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The effect of demographic factors among the nomination committee members on earnings management in companies listed on the Amman Stock Exchange

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ABSTRACT

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This study aims to investigate the effect of demographic factors for nomination committee (NC) on earnings management (EM) in companies listed on the Amman Stock Exchange. The independent variables are gender, age, level of education, and experience, while the dependent variable is EM. The study utilizes various statistical processes through SPSS 28. The results indicate there are no statistically significant differences at the level of significance ($\alpha=0.05$) in the total study “EM in the listed companies” due to the age and experience variables. In addition, there are statistically significant differences at the level of significance ($\alpha=0.05$) in the total study “EM in the listed companies” due to the gender variable, in favor of males and due to the level of education. Moreover, there is a significant difference between two degrees of Diploma and master’s degree in favor of the Master’s degree by a mean of 3.701, but the Diploma category mean is 3.400 and the significant difference between Diploma and Ph.D. is in favor of the Ph.D. category by mean (3.722), but the Diploma category mean is (3.400).

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1. Introduction

Earnings management has recently sparked considerable interest among authorities and the public (Murad et al., 2022). As a result, EM is widespread, and CEOs regard it as a tool for ensuring that their companies fulfill profits targets (Buabbas, 2022). Because board and audit committee members with corporate or financial backgrounds are associated with companies that have smaller discretionary current accruals, and because the frequency of board and audit committee meetings is also associated with lower levels of discretion, the board of directors may also play a role in limiting EM (Jarrah et al., 2022). Furthermore, the actions of the board and audit committees, as well as the financial understanding of its members, may be important factors in restricting managers' willingness to participate in EM (Xie et al., 2003). EM remains a popular topic. Many studies have been done on earnings quality and EM. Corporate scandals and the EM problem have made regulators, investors, and the financial community more aware of the value of closely examining a company's financial statements (Al-Absy, 2022b). We argue that listed companies may be interested in being listed in the first market due to its benefits and to maintain competitiveness by managing earnings upwardly, so they can satisfy the condition of achieving a specific earnings limit. Public shareholding companies are listed on these markets based on different requirements (Toumeh et al., 2020), where the nominating committee (made up of members of the firm's membership) offers nominations and substitutes for candidates for office in order to enhance the selection process and CG system for managers and administrators. Similarly, a NC is made up of independent external administrators and most external administrators. Several studies have been performed in this area to investigate the influence of internal government procedures in regulating EM methods (Davidson et al., 2005). Therefore, managers may participate in EM for a variety of reasons, including increasing their wealth or meeting regulatory requirements (Alshammari, 2022). It is generally known that managers can manipulate earnings using two techniques: accrual-based and real-time activity approaches. As a result, we anticipate that having more autonomous directors on the audit committee will increase its freedom and efficiency, which will lead to fewer accrual EM (Alkebeese et al., 2022).

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2. Literature Review

A succession of accounting and financial scandals in recent years has caused investors to distrust financial information. Indeed, rapid corporate bankruptcies prompted investors to pay closer attention to the EM policy issue (Kouki et al., 2011). Real EM is a bigger problem than accruals-based EM since it has an impact on a company's fundamental performance. This point of view contends that EM should be positively correlated with the average number of extra directorships held by board members, but that EM should decline as the number of additional directorships held by the firm's director increases. Therefore, the net impact of several directorships on accrual-based EM and real EM is an empirical issue (Baatour et al., 2017). The findings reveal that the salary of non-executive directors is adversely and strongly related to real EM. Similarly, external audit fees are strongly related to poor real profits management. The aggregate expenditure in outside governance monitoring reduces actual EM greatly (Ghaleb et al., 2022). According to the findings, audit committee freedom is the only feature that appears to promote audit committee effectiveness, as it is strongly related to fewer EM (Almarayeh et al., 2022).

