

**ANTECEDENTS AND OUTCOME OF EARNINGS
MANAGEMENT IN IRAQI LISTED FIRMS:
CORPORATE SOCIAL RESPONSIBILITY AS
MODERATOR**

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by

MOHAMMED GHANIM AHMED

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IN THE NAME OF ALLAH, THE MERCIFUL, THE COMPASSIONATE

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LIST OF ABBREVIATIONS

AC	Audit committee
AQI	Asset Quality Index
BOI	Board independence
BOMF	Board Meeting Frequency
BOTD	Board Tenure
BSIZE	Board size
CG	Corporate Governance
CSR	Corporate Social Responsibility
DEPI	Depreciation Index
DSRI	Days Sales in Receivables Index
EM	Earnings Management
FEM	The fixed effect model
FoB	Females on the board
FP	Firm Performance
GMI	Gross Margin Index
IAF	Internal Audit Function
LVGI	Leverage
OLS	Ordinary Least Square
REM	Random-effect model
ROA	Return on Asset
SGI	Sales Growth Index
ToS	Type of Sector

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- Appendix A Development Of CSR Index
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**ANTESEDEN DAN KESAN PENGURUSAN PENDAPATAN DALAM FIRMA
TERSENARAI DI IRAQ: TANGGUNGJAWAB SOSIAL KORPORAT
SEBAGAI PENYEDERHANA**

ABSTRAK

Laporan kewangan yang mengeksploitasi organisasi Iraq menjejaskan keputusan pelaburan pemegang saham dan melanggar kepercayaan pelabur asing berikutan manipulasi pendapatan, pengurus yang tidak kompeten dan pengurusan organisasi yang tidak telus. Penyelidikan ini menyiasat (i) mekanisme tadbir urus korporat (kebebasan lembaga pengarah, tempoh jawatan lembaga pengarah, jawatankuasa audit, fungsi audit dalaman, kekerapan mesyuarat lembaga pengarah, dan ahli lembaga pengarah wanita) kesan ke atas pengurusan pendapatan dan prestasi organisasi dalam firma tersenarai di Iraq di bawah teori agensi dan (ii) kesan tanggungjawab sosial korporat (CSR) yang berperanan sebagai moderator di bawah teori pemegang kepentingan dalam kalangan 65 firma antara tahun kewangan 2013 dan 2018. Data sekunder dikumpul daripada laporan tahunan organisasi untuk mengenal pasti manipulasi pendapatan melalui model Beneish M-skor. Sementara itu, separuh daripada model OLS dan kesan tetap dan rawak digunakan sebagai penganggar model statik panel untuk penilaian data. Hipotesis yang menyokong objektif penyelidikan dua dan tiga menunjukkan bahawa pengurusan pendapatan secara signifikan dan negatif memberi kesan kepada prestasi kewangan firma Iraq. CSR juga mengurangkan dengan ketara kesan buruk pengurusan pendapatan ke atas prestasi kewangan syarikat Iraq. Walau bagaimanapun, objektif penyelidikan satu berdasarkan hipotesis satu hingga enam (H1-H6) menggambarkan hasil yang tidak konklusif. Kebebasan lembaga (H1), jawatankuasa audit (H3), dan fungsi audit dalaman (H4) secara tidak ketara mewajarkan variasi pengurusan pendapatan dalam

organisasi Iraq, manakala, pegangan lembaga (H2), kekerapan mesyuarat lembaga (H5), dan ahli lembaga wanita (H6) memastikan pengurusan pendapatan syarikat Iraq. Terutamanya, peningkatan ahli lembaga wanita mengurangkan amalan sedemikian. Model Beneish M-Score telah dilaksanakan untuk anggaran amalan pengurusan pendapatan sementara CSR mengurangkan implikasi pengurusan pendapatan yang buruk terhadap prestasi kewangan di bawah teori pihak berkepentingan. Kesepaduan teori agensi-pihak berkepentingan meningkatkan perkaitan ramalan prestasi kewangan kepada pihak berkepentingan syarikat dan mengembangkan literatur tadbir urus korporat semasa melalui konteks perindustrian Iraq yang baharu. Secara praktikal, penggubal dasar boleh menggunakan hasil empirikal untuk mengiktiraf kepentingan mekanisme tadbir urus korporat dan mengurangkan amalan eksploitatif dalam firma Iraq melalui pendedahan CSR yang optimum.

