investors increase governance systems, which decrease opacity in earnings. Similarly, [5] demonstrate that common institutional ownership reduces financial misreporting by aligning the interests of the managers and the shareholders. [13] Also support the idea that governance mechanisms, i.e. the effectiveness of the board and transparent reporting systems are negatively linked to earnings manipulation. [10] Also state that frequent performance assessment by institutional investors enhances integrity of the financial reporting and strengthens stakeholder confidence. All these findings tend to support the argument that governance structures do not only reduce the agency problems, but also offer protection of financial statement reliability. There is therefore a strong nexus between governance and earnings quality both theoretically and empirically thus making the study of these two variables, especially in emerging market, relevant.

2.6. Theoretical framework

The paper is rooted in the agency theory and the resource-dependency theory, of which both provide fundamental explanations to the influence of institutional investors in corporate governance and earnings quality. The agency theory holds that separation of ownership and control gives rise to conflict of interest whereby the managers are forced to behave contrary to the interests of the shareholders. The external monitors are institutional investors, who by virtue of their large equity positions and active oversight role, police managerial opportunism, enhance governance practices, and promote the transparency of financial reporting. Therefore, their existence decreases the agency costs.

Resource-dependency theory adds to these insights in describing institutional investors as strategic providers of resources that offer capital, legitimacy, expertise and access to information networks that strengthens both governance and financial infrastructure.

Collectively, these theoretical lenses provide a well-rounded explanation of how institutional ownership impacts the internal governance processes and earnings quality particularly in the jurisdiction where the legal enforcement is ineffective or unreliable.

These theoretical premises are supported by empirical evidence in a variety of national contexts. [17] Examines the effect of financial institutional ownership (FIO) on earnings-management practices in non-financial firms based on 552 firms between 2015 and 2021. Findings indicate that the various types of institutional investors, namely banks, insurance, and mutual funds, have different impacts on earnings management. Specifically, FIO has been demonstrated to alleviate earnings manipulation; securities firms, which have prevailing trading strategies, are linked with positive association between FIO and earnings management. It is, therefore, important to draw a distinction between the types of institutional-investors, particularly in ownership concentrated markets.

[6] Provides extensive empirical support, which investigates the role of institutional investors in earnings and cash management in the corporate sector of India. Using an unbalanced panel of 2,421 firms and 20,231 firm-year observations between 2000-2019, the authors conclude that ownership ranks of 10% or above are effective monitors. Such investors reduce the amount of unnecessary cash held by the corporations and enable better allocation of financial resources, which enhances the quality of earnings and overall corporate governance.

[3] Gives a parallel study of China using panel data over the period 20072020. The analysis indicates that higher institutional ownership is associated with an increase in operating efficiency of firms, mechanisms of governance as well as the use of resources. The facts show that institutional investors are strategic in improving the value of a corporation, especially in the developing economies.

Moving to Iran, [19] look at 117 firms that are listed in the Tehran Stock Exchange during the 20052019 period. By using panel data regression and principal component analysis, the authors disclose that the strong governance practices, especially those related to the board composition and the role of audit committee, have a positive impact on earnings predictability and timeliness. They show that institutional investors can promote compliance with international accounting principles and strengthen governance mechanisms, which help to increase the quality of earnings.

The same results emerge in Indonesia. [20] Evaluates the institutional ownership and audit committee effectiveness in the banking sector and finds out that there is a positive correlation between institutional ownership and firm value in the period of 2017 to 2019. Although the earnings quality fails to mediate this relationship, the research verifies that the institutional investors can positively affect the performance of a firm directly through governance. On the same note, [15], using a sample of 570 manufacturing companies between 2015 and 2019, determine that institutional ownership and frequent meetings of the audit committee have a positive influence on the earnings quality and, by extension, the performance of the overall firm.

Additional empirical support that institutional investors discourage earnings manipulation is provided by [18], who examined 53 Indonesian manufacturing companies during the years 2016 to 2018. Regression analysis showed that the more managerial reliance on institutional investors, the more the earnings management was statistically significantly reduced hence showing the vital role of institutional ownership in promoting transparency and governance compliance.

A broader study has been offered by [21], who studied 4,206 companies in different jurisdictions in 2012-2017 to explore the relationship between corporate social responsibility (CSR) and institutional features and earnings quality. Using generalised method of moments, the study established that CSR actions had positive impact on the quality of earnings in nations that had strong governance institutions and investor protections. These findings give further credence to the argument that institutional investors are key to governance reform and the enhancement of financial transparency at the international level.

In the Chinese market, [7] show that active institutional investors enhance the quality of earnings disclosures by detecting and correcting the financial reporting deficiencies and promoting compliance with accounting standards. These results provide support to the role of institutional ownership as a remedial measure to ease the information asymmetry in capital markets.

Most recently, [8] evaluate the strength of institutional investors in enhancing earnings quality and market efficiency in the environment of lax regulatory supervision. Using regression models to analyse data between 2004 and 2013, the study found that institutional ownership is associated with significant advantages in this type of environment, making up for the deficiencies of poorly developed governance protections.

The paper contributes to the existing body of knowledge by critically examining the relationship between institutional investors and corporate governance practises in the manufacturing industry in Jordan. As opposed to a cross-national or global approach, as used by the prior research [17, 6], the present analysis adopts a narrower national approach that puts an emphasis on the institutional, regulatory, and economic peculiarities of Jordan. The combination of the agency theory and resource-dependency theory allows the current study to question how institutional investors can mitigate agency costs and provide resources that enhance governance.

Compared to the existing literature where the discrete aspects of governance, such as earnings management or corporate cash holdings, are evaluated, the current research examines their joint effect on governance structure and earnings quality. Moreover, it combines the governance-based perspectives of [3, 19], but it also bases them on the specific industrial and regulatory environment of Jordan.