The primary role of the nominating governance committee is to find and choose board members who argue that having a nominating governance committee increases board independence (Alshebli, 2022). As a result, one might claim that an appropriate and well-constituted nomination governance committee can nominate and pick the finest candidates for the board of directors, not only reducing agency expenses but also aiding in EM (Efenyumi et al., 2022). According to the findings of Abbadi et al. (2016), the overall types of governance index defined by the board of directors, board meetings, audit, and nomination, and pay committee had a negative impact on EM. Furthermore, the findings indicate that the quality of CG has improved over time. As a result, its capacity to limit earning management has grown. pointed to Nyatichi et al. (2020), company profitability and firm size attenuate the association between CG and EM, although leverage has no meaningful influence. The findings contribute to the discussion on the efficacy of CG since, regardless of the membership of the board of directors, the size of the business and its profitability impact the manager's participation in EM procedures. Furthermore, EM may have an influence on investors by providing incorrect information. Financial information is used by capital markets to establish securities prices. Financial information is used by investors to determine whether to purchase, sell, or keep assets (Alqudah et al., 2023). Market efficiency is determined by the flow of information to capital markets. When the information is wrong, the markets may be unable to accurately value equities. As a result, EM may disguise true performance and limit shareholders' capacity to make informed decisions (Epps & Ismail, 2009). EM is defined as practices by management that distort the real firm's financial performance in order to deceive some or all stakeholders (Alkebsee et al., 2022). Zalata et al. (2022) findings show that female directors with relevant financial credentials improve profit quality more than female directors without those skills. Additionally, according to our findings, only female directors with relevant financial backgrounds and fewer outside directorships can mitigate EM; as a result, overcommitting expert female directors with more outside directorships would reduce their monitoring capacity.

Previous data implies that the participation of female directors on company boards improves profits quality due to their higher monitoring abilities (Al-Abbas, 2022). It is unclear, however, exactly attributes and capabilities of female directors drive such abilities. Nonetheless, profits management is a critical issue that has long troubled organizations and continues to be a major source of worry for society as a whole. A priori, and based on economic theory predictions, we anticipate that the inclusion of female directors on audit committees will constrain EM and increase overall earnings quality (Zalata et al., 2022). Efenyumi et al. (2022) research revealed that the Impact of Nomination and Governance Committee Attributes on EM measures of nomination and governance committee diligence had a positive and substantial influence on EM. Furthermore, the proposed control variables (sales growth and market capitalization) exhibit a negative association with EM and have a considerable influence. Mohd Saleh et al. (2007) found that having a fully independent audit committee minimizes EM techniques. Businesses with more educated audit committee members and more audit committee meetings were also found to have less EM methods than other businesses.

Where financial reports are seen as important resources for evaluating an entity's performance, with earnings being one of the most powerful aspects presented in these financial statements that attract investors (Al-Zaqeba et al., 2022). Investors are expressly concerned about the income statement's bottom line since it is an important factor in decision-making. The accounting system offers managers the right and power to choose the selection of information used to calculate earnings at different periods, allowing them to exercise their judgment (Wimelda & Chandra, 2018). According to the findings of Al-Absy study (2022a), there is a strong negative association between the number of influential women leaders and the degree of EM, accrual, and actual EM. Having at least one female executive who also serves on the audit committee improves the board's efficacy and, as a result, greatly limits profits management.

As a result, there is substantial evidence that managers may participate in EM by altering accruals using creative accounting approaches (Hailat et al., 2023). Unfortunately, EM may not accurately reflect an entity's true performance, leaving shareholders unable to properly assess its economic decisions (Toumeh & Yahya, 2019). According to Al-Absy (2022b) results, there is a considerably favorable relationship between board chairman independence and actual EM. Other board leader characteristics, including tenure, ethnicity, and family membership, had no effect on the degree of real EM. Likewise, the findings of Kouaib and Almulhim (2019), that board gender diversity is negatively related to accruals-based and real EM activities, but non-European directors are favorably related to EM activities. Furthermore, the audit index moderates the relationship between board diversity and EM substantially.

Also, the company's process, followed by globalization and company multi-nationalization, has increased the requirement for optimum CG procedures (Ramachandran et al., 2015). Osma and Nogue (2007) found that board composition strongly influences earnings manipulation practices, but only among institutional directors. There is no association between the presence of an independent audit committee and EM metrics. Finally, the presence and character of a nominating committee influences the function of autonomous directors in limiting earnings manipulation. This research by Alkebeese et al. (2022) implies that having a high number of independent directors on the audit committee improves the audit committee's monitoring function over earnings quality. Also, find no indication of the audit committee's financial knowledge having an influence on accrual EM.