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ABSTRACT

Financial-report exploiting Iraqi organizations compromise shareholders' investment decisions and violates foreign investors' trust following earnings manipulation, incompetent managers, and low organizational transparency. This research investigated (i) the corporate governance mechanism (board independence, board tenure, audit committee, internal audit function, board meeting frequency, and female board member) impacts on earnings management and organizational performance in Iraqi listed firms under the agency theory and (ii) the effect of corporate social responsibility (CSR) as a moderating role under the stakeholder theory among 65 firms ranging between the financial years of 2013 and 2018. Secondary data were gathered from the annual organisational reports to identify earnings manipulation through the Beneish M-score model. Meanwhile, pooled OLS and fixed- and random-effect models were applied as panel static model estimators for data evaluation. The supported hypotheses underpinning research objectives two and three implied that earnings management significantly and negatively impacted Iraqi firms' financial performance. CSR also substantially mitigated the adverse impacts of earnings management on Iraqi companies' financial performance. Notwithstanding, research objective one based on hypotheses one to six (H1-H6) reflected inconclusive outcomes. Board independence (H1), audit committee (H3), and internal audit function (H4) insignificantly justified earnings management variances in Iraqi organisations, whereas board tenure (H2), board meeting frequency (H5), and female board member

(H6) significantly ascertained Iraqi company earnings management. Notably, increasing number of female board members alleviated such practices. The Beneish M-Score model was implemented for earnings management practice estimation, while CSR mitigated adverse earnings management implications on financial performance under the stakeholder theory. The agency-stakeholder theory integration improved the financial performance predictive relevance to company stakeholders and expanded current corporate governance literature through novel Iraqi industrial contexts. Practically, policymakers could utilize empirical outcomes to acknowledge the essentiality of corporate governance mechanisms and mitigate exploitative practices in Iraqi firms through optimal CSR disclosure.

CHAPTER 1

INTRODUCTION

1.1 Introduction

As antecedents, this research will look at the influence of corporate governance on earnings management (EM) in Iraq. Corporate governance is a growing field of study that examines the different governance systems used to supervise a company with the goal of increasing shareholder (owner) wealth. An examination of the literature demonstrates the significance of this issue and exposes issues of conflict of interest between shareholders and management. Management has incentives to pursue their own goals at the cost of shareholders when there are asymmetric information issues and defective contractual relationships between managers and shareholders. Managers, for example, may pursue financial and investment strategies or spend more on luxury projects for personal gain rather than boosting the company's performance. Another primary goal of outcome is to investigate the link between EM and business performance, using CSR as a moderating role. This conflict might lead to transfer pricing, in which assets of the company management are transferred to another company that controls at a lower price than the market value.

1.2 Background of Study

In years past, earnings management has increasingly gained the attention of scholars of accounting and academic researchers, as it has become a significant issue in accounting literature (Jiang, 2020). In accordance, researchers have been motivated to study earnings management because of many financial scandals (e.g., WorldCom, Enron in the United States, and Summit Technology, Procomp, Infodisc Technology,

Pacific Electric Wire & Cable, and Summit Technology in Taiwan) which occurred in the early 21st century (Al-Absy et al., 2019; Lasyoud & Yusoff, 2018; Rahman, Flayyih, et al., 2021; Talab et al., 2017). Therefore, earnings management is becoming a significant concern for company stakeholders (Khuong et al., 2019). Harmful effects have guided a considerable number of researchers to study earnings management and use opportunistic behaviour as a framework for their research and analysis. (Idris et al., 2018). Some managers have considerable freedom to manipulate reports, especially regarding accruals (Kumari & Pattanayak, 2015). Accordingly, managers practice different types and methods of legal and illegal tactics to achieve personal gain (Khuong et al., 2019). Hence, there exists chances and opportunities for them to choose accounting methods, which could later mislead shareholders and stockholders, regarding the actual position of a firm (Ezeagba & Innocent, 2018).