The paper also extends the literature on the topic of earnings quality by not only placing it as a mediating or moderating variable as in the past studies [21, 15], but as a key dependent variable subject to the influence of institutional ownership and governance systems. By translating the results of [21, 8] to the Jordanian industrial environment, the present research re-conceptualises the policy relevance of earnings quality in the setting of an emerging market.

2.7. Review of previous empirical studies

The literature examining the role of institutional investors in affecting the corporate governance systems and the dependability of financial disclosure in diverse economies is voluminous; however, the study has not been given much attention in Jordanian industry. This review thus summarizes the empirical findings that are notable and give background to the current study.

[17] Used a sample of 552 non-financial firms in order to test the differentiated consequences of the types of institutional investors. The analysis showed that financial institutional ownership (FIO) has a negative relationship with earnings manipulation but the trading-oriented institutional investors have an increased practice of earnings manipulation. Such conflicting findings indicate the need to study institutional heterogeneity in the assessment of governance outcomes and suggest disaggregation of investor types in empirical models.

[6] Examined the issue of institutional ownership and its relationship with cash holdings and earnings management in the Indian context using a panel data that included over 2,400 firms in the span of 20 years. The authors found that the excess corporate cash and financial misreporting were substantially decreased by the equity holdings that are more than 10 % of the total. In this regard, institutional investors who have long-term monitoring goals have a positive effect on governance discipline and financial transparency.

[3] Tested the relationship between institutional ownership and firm performance in China between 2007 and 2020 using the metrics of return on assets (ROA) and Tobin Q. The study indicated that there was a positive relationship between institutional ownership and operational efficiency, the quality of governance and resource optimization. These results support the role of the institutional investors in improving the systems of operation and governance, especially in the emerging markets.

[19] Tested the relationship between corporate governance mechanisms and earnings quality of 117 companies listed in the Tehran Stock Exchange during 2005 to 2019. The empirical evidence shows that strong governance, that is, effective boards and audit committees, improves the quality of earnings through transparency and faster reporting speed and international standards compliance. It was found that institutional ownership is a key driver in maintaining such governance practices.

[20] Also examined the relationship between institutional ownership, corporate governance and firm value in the Indonesian banking industry. According to the study, institutional ownership has a significant and positive effect on the firm value and earnings quality does not serve as a mediating factor. As a result, it is demonstrated that institutional investors can support the performance of firms through governance mechanisms despite the fact that the quality of

financial disclosure is low.

[15] Performed an empirical study of 570 manufacturing firms listed on the Indonesian Stock Exchange in the period 2015-2019. As indicated in the analysis, the activity of the audit committee and the institutional ownership have a positive effect on the quality of the earnings and therefore, the connection between corporate governance and improved firm performance is strengthened. These findings underscore the role of governance systems in financial integrity protection and long-term value creation.

[18] Evaluated the correlation between institutional ownership and earnings management in the Indonesian manufacturing companies through regression analysis. The results show that high institutional ownership is associated with a lower level of earnings manipulation, which highlights the importance of institutional investors as a policeman against financial misreporting.

[21] Took a cross-country sample of 4,206 companies to examine the effect of institutional features and corporate social responsibility (CSR) on earnings quality. The findings deduce that good governance structures and institutional concentration ownership enhance the benefits of CSR to earnings transparency. Such results show that institutional investors are capable of promoting wider ethical and disclosure standards within strong governance regimes.

According to the empirical evidence presented in [7], it can be seen that the increased active institutional involvement leads to the increased informational content of financial statements and the higher compliance with accounting standards. This association is stronger with the firms that have less effective external monitoring systems, hence confirming the disciplinary power of institutional investors in the environment of low regulatory monitoring.

[8] Also explored the behavior of institutional investors in weak governance jurisdictions. The author shows that such investors can compensate the deficiencies of regulators by pressing them to maintain high standards of earnings quality and hence act as external governance improvement mechanisms.

The empirical studies reviewed cumulatively show that institutional investors can be effective tools of governance reform and financial transparency, especially in the situation where formal legal and regulatory frameworks are not yet well developed. However, the type and magnitude of such influence depends on a number of factors, the most important ones being the type of investor, the level of ownership concentration, the intensity of monitoring, and the institutional setting of the host country. These findings are a very important starting point to the current study which aims to outline the interaction of institutional ownership structures, corporate governance mechanisms, and the earnings quality of the Jordanian industrial sector, one of the empirical areas that have been relatively less studied in academic literature so far.

2.8. Research hypotheses

The following are primary research hypothesis:

- H01: At the significance level ($\alpha \leq 0.05$), no statistically significant effect is present of institutional investors on enhancing corporate governance in industrial businesses.
- H02: At the significance level ($\alpha \leq 0.05$), no statistically significant effect is present of institutional investors on enhancing earnings quality in industrial businesses.

3. Research Methodology

3.1. Research design

The study presented takes a descriptive-analytical approach to the analysis of the impact of institutional investors on the corporate governance and earnings quality of the Jordanian industrial firms listed on the Amman Stock Exchange (ASE) between 2018 and 2023. Descriptive technique was used to define empirical patterns and trends, and inferential methods were used to verify the research hypotheses and identify statistically significant relationships. In addition, the development of the theoretical framework was based on a systematic review of existing literature, which is an inductive approach.