Furthermore, Ramachandran et al. (2015) observed that the motivation for EM increases when the nominating committee influences the pay committee directly or indirectly. However, earnings are regarded as an important component of financial reporting since they convey information about a company's performance to various stakeholder groups. Results management happens when managers choose accounting rules that impact results in order to meet specified reported earnings targets (Nyatichi et al., 2020). Ghosh et al. (2010) discover that board membership and structure, as well as audit committee composition, experience, and ownership, have no effect on EM. Board size and audit committee size, activity, and tenure, on the other hand, relate to EM. According to Abdul Rahman and Haneem Mohamed Ali (2006), the size of the board of directors is favorably associated with EM. This supports the view that larger boards are less effective in overseeing than smaller boards.

The establishment of a nominating committee is believed to improve financial statement quality by ensuring that each nominated manager has the necessary skills and expertise. The frequency of board meetings is a crucial method to ensure the efficacy of board performance to their obligations, which include reviewing manager conduct, however, the nominating committee is negatively connected with EM (Abadi et al., 2016). According to the findings of Kouki et al. (2011), governance instruments influence EM decisions and control efficiency based on board size. To cope with managers' opportunistic conduct and earnings manipulation, auditing committee independence is required, is also required for an optimum governance structure and to avoid profit manipulation. Independent nominating committees and non-manager participation are necessary for effective CG processes. According to Liu et al. (2013), board independence and business size are both positively connected to EM. According to the findings of Nikulin et al. (2022), audit committee presence on the board of managers resulted in some reduction of EM. The findings show that higher levels of audit committee freedom and financial knowledge on the committee are related with poorer profits management. Companies with very active audit committee directors, on the other hand, are more likely to adopt EM. Klein, (2002) The audit committee's freedom and anomalous accruals have a negative relationship. These findings imply that boards that are more autonomous of the CEO are more successful at overseeing the company's financial process. Mnif and Slimi (2022) the data show that past auditors have the greatest impact on profits management when they are unconnected from the bank's current external auditor. Al-Duais et al.'s (2022) data study demonstrates that family, foreign, and institutional ownership has a good relationship with financial reporting quality and, to a significant extent, can ease actual EM. EM is substantially connected with several of the governance procedures of audit committees and boards of managers, according to Marrakchi Chtourou et al. (2001). Negatively correlated with income-increasing EM are a higher proportion of outside members who are not managers in other firms, a clear mandate for overseeing the financial statements and the external audit, and an audit committee made up entirely of independent directors that meet more than twice a year.

EM strategies become more prevalent as the number of directorships increases (Jarah et al., 2023). Multiple directorships have a good and substantial influence on actual profits management, according to the findings presented by Baatour et al. (2017). However, we show that numerous directorships have no substantial influence on accrual-based EM. Nonetheless, Wan Mohammad and Wasiuzzaman (2020) discovered that family ownership reduces EM actions. Because of their long history of family importance and the relevance of institutional cultural determinants, the findings demonstrate that CG is more successful in developing nation-family enterprises. According to Bekiris and Doukakis (2011), there is an inverse link between CG and EM. CG requirements appear to restrain management's desire to control profitability, resulting in greater confidence in financial statements. Sun et al. (2014) discovered that audit committee members' additional directorships are simply associated with real EM as measured by abnormal cash flows from operations, abnormal discretionary expenses, and abnormal production costs, implying that audit committees with a high number of additional directorships are less effective at constraining real EM. The following are the key findings of Ramachandran et al. (2015) study: the NC directly affects the remuneration committee, underlining that when the Board is big, the separation of duties between the remuneration and nominating committees' limits EM through discretionary accruals. These governance initiatives will help stakeholders cope with the agony of broken trust. Furthermore, discovering that overlapping participation on the risk management committee and the audit committee assists in minimizing executive EM and making conservative interbank penalty judgements when studying possible monitoring and information routes (Ding & Wei, 2023). Paiva (2020) results show that the higher the degree of EM and the larger the number of women on this board, the higher the proportion of non-executive members in the audit committee, and therefore the higher the fees paid to external auditors. According to He and Yang (2014), the proportion of CEO directors on audit committees is positively connected to EM in unregulated enterprises but significantly less so in regulated sectors. Furthermore, the ratio of audit committee members with financial knowledge is adversely connected to EM. Finally, the average audit committee member's directorship improves EM in regulated enterprises while lowering EM in unregulated industries. The empirical findings of Singh et al. (2017) are congruent with CG philosophy. There is a negative association between board independence and EM.