However, opportunistic behavior is consistent with the definition of earnings management, as articulated by past studies (Idris et al., 2018). Although some definitions of earnings management may refer to fraudulent activity, earnings management varies from fraud because managers may engage in earnings management within the boundaries of the flexibility afforded to them by generally accepted accounting principles (GAAP) without breaking these standards, which is still considered legal practice (El Diri et al., 2020). Therefore, earnings management is placed under the umbrella of what has become known as creative accounting. Monteiro et al. (2022) indicated that artistic accounting practices are all ways to apply accounting principles, fraudulent financial reporting or earnings management. In this regard, Obigbemi et al. (2016) stated that earnings management takes a creative accounting form during recording anticipated sales in the books as turnover for the current year, reducing research cost and development.

Nevertheless, prior studies have clarified how managers select specific accounting procedures and their effect on firm performance (Tang & Chang, 2015). Ezeagba and Innocent, (2018) stated that choice of accounting practice involves the deliberate non-disclosure of information and accounting numbers manipulation. In this regard, Sudarman and Hidayat,(2020) indicated that earnings management is used to change financial reports to mislead stakeholders about the firm's economic performance. Today the issue surrounding accounting research in the business world is the extent of manipulation by managers in reported earnings, for their own interests (Wael, 2017). This is due to earnings management practices which lead to the sapping of credibility in financial reporting (Obigbemi et al., 2016). Hence, earnings manipulation practices that deceive shareholders in their economic decisions (Harakeh et al., 2019). Accordingly, opportunistic behavior and manipulation which happen on financial statements play essential roles in some of the accounting scandals that occurred in the international companies (Gopinath et al., 2015).

Thus, this study focuses on earnings management practice in Iraqi companies because the Iraqi companies widely use and practice earnings management. According to previous reviews of Iraqi listed companies, most Iraqi companies suffer from opportunistic earnings management practices (Aljawaheri et al., 2021; Mohammed, 2017; Rahman, Mohammed, et al., 2021; Talab et al., 2017). Thus, it affected the firm's performance and also the trust of stakeholders and investors, in the financial statements that the managers provide. It is necessary to assure stakeholders and investors and to function and develop with a successful method because wrong financial information makes it difficult for the users of financial statements to make the right decisions (Di Meo et al., 2017).

Besides, corporate governance mechanisms are considered as beneficial characteristics to limit earnings management (El Dirir et al., 2020). Thence, legislation of corporate governance was introduced in the United States of America (USA), Europe and most of the Asian countries (Al-Rahahleh, 2017), to ascertain and ensure the quality, transparency and reliability of financial reports (Iriyadi, 2019). Mohamad et al., (2020) indicated that the main corporate governance objective is to protect shareholders' interests by monitoring the management. Besides, Alaraji, (2017) concluded that compliance with corporate governance standards leads to the issuance of reports and lists with credibility and transparency (Al-Shaer & Zaman, 2018), Due to the influence of corporate governance on preparing reports (which reflects on the credibility of the financial statements). Accordingly, developing and implementing corporate governance mechanisms restrict opportunistic managerial behaviors and improve the credibility of financial statements (Huynh, 2020).

Moreover, corporate governance is considered a system structured around the combination of several board members who manage and provide appropriate corporate governance to the firm's profitability and propriety (PeiZhi & Ramzan, 2020). Besides, corporate governance is crucial to the company's operations sustainability and in maintaining investors' trust (Sailendra & Mayangsari, 2020). Therefore, corporate governance must be reinforced by expanding the analysis framework beyond the traditional standards to combine values and norms (Omware et al., 2020). Although there are the inserted laws, regulations and public monitoring bodies, the risk of earnings management practices continues to exist. This is due to the fact that laws, regulations and general monitoring bodies do not entirely meet the expectations of changing market positions (Abdullahi & Ibrahim, 2017).