3.2. Population and sample

The study used a purposive sampling method to compile a sample of 25 Jordanian industrial companies listed on the Amman Stock Exchange (ASE) in the period between 2018 and 2023. The sample was selected based on availability of full financial and governance reports over the whole study period out of the original 46 firms. Twenty-one companies were dropped out because of a number of reasons:

- Suspension or de-listing of the ASE;
- Either voluntary or compulsory liquidation;

Structured literature review table

Author(s)	Year	Country/Region	Method	Variables Studied	Key Findings
Tahat et al. [1]	2022	MENA	Quantitative; regression	Institutional settings, earnings quality, investment efficiency	Institutional environment enhances earnings quality and efficient investment
Garel et al. [2]	2021	Global	Empirical panel study	Institutional investor distraction, earnings management	Distraction reduces monitoring and increases earnings manipulation.
Chen et al. [3]	2022	China	Panel regression	Institutional ownership, firm performance (ROA, Tobin's Q)	Institutional ownership improves governance and operational performance.
Areneke et al. [4]	2022	Emerging markets	Qualitative and empirical	Foreign institutional ownership, governance transfer	Foreign investors improve governance in weak environments.
Ramalingegowda et al. [5]	2021	U.S.	Quantitative analysis	Common institutional ownership, earnings management	Shared institutional ownership reduces financial misreporting.
Chada & Varadharajan [6]	2023	India	Panel data regression	Institutional ownership, cash holdings, earnings management	Large institutional holdings (>10%) reduce excess cash and mani-pulation.
Min [7]	2018	China	Regression	Institutional participation, earnings quality	Active investors enhance transparency and earnings informativeness.
De Lima et al. [8]	2018	Low-governance countries	Regression	Institutional participation, earnings quality	Institutional monitoring offsets weak governance protection.
Istianingsih [15]	2021	Indonesia	Multiple regression	Audit committee activity, institutional ownership, earnings quality	Both governance factors improve earnings quality and firm performance.
Pristiwati & Setiawan [17]	2023	Indonesia	OLS regression	Types of institutional ownership, earnings management	Long-term institutional investors reduce manipulation; trading-based increase it.
Rezaee & Safarzadeh [19]	2023	Iran	Panel regression + PCA	Governance mechanisms, earnings quality	Strong boards and audit committees reduce earnings smoothing.
Jouber [21]	2020	Cross-country (4206 firms)	GMM panel	CSR, governance quality, institutional features, earnings quality	Strong governance and institutional concentration enhance CSR impact on reporting.

- Missing or incomplete annual reports in the course of the study.

The last sample thus made up 54.3 % of the target population. The following table shows the exclusion criteria and number of counts:

Reason for exclusion	Number of firms
Delisted or suspended	7
Liquidated (voluntarily or compulsorily)	6
Missing/incomplete financial statements	8
Total Excluded	**21**

3.3. Study model

The following figure illustrates research variables:

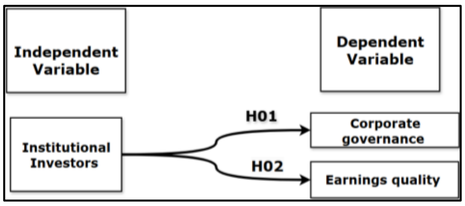

Fig.1. Study model

The study investigates the impact of institutional ownership (InsOwn) on two dependent variables:

1. Corporate governance quality
2. Earnings quality

The theoretical model is tested using panel data regression. The generic form of the estimation model is:

$Y_{it} = \alpha + \beta \cdot InsOwn_{it} + \epsilon_{it}$

Where:

- Y_{it} is the dependent variable (CGQ or EQ) for firm i in year t
- $InsOwn_{it}$ is the percentage of shares held by institutional investors
- α is the constant
- β is the coefficient to be estimated
- ϵ_{it} is the error term

3.4. Variable measurement

3.4.1. Investment institutions (InsOwn)

Measured as the ratio of shares held by institutional investors (e.g., banks, mutual funds, insurance companies) to total outstanding shares for each firm annually.

3.4.2. Corporate governance

Corporate governance was measured through the industrial businesses' corporate governance index for the time period listed on the Amman Stock Exchange (2018-2023), which includes (15) indicators. The content analysis method was employed in annual financial statements investigation of industrial businesses; as the study sample during (2018-2023) using a dummy variable (0, 1), according to the following table:

Corporate governance was measured by collecting the values of the dummy variables and dividing them by the number of indicators, which is (15) indicators, as follows:

$$CG_{it} = \frac{NoSI_{it}}{TSI} \quad (1)$$

Where:

- CG_{it}: Corporate Governance in Year (t) of Company (i).
- NoSIit: Number of Sub-Indices disclosed in Year (t) for Company (i).

Tab.1. Corporate governance indicators

No	Sub-indicator	Description
1	Code of Conduct	If the company has an official code of conduct, the dummy variable equals one, and if it does not have it, the dummy variable equals zero.
2	Anti-corruption	The company had an anti-corruption and bribery policy, the dummy variable equals one, and if it did not have it, the dummy variable equals zero.
3	Trading from income	If the company has a policy to offset trading from income, then the dummy variable equals one, and if it does not have it, then the dummy variable equals zero.
4	Largest shareholder	If the largest shareholder in the company owns less than 50% of the voting rights, one is the value of the dummy variable. The dummy variable is equivalent to zero else.
5	Free float	If the minority shareholders (public investors) in the company own more than 75% of the voting rights, one is the value of the dummy variable. The dummy variable is equivalent to zero else.
6	Employee Stock Ownership	If the company issues an employee stock option program, one will be the value of dummy variable; otherwise zero will be the value of dummy variable.
7	Corporate Social Responsibility	If the company discloses its corporate social responsibility programs, dummy variable will be equal to one; otherwise zero represents the dummy variable value.
8	Reporting Violations	The dummy variable equal one if business has a system; in place for reporting internal infractions. Else, dummy variable is equivalent to zero.
8	Penalties	If the company discloses information about a violation of securities market regulations or rules, one is the value of the dummy variable. The dummy variable is equivalent to zero else.
10	Big Four Auditors	If the company hires one of the four top auditors in multinational auditing firm, the dummy variable value is one; otherwise it equals zero.
11	Absolute Disclosure	The dummy variable equal to one if business reveals the ultimate beneficial owner. Else, dummy variable equivalent to zero.
12	Director Independence	The dummy variable equal to one if company has more than one independent director. Else, dummy variable equivalent to zero.
13	Independent Delegation	The dummy variable is equal to one if independent commissioners make up more than 30% of the entire council. The dummy variable is equivalent to zero else.
14	Board Size	The dummy variable equal to one if company board of directors consists of one to five individuals. Else, dummy variable equivalent to zero
15	Board of Commissioners Size	If the company has (4-8) commissioners on the board, one is the value of the dummy variable. The dummy variable is equivalent to zero else.