3. Methodology

This study aimed to investigate the effect of demographic factors for NC on EM in companies listed on the Amman Stock Exchange. The independent variables were gender, age, level of education, and experience, while the dependent variable was EM, which was measured using a seven-item scale referenced from (Greenfield et al., 2008). The study utilized a questionnaire that consisted of items measured on a 5-point Likert scale, ranging from “1 (strongly disagree)” to “5 (strongly agree)”, the Likert scale was corrected and adopted to measure for five Likert scale means as follows: less than 2.33 (low), 2.34-3.66 (medium), and 3.67 - 5.00 (high).

To answer the research questions, the study utilized various statistical processes through SPSS 28. Firstly, frequencies and percentages were used to describe the personal and functional characteristics of the study sample. This provided a comprehensive understanding of the demographics of the participants. Secondly, means and standard deviations were calculated for the responses of the study sample on all the items of the study tool. This enabled the researchers to determine the overall attitude of the participants towards the variables under investigation.

Thirdly, a four-way ANOVA was conducted to determine the effect of gender, age, level of education, and experience on EM. The study sample consisted of individuals from listed companies, and a simple random sampling method was used to select the participants. The sample size was 385 individuals.

3.1 Describing the characteristics of the study sample

The participants were (385), and a simple random sample method was used to select the sample. Table 1 shows the distribution of the sample depending on the personal information.

Table 1
Distribution of the sample according to the personal information

| Variable | | N | % |
|---------------------|--------------|-----|--------|
| Gender | Male | 185 | 48.1% |
| | Female | 200 | 51.90% |
| Age | 18-34 | 216 | 56.1% |
| | 35 - 49 | 105 | 27.3% |
| | 50-64 | 57 | 14.8% |
| | 65 and over | 7 | 1.8% |
| Level of Education | Diploma | 160 | 41.6% |
| | Bachelors | 135 | 35.1% |
| | Master's | 52 | 13.5% |
| | Ph.D. | 38 | 9.9% |
| Years of Experience | less than 5 | 40 | 10.4% |
| | 5-10 | 55 | 14.3% |
| | 10-15 | 231 | 60.0% |
| | more than 15 | 59 | 15.3% |

Table 1 shows that out of 385 participants, 185 were male, representing 48.1% of the sample, and 200 were female, representing 51.9% of the sample. In terms of age, most of the sample (56.1%) was between 18-34 years old, while 27.3% were aged 35-49, 14.8% were aged 50-64, and only 1.8% were aged 65 and over. Regarding the level of education, 41.6% of the participants had a diploma, 35.1% had a bachelor's degree, 13.5% had a master's degree, and 9.9% had a Ph.D. Finally, with respect to years of experience, most of the sample (60%) had 10-15 years of experience, while 15.3% had more than 15 years of experience, 14.3% had 5-10 years of experience, and only 10.4% had less than 5 years of experience.

3.2 Validity and Reliability Analysis

The degree of validity of a test is determined by its characteristics and the criteria employed in the study. A test with high validity implies that its conclusions are pertinent and significant to the study. Validity also involves ensuring that any biases, coincidences, or confusions are accounted for in the study design, data collection, and sample. Therefore, it establishes the reliability of the results, and the probability value is typically set at a 95% confidence level. The questionnaire's validity, including its content, was confirmed through peer review by the research supervisors' members, who granted their approval. The questions were scrutinized to ensure their consistency with the content, and a sample of the questionnaire was used to test the definitions and eliminate any ambiguities for the research subjects.

Table 2
The internal consistency between the items of the questionnaire

| Item No | Pearson Correlation | Item No | Pearson Correlation |
|---------|---------------------|---------|---------------------|
| EM1 | .672** | EM5 | .620** |
| EM2 | .699** | EM6 | .609** |
| EM3 | .576** | EM7 | .568** |
| EM4 | .659** | | |

**Correlation is significant at the 0.01 level

All the paragraphs of the questionnaire came at the level of statistical significance (0.01), The values of the correlation coefficient ranged between 0.568 and 0.699, which are acceptable for the purposes of scientific research. The dependability of the EM test in Amman Stock Exchange companies was established by computing the stability coefficient using the Cronbach-Alpha equation and analyzing the scale's stability parameters using the internal consistency approach. Cronbach's alpha was 0.747, suggesting strong internal consistency across the items. These results are satisfactory and reflect the reliability and stability of the study scale (Sekaran, 1984). Cronbach alpha greater than 0.60 indicates the quality of this measure.