In Iraq, corporate governance issues still generate intense interest, especially after the last Iraqi war with ISIS (Bazrafshan et al., 2021). Also, Iraqi companies are suffering from a lack of a framework of corporate governance (OECD, 2019), which is based on a set of principles and standards to define the relationship between the boards of listed companies in Iraq and shareholders, and in a form that improves the performance of companies and enhances the efficiency of the Iraqi companies, together with the entire Iraqi economy (Hussein, 2018).

The OECD, (2019) report indicates that corporate governance in Iraq is still under evaluation and still not yet applied. Which mean there is no corporate governance code' applied in the Iraqi companies. Besides, empirical studies on corporate governance are very few and far between, in Iraq (Rahman, Flayyih, et al., 2021; Talab & Abdul Malak, 2017). However, the Iraqi Company Law applies to all investors and private and mixed companies (OECD, 2018, 2019). In this regard, Nietsch (2005) stated, that there is a symbiotic link between company law and governance regulations, therefore, both must be considered for the board of directors to perform correctly in the corporations appointed. Where company law provides some loopholes, governance standards step in to fill up these gaps (Pistor, 2019). In addition, one of the primary purposes of corporate law is to provide a method for enforcing the rights granted to various constituencies inside the organization. Besides, the provisions of the Iraqi Company Law will apply to financial and non-financial companies, unless is not in conflict with the Banking Law (Idan et al., 2021). Therefore, this study referred to the financial and non-financial companies listed on the Iraqi Stock Exchange (ISX), and follows the laws, regulations, and instructions that govern the ISX and Iraqi listed companies' activities.

However, despite there being a significant number of studies examining the effect of corporate governance on different company outcomes, corporate governance is considered as one of the new requirements to improving the country's economy with the positive application of its disclosure principles and transparency in the Iraqi listed companies on the financial markets (Lasyoud & Yusoff, 2018). Besides, there are also multiple impacts of the corporate governance principles and regulating role of the relationship among all stakeholders and users of the financial statements (Sabbar et al., 2018). Hence, most developing countries take measures ensuring that companies do not fail, by enacting corporate laws to comply with corporate governance principles (Sarpong-Danquah et al., 2018).

On the other hand, previous studies show that earnings management is related to firm performance (Espahbodi et al., 2018). Likewise, prior studies have clarified how managers select special accounting procedures and how these procedures influence firm performance (Tang & Chang, 2015). As a result, the link between earnings management and firm performance varies depending on the quality of a company's management (Dakhlallh et al., 2020). Pernamasari et al. (2020) mentioned that if managers transfer useful and superior knowledge about the firm's performance to shareholders, then, in this case, earnings management may not be harmful to the public and shareholders. On the other hand, many managers are inclined to magnify the firm's performance in the competitive environment for Investors (Tang & Chang, 2015), which leads to creating inspiration for managers to create a perfect performance image by using earnings management to attract investors (Dakhlallh et al., 2020). In this case, earnings management may be harmful to the public and shareholders.

Corporate governance is obliged to unmask aspects of earnings management that are permitted. Hence, the intention is to assess the use of CSR in Iraq and its effects on earnings management and firm performance. In this regard, Lu et al. (2021) observed that adopting the genuine meaning of CSR practices may overcome problems between agents and owners. Detecting reliable and timely financial reports is also considered an essential part of CSR because CSR improves financial reporting quality by decreasing creative accounting practices (Abed et al., 2022). It is regarded as a basis of confidence regarding the firm's claims, operations and future safety in its relationships with stakeholders (Sudarman & Hidayat, 2020). This study used CSR as an imperative tool to control and monitor earnings management practices.

Moreover, studies showed that CSR significantly correlates with earnings management (Huynh, 2020). Ghaleb et al. (2021) indicated that the long-term viewpoint induces CSR participation for a business's sustainable operations and that in the beginning, firms with CSR status tend not to manipulate earnings; this means that the company has an excellent performance. Besides, CSR refers to an organisation's attention to the fulfilment of the responsibilities of different stakeholders in several contexts (Hong & Kim, 2017). Therefore, concepts of CSR activities become essential to all businesses at both global and national levels (Khan et al., 2019). This is because investment in CSR activities could increase company credibility and help cultivate customer relationships (Swaen et al., 2021).