- TSI: Total Number of Sub-Indices of Corporate Governance.

The performance of corporate governance was gauged through a Corporate Governance Index (CGI) that consisted of 15 binary indicators based on the best-practice disclosure and control mechanisms. Every indicator was coded 1 (present) or 0 (absent) and the index was calculated:

$CGQ_{(i)} = (\sum=1^{15} X_i)/15$

In which X_{ijt} is the score of indicator j in firm i in year t. The indicators, which are presented in detail in Appendix/Table 1, are code of conduct, anti-corruption policy, board independence, audit committee presence, Big Four auditor usage, CSR disclosure, and so on. All indicators were of equal importance since they were independent governance best practices recommended by the Organisation for Economic Co-operation and Development (OECD) and the Asian Development Bank (ASE).

3.4.3. Earning quality

Earnings quality was measured using the Modified Jones Model [22], which is widely regarded as a robust approach for detecting earnings management through discretionary accruals [23]. To measure optional dues, the following actions were performed:

1. Measuring total receivables using the cash flow technique by computing it as the difference between operating cash flow and net operating profit activities, employing the following model:

$$TACC_{i,t} = ONI_{i,t} - OCF_{i,t} \quad (2)$$

Where:

- $TACC_{i,t}$: represents the total receivables of company (i) for period (t).
- $ONI_{i,t}$: represents the net operating profit of company (i) for period (t).
- $OCF_{i,t}$: represents the cash flow from operating activities of company (i) for period (t).

2. The regression model that estimates model coefficient of non-discretionary accruals will be calculated (NDACCi,t) through the following regression equation, and performed for sample group of companies; in each year separately.

$$\frac{TA_{i,t}}{A_{(i,t-1)}} = \propto_1 \left(\frac{1}{A_{(i,t-1)}}\right) + \propto_2 \left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{(i,t-1)}}\right] + \propto_3 \left(\frac{PPE_{i,t}}{A_{(i,t-1)}}\right) + e_{i,t} \quad (3)$$

Where:

- $TA_{i,t}$: Total receivables of business i)) for time (t).
- $A_{(i,t-1)}$: Total assets of company (i) for period (t).
- $\Delta REV_{i,t}$: Change in revenues of company (i) for period (t).
- $\Delta REC_{i,t}$: Change in accounts receivable of company (i) for period (t).
- $PPE_{i,t}$: (Property, plant and Equipment) Value of real estate, property and machinery of company (i) for period (t).
- $E_{i,t}$: Random error (residuals), which represents the part of total receivables that is not explained by regression model variables, and is used as an indicator of discretionary receivables.

Estimate the model parameters $\propto_1$ ، $\propto_2$ ، $\propto_3$ through which values of non-discretionary receivables are calculated.

3. Determine normal non-discretionary accruals ($NDACC_{i,t}$) by the following regression equation, which is done for sample group of companies; in each year separately.

$$NDAC_{I,t} = \propto_1 \left(\frac{1}{A_{(i,t-1)}}\right) + \propto_2 \left[\frac{\Delta REV_{i,t} - \Delta REC_{i,t}}{A_{(i,t-1)}}\right] + \propto_3 \left(\frac{PPE_{i,t}}{A_{(i,t-1)}}\right) + e_{i,t-1} \quad (4)$$

4. The discretionary accruals ($DACC_{i,t}$) for each company are calculated as the difference between total accruals and non-discretionary accruals.

$$DACC_{i,t} = TACC_{i,t} - NDACC_{i,t} \quad (5)$$

3.5. Data collection sources

The study used secondary sources to gather necessary information for fulfilling theoretical and field objectives, as it used university theses and dissertations, peer-reviewed scientific journals and periodicals, books and scientific references that addressed the study topics and their variables, and they were obtained from libraries, websites and study centers. The annual financial statements for the time period for industrial businesses listed on the Amman Stock Exchange (2018-2023) were also relied upon, which are available at the Amman Stock Exchange website and the Securities Depository Center, to collect the data necessary to measure the examine the variables.

The secondary information was obtained through the following:

1. Audited financial statements (2018-2023) available on the ASE and Securities Depository Center websites annually.
2. Theoretical and empirical framework has been built using scholarly journals, theses, academic books, and past empirical studies.

3.6. Statistical techniques employed

The current analysis was done using E-Views and the following methodologies were used:

1. Descriptive Statistics: Computation of mean,

standard deviation, minimum and maximum values of all variables.

2. Stationarity Test: Levin-Lin-Chu (LLC) test to verify that the time-series is stationary; first differences were taken when required.
3. Model Estimation:
   - Pooled OLS (PRM)
   - Fixed Effects Model (FEM)
   - Random Effects Model (REM)
   - Hausman Test: In order to choose between FEM and REM
   - Lagrange Multiplier Test: To choose between REM and PRM

On the basis of these findings, Random Effects Model was selected to test the hypothesis, as it was more consistent and efficient in comparison to the available panel dataset.