4. The Results

This section covers the study's findings, which attempt to identify disparities in EM in listed companies based on (Gender, Age, Level of Education, and Experience). This chapter also offers descriptive data regarding questionnaire responses from participants.

4.1 The first question: what is the level of EM in the listed companies?

To answer this question, means and standard deviation for each item of "EM", and total means of them were calculated; Table 3 below shows that.

Table 3
Descriptive Statistics

| Rank | No | Mean | Std. Deviation | Agreement Degree |
|-----------|-----|--------------|----------------|------------------|
| 1 | EM6 | 3.709 | 0.989 | High |
| 2 | EM3 | 3.696 | 1.062 | High |
| 3 | EM5 | 3.673 | 1.022 | High |
| 4 | EM7 | 3.6 | 1.016 | Medium |
| 5 | EM4 | 3.579 | 1.129 | Medium |
| 6 | EM1 | 3.296 | 1.102 | Medium |
| 7 | EM2 | 3.187 | 1.114 | Medium |
| EM | | 3.534 | 0.67 | Medium |

Table 3 shows that item EM6 had the highest mean of 3.709, followed closely by EM3 with a mean of 3.696, and EM5 with a mean of 3.673. These three items received a high level of agreement from the respondents. Item EM7 had a mean of 3.600, indicating a medium level of agreement, while items EM4, EM1, and EM2 had means ranging from 3.579 to 3.187, indicating medium levels of agreement as well. The total means for all items in the domain was 3.534, with a standard deviation of 0.670, indicating a medium level of agreement.

4.2 The second question: Are there statistically significant differences at the level of statistical significance ($\alpha = 0.05$) in EM in the listed companies, Age, Level of education, experience) demographic variables? due to Gender

To answer this question, means and standard deviation for study domains and total of them were extracted due to demographic variables. Four Way ANOVA has been applied to explore significant differences between demographic variables and the total EM, tables below show that.

Table 4
Means and standard deviation for EM due to demographic variables

| Variable | | Mean | Std. Deviation |
|---------------------|--------------|-------|----------------|
| Gender | Male | 3.731 | 0.544 |
| | Female | 3.352 | 0.723 |
| | Total | 3.534 | 0.670 |
| Age | 18-34 | 3.515 | 0.687 |
| | 35 - 49 | 3.562 | 0.658 |
| | 50-64 | 3.609 | 0.615 |
| | 65 and over | 3.122 | 0.702 |
| | Total | 3.534 | 0.670 |
| Level of education | Diploma | 3.400 | 0.691 |
| | Bachelors | 3.577 | 0.650 |
| | Master's | 3.701 | 0.660 |
| | Ph.D | 3.722 | 0.560 |
| | Total | 3.534 | 0.670 |
| Years of experience | less than 5 | 3.471 | 0.764 |
| | 5-10 | 3.730 | 0.653 |
| | 10-15 | 3.510 | 0.629 |
| | more than 15 | 3.492 | 0.752 |
| | Total | 3.534 | 0.670 |

Table 4 shows apparent differences between the means and the standard deviations of domains of EM in the listed companies due to demographic variables (Gender, Age, Level of education, experience), To illustrate the significance of these differences, (Four Way ANOVA) was applied, and Table 6 shows that.

Table 5

The results of Four Way ANOVA

| Variable | Sum of square | Df | Mean Square | "F" value | Sig |
|--------------------|---------------|-----|-------------|-----------|--------|
| Gender | 13.369 | 1 | 13.369 | 33.906 | 0.000* |
| Age | 1.558 | 3 | 0.519 | 1.317 | 0.268 |
| Level of education | 8.414 | 3 | 2.805 | 7.113 | 0.000* |
| Experience | 2.931 | 3 | 0.977 | 2.478 | 0.061 |
| Error | 147.464 | 374 | 0.394 | | |
| Corrected Total | 172.245 | 384 | | | |

* Statistically significant at the level of significance ($\alpha=0.05$)

Table 5 shows there are no statistically significant differences at the level of significance ($\alpha=0.05$) in the total study of EM in the listed companies due to the variables including Age and experience. There are also statistically significant differences at the level of significance ($\alpha=0.05$) in the study due to the Gender variable, in favor of males and due to the Level of education. To explore the places of significant difference between the descriptive of the study due to Level of education variable, a post hoc test (scheffe) was applied, and Table 6 below shows the results.

Table 6

The results of (scheffe) test due to Level of education variable

| Level of education | Mean | Diploma | Bachelors | Master's | Ph.D. |
|--------------------|-------|---------|-----------|----------|---------|
| Diploma | 3.400 | - | -0.1767 | -.3005* | -.3218* |
| Bachelors | 3.577 | | - | -0.1238 | -0.1451 |
| Master's | 3.701 | | | - | 0.0213 |
| Ph.D | 3.722 | | | | - |

* Differences are statistically significant at the level of significance ($\alpha=0.05$)

Table 6 shows significant differences between Diploma and Master's degree of science, in favor of the Master's degree of science by mean of 3.701, but the Diploma category mean was 3.400 and significant differences between Diploma and Ph.D. was in favor of the Ph.D. category by mean of 3.722 while the Diploma category mean was 3.400.

5. Discussion and conclusions

Because real EM affects a firm's core performance, it is a more significant issue than accruals-based EM. Multiple directorships' net effect on actual EM and accrual-based EM is therefore an empirical problem (Baatour et al., 2017). As a result, one might claim that an appropriate and well-constituted nomination governance committee can nominate and pick the finest candidates for the board of directors, not only reducing agency expenses but also aiding in EM (Efenyumi et al., 2022). Pointed to Nyatichi et al. (2020), company profitability and firm size attenuate the association between CG and EM, although leverage has no meaningful influence. The findings Ghaleb et al. (2022) reveal that the salary of non-executive directors is adversely and strongly related to real EM. Furthermore, EM may have an influence on investors by providing incorrect information. As a result, EM may disguise true performance and limit shareholders' capacity to make informed decisions (Epps & Ismail, 2009). Efenyumi et al. (2022) research revealed that the Impact of Nomination and Governance Committee Attributes on EM measures of nomination and governance committee diligence had a positive and substantial influence on EM. Where financial reports are seen as important resources for evaluating an entity's performance, with earnings being one of the most powerful aspects presented in these financial statements that attract investors. According to Al-Absy (2022b) results, there is a considerable positive relationship between board chairman independence and actual EM. Likewise, the findings of Kouaib and Almulhim (2019), the establishment of a nominating committee is believed to improve financial statement quality by ensuring that each nominated director has the necessary skills and expertise. The frequency of board meetings is a crucial method to ensure the efficacy of panel performance to their obligations, which include reviewing manager conduct, however, the nominating committee is negatively connected with EM (Abbadi et al., 2016). According to Liu et al. (2013), the audit committee's independence, meeting frequency, and the presence of the nominating committee are all negatively associated with profits management. According to He and Yang (2014), the share of CEO directors on an audit committee is favorably related to EM in unregulated businesses but much weaker in regulated industries.

Therefore, the study aimed to investigate the effect of demographic factors for NC on EM in companies listed on the Amman Stock Exchange. The independent variables were gender, age, level of education, and experience, while the dependent variable was EM. The study utilized various statistical processes through SPSS 28. Means and standard deviations were calculated for the responses of the study sample on all the items of the study tool. This enabled the researchers to determine the overall attitude of the participants towards the variables under investigation. The study sample consisted of individuals from the listed companies, and a simple random sampling method was used to select the participants. The sample size was 385 individuals. The results have indicated there are no statistically significant differences at the level of significance ($\alpha=0.05$) in the total study EM in the listed companies due to the Age and experience variables. Moreover, there were statistically significant differences at the level of significance ($\alpha=0.05$) in the total study EM in the listed companies due to the Gender variable, in

favor of males and due to the Level of education. Finally, the study has found significant differences between the Diploma and Master's, in favor of the Master's category by a mean of 3.701, but the Diploma category mean was 3.400 and significant differences between Diploma and Ph.D. was in favor of the Ph.D category by mean of 3.722, but the Diploma category mean was 3.400.

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