3.7. Descriptive statistics for study model variables

The current research uses balanced panel-data model to explore firm level governance and financial reporting outcomes in South Africa. The design takes into account firm- and time-specific variation, thus increasing the explanatory power, without being incompatible with the principles of agency theory and resource-dependence theory. Since panel structure is able to capture the intra-firm governance and reporting relationships over time, it provides information that is not possible with cross sectional models. The comparative assessments using structural equation modelling (SEM) and difference-in-differences (DiD) methods eventually led to the conclusion that the panel method is best suited to the present data set, as it is balanced in terms of composition and no obvious policy changes took place in the course of investigation. The following table shows descriptive statistical results of variables through research period:

Table (2) indicates the following:

1. The mean of investment institutions in Jordanian industrial companies for (2018-2023) period was (0.522), with standard deviation of (0.223075) where the greatest amount noted during time was (100%), while the lowest value was (0.130%). Statistical values indicated a difference between industrial companies in investment institutions.
2. The mean of corporate governance in Jordanian industrial companies for (2018-2023) period was (0.399), with a normal deviation of (0.086) where the highest value recorded during period was (0.600), while the lowest was (0.133). The statistical values showed a difference between industrial companies in corporate governance, and also indicated a low commitment level of Jordanian industrial companies to the implementation of corporate governance.
3. The mean of quality of earnings in Jordanian industrial companies during (2018-2023) was (0.101), with a deviation of (0.097), where the highest value recorded during period was (0.564), while the lowest (0.001). Statistical values referred to a difference between industrial companies in the earning quality.

3.8. Testing the stability of study variables data

Stationary in a time series indicates that variance between two time periods depends only on the time lag and not on actual moment of recording the variance. This includes the stability of mean and variance of series values over the time period. To ensure the time series stability of study variables, absence of a unit root for variables is checked, where its existence indicates the instability of time series. In this case, the differences between data over time period are taken to ensure their stability. To ensure the occurrence of unit root, Levin-Lin-Chu (LLC) test is conducted which indicates the absence of a unit root and (i.e. time series stability) exist if the probability value (P-Value) is less than (0.05) [24]. Results were as follows:

Table (3) indicates that the results of the (LLC) test indicated the stability (constancy) regarding the me series values Among the variables under investigation, as all probability values (P-Value) for the study variables appeared less than (0.05), except for the variable (earning quality), and therefore the first difference was taken for it. Accordingly, the notion that a unit root exists and thus the stationary of the time series is rejected.

Tab.2. Descriptive statistical results of variables during study period

Scale	Investment institutions	Corporate governance	Earnings quality
Mean	0.522	0.399	0.101
Standard deviation	0.307	0.086	0.097
Highest value	%100	0.600	0.564
Lowest value	%0.130	0.133	0.001

Tab.3. Results of the stability test among variables under investigation data

Variable	Calculated value at level	P-Value	Result
Investment institutions	-2.984	0.039	stable at level
Corporate governance	-4.124	0.001	stable at level
Earnings quality (First difference)	-3.431	0.012	stable at level

3.9. Study models assessment

In order to fulfill study goals, panel data approach will be the most suitable for this purpose, as this approach includes time series of variables within the model for each industrial company (cross section) in the sample during study period. The advantages of using this approach include taking into account individual differences, offering a greater number of degrees of freedom, less correlation between variables, more diversified and valuable data, and greater efficiency compared to time series that have autocorrelation issues. In descriptive and time series analysis, tabular data can also be used to assess and identify effects that are not visible. To measure the effect between variables, estimation methods for cross-sectional time models (Panel data) were used, which are:

1. PRM stands for Pooled Regression Model.
2. Model of Fixed Effects (FEM).
3. Model of Random Effects (REM).

To determine which of these models is suitable for use in the analysis, researchers employed Lagrange Multiplier test to choose between REM and PRM, while Hausman test is used to choose between FEM and REM. Results were as follows: The random effects model was most accurate in estimating the model for all research hypotheses; according to table (4) results, where the significance level values for (Lagrange Multiplier) test appeared less than 0.05 while the significance values for (Hausman) test was greater than 0.05.

3.10. Alternative methods considered

The current research is performed using descriptive-analytical design and panel-data regression in E-Views. An extension of methodology in the directions of Structural Equation Modeling (SEM) would be useful to enhance the explanatory capability of such an inquiry since it allows one to estimate causal relationship among observed as well as latent variables simultaneously. The method is especially useful in exploring mediated effects, like the mediating role of corporate governance to correlation between institutional ownership and earnings quality. In the governance and financial-reporting studies, empirical research has already shown that SEM is a preferable tool to fit complex interdependencies in the setting [20]. A second, complementary approach to methodology is the Difference-in-Differences (DiD) model which can be a better alternative when a policy intervention or an external shock that changes the institutional ownership or governance standards is experienced within the period of observation. DiD has already generated strong results in the governance studies that assess the regulatory reforms in emerging economies [3].

Dynamic panel models can reduce endogeneity, autocorrelation and firm-specific effects, and the Arellano-Bond estimator is widely known as a counter to a dynamic panel model. The models are especially applicable when the past measures of the quality of earnings or governance are likely to affect the current ones, as shown by recent empirical research that examines the firm-level choices under governance restrictions [5]. However, the panel regression approach embraced is a tradeoff between the interpretability, amount of data and statistical soundness. Its applicability in the current context, in which no policy interventions or reforms took place in the observed period (20182023) and the panel composition was balanced, corresponds to the literature, which emphasizes the interpretability and robustness of linear panel models in similar financial governance contexts [13, 6].

4. Results

4.1. Hypothesis testing and results

This current section gives the descriptive statistics of the main variables that the study examines:

Tab.4. Results of study model estimates

Hypotheses	Lagrange multiplier		Hausman		The most accurate and consistent model
	Ch^2	Sig	Ch^2	Sig	
H01	624.792	0.000	0.101	0.750	Random effects model
H02	671.560	0.000	2.727	0.099	Random effects model

Institutional Ownership, Corporate Governance Quality (CGQ), and Earnings Quality (EQ). The sample size is 25 Jordanian industrial companies that are monitored between 2018 and 2023. The measures are analyzed in terms of mean, standard deviation, minimum and maximum.

Variable	Mean	Std. Deviation	Min	Max
Institutional Ownership	0.522	0.307	0.130	1.000
Corporate Governance Index	0.399	0.086	0.133	0.600
Earnings Quality (DACC)	0.101	0.097	0.001	0.564

Calculations using E-Views; based on ASE financial data (2018–2023).

Interpretation:

The institutional ownership is quite heterogeneous with a range of 13 percent to complete ownership. This difference implies a heterogeneous base of investors and implies high heterogeneity of institutional involvement of firms. The CGQ scores range between 0.133 and 0.600, which means the moderate adherence to governance indicators in general and indicates that numerous companies do not comply with international best practices. The absolute value of the discretionary accruals, which is taken as a metric of EQ, also varies significantly, reflecting the range of inconsistency in the financial reporting transparency in the sample.

4.1.1. Results of evaluating first main hypothesis

The first primary hypothesis seeks to evaluate impact of investment institutions on enhancing corporate governance. This hypothesis states that: "There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of institutional investors on enhancing corporate governance in industrial companies". The results were as follows: The results of model summary in table (4) indicate that coefficient value of determination (R^2) reached (0.057), which indicates that (5.7%) of the change in investment institutions at Jordanian industrial companies listed on ASE was explained by enhancing corporate governance. The difference between coefficient values of determination (R^2) and the adjusted coefficient (Adj.R^2) amounted to (0.006), which is a small value and indicates the ability of independent variable in study model (investment institutions) to predict the dependent variable (enhancing corporate governance). The findings of variance analysis in table (5) also indicate that effect of the model was significant, as calculated F value reached (8.872) with a significance level of (0.003), which is less than 0.05. The regression findings in table (5) indicate that coefficient value of B for investment institutions reached (0.067) with a T-value of (2.979) at a significance level (Sig= 0.003), which is less than 0.05, and indicates that effect of this variable is significant. Accordingly, it is clear that: "There is a statistically significant effect at the significance level ($\alpha \leq 0.05$) of institutional investors on enhancing corporate governance in industrial companies".

4.1.2. Results of testing the second main hypothesis

This hypothesis aimed to test the effect of investment institutions on earnings quality, which states: "There is no statistically significant effect at the significance level ($\alpha \leq 0.05$) of institutional investors on enhancing earnings quality in industrial companies". Results were as follows:

Results of model summary in table (7) indicate that coefficient value of determination (R^2) reached (0.063), which indicates that (6.3%) of changes in investment institutions at Jordanian industrial companies listed on ASE was explained by the earnings quality. The difference between coefficient values of determination (R^2) and the adjusted coefficient of determination (Adj.R^2) was (0.006), which is a small value, and this indicates the ability of independent variable in study model (investment institutions) to predict the dependent variable (earnings quality). Results of variance analysis in table (7) also indicate that effect of model was significant, as the calculated F-value reached (9.942) with a significance level of (0.002), which is less than 0.05.The regression findings coefficients in table (11) show that coefficient value of B for investment institutions reached (-0.079) with a T-value of (-3.153), at a significance level (0.000) which is less than 0.05 and indicates that effect of this variable is significant.

Tab.5. Results of simple linear regression analysis to test the first main hypothesis

Dependent variable	Model summary			ANOVA	
	R^2	Adj. R^2	Standard error	F value	Sig. F
Enhance corporate governance	0.057	0.051	0.084	8.872	0.003

Tab.6. Regression coefficients for the first main hypothesis

Independent variables	B	Standard error	T	Sig. T
Investment institutions	0.067	0.023	2.979	0.003
Regression constant	0.364	0.014	26.725	0.000

Tab.7. Results of testing the second major hypothesis using linear regression analysis

Dependent variable	Model summary			ANOVA	
	R^2	Adj. R^2	Standard error	F value	Sig. F
Earnings Quality	0.063	0.057	0.094	9.942	0.002

Tab.8. Second major hypothesis regression coefficients

Separate variables	B	Normal mistake	T	Sig. T
Investment institutions	-0.079	0.025	-3.153	0.002
Regression constant	0.141	0.015	9.297	0.000

Accordingly, it is clear that: "There is a statistically significant effect at the significance level ($\alpha \leq 0.05$) of institutional investors on enhancing earnings quality in industrial companies".

4.2. Descriptive findings overview

This paper conducts a descriptive statistical analysis of the institutional ownership, corporate governance, and earnings quality among Jordanian industrial companies listed in ASE; for the period (2018-2023). Institutional ownership variable is the percentage of share owned by institutional investors and empirically defined by a mean of (0.522) and a standard deviation of (0.307). Institutional ownership ranged between the lowest of 13 % and the highest of 100 % indicating that there was a large degree of heterogeneity in this variable. Considering that institutional investors are usually linked to governance monitoring, the results can be explained by the variation in size of the firm, financial performance, ownership structure, or industry-specific attributes. Corporate governance is measured using a proprietary index, which combines international best-practice indicators, including board independence, audit effectiveness, transparency and adherence to ethical policies. The respective mean score within the sample is 0.399 with a standard deviation of 0.086. Its values are between the minimum of 0.133 and the maximum of 0.600, which means that the level of compliance is mainly low and moderate in the framework of the good governance standards. The average governance score is relatively low, which highlights the fact that these indicators are not much institutionalised, and a significant share of firms is characterised by partial or weak compliance with best-practice norms.

The quality of earnings is analyzed using Modified Jones Model that calculates the proportion of discretionary accruals included in reported earnings. The standard deviation of this variable is 0.097 and the mean value is 0.101. The lowest and highest values are 0.001 and 0.564 respectively, indicating significant heterogeneity in the accounting practice of firms. The low average and the comparatively high maximum suggest a relatively conservative reporting environment, but still, there are variations that suggest that there are situations when substantial discretionary accruals can be created, thus reducing the earnings in formativeness.

The systematic analysis of descriptive statistics implies the following:

1. The ownership is also wide but heterogeneous, thus indicating different investment behavior and firm-specific characteristics.
2. Corporate governance systems are often not fully implemented, and many companies do not use the best practices fully.
3. There is a general weakness in earnings quality, but the distortions are concentrated in a small part of the sample, which can be explained by internal governance weaknesses or by external pressure of short-term-oriented investors.

Taken together, these observations underscore the importance of examining the structural inter-dependence between institutional ownership, the corporate governance and the financial reporting quality before undertaking subsequent regression modeling.

To ensure the reliability of time-series data, the Levin-Lin-Chu (LLC) panel unit root test was applied. A p-value below 0.05 indicates stationarity.

Variable	LLC test statistic	P-value	Stationarity
Institutional ownership	-2.984	0.039	Stationary at level
Corporate governance	-4.124	0.001	Stationary at level
Earnings quality (DACC)	-3.431	0.012	Stationary at 1st diff

The results confirm the stationarity of institutional ownership and governance index at level. For earnings quality, first-differencing was applied before further analysis to ensure statistical validity.

4.3. Model selection and specification tests

Panel regression models were estimated using three approaches:

- Pooled Regression Model (PRM)
- Fixed Effects Model (FEM)
- Random Effects Model (REM)

The following tests determined the most appropriate specification:

- Lagrange Multiplier Test (REM vs. PRM)
- Hausman Test (REM vs. FEM)

Hypothesis	Lagrange multiplier test	Hausman test	Selected model
H□ (CGQ)	χ^2= 624.79, p< 0.001	χ^2= 0.101, p= 0.750	Random Effects
H□ (EQ)	χ^2= 671.56, p< 0.001	χ^2= 2.727, p= 0.099	Random Effects

Given the significance of the LM test and insignificance of the Hausman test, the Random Effects Model (REM) was selected for both hypotheses.

4.4. Hypothesis testing results

4.4.1. H_0 : Institutional ownership → corporate governance

CGQit= α + β·InsOwnit + ϵit

Variable	Coefficient (B)	Std. Error	t-statistic	p-value
Institutional Ownership	0.067	0.023	2.979	0.003
Constant	0.364	0.014	26.725	0.000

Model Summary:

- R^2= 0.057; Adj. R^2= 0.051
- F-statistic= 8.872 (p= 0.003)

Interpretation:

According to empirical studies, institutional ownership has a positive statistically significant effect on the quality of corporate governance. In particular, an increment of 1 percent in institutional ownership is linked to 0.067 increment in the governance index score.

4.4.2. H□: Institutional ownership → earnings quality

EQit = α + β·InsOwnit + ϵit

Variable	Coefficient (B)	Std. Error	t-statistic	p-value
Institutional Ownership	-0.079	0.025	-3.153	0.002
Constant	0.141	0.015	9.297	0.000

Model Summary:

- R^2= 0.063; Adj. R^2= 0.057
- F-statistic= 9.942 (p= 0.002)

Interpretation:

According to empirical evidence, the institutional ownership has a very negative impact on the quality of earnings. Such finding can be attributed to the fact that institutional investors often exert intense pressure on the management to meet short-term financial goals thus, motivating the latter to use higher discretionary accruals.

4.5. Summary of empirical findings

The study reveals that institutional ownership enhances corporate governance in the Jordanian industrial corporations by enhancing both oversight and best-practice compliance. On the other hand, institutional shareholding is linked to reduced earnings quality, a decrease that possibly can be explained by the increasing pressure to achieve short-term profitability and use of aggressive accounting methods. These effects are large and yet relatively small, which means that institutional effects can be detected but hardly dominant, a fact mediated by the local market context and firm-specific characteristics.

5. Discussion

5.1. Interpretation of results in theoretical context

Empirical evidence shows that the institutional investors have a two-sided influence on the Jordanian industrial firms. Positive and statistically significant relation between institutional ownership and governance quality implies a high level of monitoring and alignment with the interest of shareholders. On the other hand, it has a negative relationship with earnings quality (proxied by discretionary accruals) with the implication that institutional influence can also breed opportunism behavior. The findings are in line with the theoretical expectations that have been developed using agency theory and resource dependence theory.

The agency theory places institutional investors as external monitors that minimize the agency costs by restraining the discretion of managers and improving the alignment of actions by the firm and the interests of shareholders. This hypothesis is supported by the empirical association between institutional ownership and governance scores: the more institutional ownership there is, the more board independence, audit committee effectiveness, and disclosure transparency-all of which are indicators of good corporate governance. Similarly, the resource dependence theory envisions institutional investors as an important source of legitimacy, expertise and capital. However, the very theory also brings out a lurking conflict: in the circumstances of this research, that is high turnover and activist tactics, institutional investors can compel firms to achieve short-term performance goals. These pressures explain the negative correlation between institutional ownership and the quality of earnings.

5.2. Explaining the contradictory effects

The heterogeneity of the institutional investors and the divergent effects of the institutional investors should be based on a nuanced approach. The institutional investors are not a homogeneous category, as it is articulated by [17]. Pension funds and sovereign wealth funds are long-term, stable investors who often promote sustainable governance practices and discourage the intentional manipulation of earnings. Short-term or speculative investors, in contrast, especially hedge funds and aggressive equity funds, can encourage earnings management in order to boost short-term market performance or valuation results. These short-term pressures can have a disproportionately large effect on managerial decision-making in the Jordanian industrial setting where regulatory oversight is uneven and where the independence of boards is still in its infancy. The inverse relationship between institutional ownership and quality of earnings indicates that some investors give priority to short-term profitability and market returns over transparent and informative financial reporting.

Also, the scores of governance and accrual patterns in different companies differ, which reveals the variation in board structures, internal controls, and ownership concentration, which moderate the institutional effect. Lack of a common culture of governance within the Jordanian industrial sector could exaggerate the ability of investors to influence the corporate governance results selectively and not universally.

5.3. Consistency with previous empirical studies

The empirical results of the current article are consistent with the empirical studies that have been conducted in similar institutional contexts. As an example, [6] shows that institutional investors in India reduced excess cash holdings and increased governance activities, but at the same time they promoted firms to perform earnings smoothing with lax regulatory controls. Similarly, [19] indicates that institutional investors in Iran, enhanced stronger governance infrastructures, but [17] documents that certain types of institutional investors increased the risk of earnings manipulation in Indonesia.

These findings are supported by the Jordanian case, which highlights the importance of considering the typology of investors, the intensity of their engagement, and the local governance practices prevalent in the region in the evaluation of the consequences of the institutional ownership. The findings also support [21] who postulates that institutional effectiveness is very much dependent on the structural integrity of the governance system of a country.

5.4. Implications for theory and policy

In theory, the paper shows how agency and resource-dependence perspectives are complementary and how they have their limitations. Although institutional investors can help to reduce agency conflicts, their behavior is neither consistently governance-enhancing nor exclusively focused on the public good: it is determined by strategic needs and by the institutional environment within which they act.

Policywise, the paper suggests that regulatory strengthening, more corporate-governance checks, and the issuance of quality-of-earnings protection, including audit rotations and strict enforcement of International Financial Reporting Standards, might be necessitated to counter the negative financial-reporting effects of institutional ownership.

To corporate management, the findings make it clear that it is important to distinguish between constructive and pernicious forms of investor pressure. Boards are encouraged to engage more with long-term investors, and put in place internal governance systems that would cushion the accounting practices against manipulations of the earnings.

5.5. Summary of discussion

The current research confirms a Janus-faced description of the impact of institutional investors on the Jordanian industrial companies:

- Being external governance agencies, their existence has been associated with high-quality board performance and better disclosure practices.
- However, the same investors have been found to impose short-term performance pressure thus compromising the quality of earnings.
- These results overlap with the available theoretical explanations and empirical data in the global literature, especially in the emerging markets where various forms of governance and different investor groups prevail.

6. Conclusion

6.1. Summary of key findings

The current paper will focus on empirical evidence between the stakes of institutional investors and corporate governance practices and earnings quality on a sample of industrial equities listed on the Amman Stock Exchange during 2018-2023. The authors employ a structured index to gauge the quality of governance and the modified Jones Model to gauge the earnings manipulation and use a fixed-effect panel regression to correct the serial correlation and unobserved firm-level heterogeneity. Their findings indicate:

1. The institutional ownership has a significant and positive impact on the quality of governance, which implies that the greater the presence of the institution, the stronger the board structure, disclosure, and accountability mechanisms.
2. Institutional ownership has a statistically significant negative impact on earnings quality which implies that higher institutional involvement can increase the pressure on the management to meet short-term targets and thus increases the discretionary accruals.

On their own, the evidence is in line with theoretical duality of institutional investors that may be seen as both the enablers of governance and the sources of distortion in various contexts, type of investor, and internal firm processes.

6.2. Theoretical and practical implications

Both theoretical and practical implications can be drawn regarding the results of the study. In theory, they confirm the complementary perspectives of the agency theory and the resource-dependence theory on the behavior of institutional investors, showing that institutional investors balance the agency problem by strengthening governance mechanisms as well as being strategic players who can be short-term opportunists, especially in weak regulatory systems. Practically, the findings highlight the context-sensitivity of institutional power in emerging markets because institutional investors have asymmetric effects on transparency and performance in a setting of concentrated ownership, uneven enforcement and mixed adoption of governance.

6.3. Policy and managerial recommendations

To balance the positive governance role played by institutional investors and the risks of financial reporting integrity, a three-pronged programme of short-term, medium-term and long-term initiatives is proposed to be undertaken by regulators, corporate boards, and institutional investors.

A. Short term recommendations

Regulatory: Introduce required reporting of institutional ownership categories (e.g. short-term vs long-term) to assist in the evaluation of risk-profiles.

Corporate: Increase the interaction of the board with long-term institutional investors to harmonize the oversight goals with long-term interests.

Investor: Report investment horizons and corporate-governance expectations to strengthen transparency.

B. Medium-term recommendations

Regulatory: Provide a governance-rating system to associated institutional investor rights and privileges, which strengthens the firms meeting governance standards.

Corporate: Strengthen the internal audit and control systems to limit the scope of accrual-based earnings management.

Investor: Come up with stewardship codes to formalise participation in governance as is the case in developed markets.

C. Long-term Recommendations

Policymakers: Promote a harmonised system of

governance that incorporates the standards of ASE, SDC and Jordan Securities Commission, including enforceable audit quality standards.
Companies: Board-level governance education the practice of governance education should be institutionalised to reduce the symbolic compliance and encourage functional oversight.
Investors: Promote coordinated action of long-term institutional investors to change policy to more sustainable corporate practices.

6.4. Limitations and directions for future research

The study contains beneficial empirical data, however, it is restricted to narrow group of industrial companies and it is based on secondary data. Future analyses should, accordingly:

1. Consider sectoral variations in the role of institutional investors (e.g. banking or industrial).
2. Make a distinction between passive and active investor effects on the basis of ownership categories.
3. Add qualitative interviews so as to put the quantitative findings into perspective.
4. Conduct a comparative analysis of similar emerging markets (e.g. Egypt, Tunisia, Morocco) in order to enhance the generalizability and to identify the regional trends of the institutional investor behavior.

6.5. Final remarks

Overall, the research confirms the dual nature of the impact of institutional investors in governance and earnings performance in an environment that has been minimally researched. It points to the necessity of policy-based differentiation between constructive and distortive institutional involvement, and to the necessity of firms developing internal resilience by means of governance reforms. With the institutional-investor footprint in emerging markets only increasing, a calibrated regulation and firm level strategic orientation will be needed to ensure that their potential of long-term value creation is maximized.

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