Hence, this study considers local firms' CSR engagements as a moderator in the relationship between earnings management and firm performance. Although previous studies have asserted CSR's effect as a moderating factor (Hong & Kim, 2017; Lu et al., 2021; Nikbin et al., 2016), there are no studies which have examined its moderating effect on the relationship between earnings management and firm

performance. Therefore, this study provides several thoughts by examining the impact of the moderating factor for social Items, product responsibility, sustainability, stakeholders, and environmental items components of CSR, on the relationship of earnings management and firm performance, which represents the critical contribution of the study to existing literature. Furthermore, this study depends on the empirical research and existing studies to provide a comprehensive and holistic theoretical model that associates the antecedents, outcomes and moderating role. In contrast, many previous empirical and theoretical studies have examined different aspects of the study framework.

Simultaneously, to reduce opportunistic practices in Iraqi listed companies, the concept of corporate governance must be applied because it will help in dealing with and reporting of financial and accounting corruption, especially related to financial reporting. Moreover, corporate governance concepts will lead Iraqi companies to better understand the definition of stakeholders' and investors' rights, and the separation between the board of directors' responsibility and executives. This thesis investigates the opportunistic type of earnings management in Iraqi companies, and how corporate governance limits this type of earnings management practice; it also examines CSR's moderating role in affecting earnings management and firm performance.

1.3 Background of Iraq

Iraq has had a tough time preserving stability in the nation, particularly following the first and second Gulf wars, as well as during the government 's transition in 2003. In addition to these conflicts, Iraq was also subjected to harsh economic sanctions for more than a decade as a consequence of its invasion of Kuwait in 1991.

Iraq's economy never recovered due to these conflicts and economic sanctions, and it has not been able to establish a functional stock market.

As well ISIS (Iraq and Syria) controlled one-third of the area of Iraq in 2015. ISIS considers terrorism and terrorist organizations to continue to be a global issue for companies. Today, just 37 of the 162 nations studied by the Institute for Economics and Peace are free of terrorism (Institute for Economics and Peace, 2016). ISIS achieved worldwide recognition among terrorist organizations after it conquered and drove out Iraqi soldiers from major cities like Mosul in 2015. Nonetheless, ISIS began in 1999 as Jama'at al-Tawhid wal-Jihad. After the US-led invasion of Iraq in 2003, it declared allegiance to Al-Qaeda and participated in coordinated operations with Al-Qaeda (Zelin, 2014). ISIS aimed to destabilize and replace the Iraqi and Syrian governments. The caliphate's actual extension and the establishment of a worldwide radicalization operation that can be self-sustaining over generations are ambitions of ISIS after capturing huge swathes of territory in Iraq and Syria (McFate, 2015). A long-term caliphate for the regional power centers, the Muslim world, and the non-Muslim world was included into the group's plan (Githing'u et al., 2020).

However, regarding elements in the economy and politics of Iraq, a new era started after the liberation process. Despite the fact that the nation faces several obstacles, which include problems in state administration, combating terrorism, reducing corruption and public sector mismanagement; nonetheless, the nation has certain favourable characteristics which may help strengthen several of its essential institutions. Together with that, the Iraq Stock Exchange Market began to reopen, one step at a time, by encouraging firms to re-list and resume trading. These initiatives aided in the growth of the number of companies listed on the Iraq Stock Exchange, volume of shares traded, and also in market value of the stock exchange market.

Despite efforts bearing fruit in the stock exchange market, there are still numerous hurdles and impediments to be detected and overcome, in order to achieve a true and progressive functioning level.

Given the aforesaid trends, there is a need for more openness and precise information regarding publicly traded corporations. Buyers' decisions and investments on the Iraq Stock Exchange are influenced by business information, according to research. It is vital to understand the elements that influence investment in the Iraq Stock Exchange, as assist both investors and regulators in analysing economic conditions. Likewise, it is worth noting that the instructions that are in the ISX to the date of preparation of this study, are a set of regulatory instructions for trading securities in the market and had been prepared in accordance with provisions of Section 3, Article 2 of the Temporary Law for Securities Markets, Number 74 for year 2004.

However, it is not sufficient for the purpose of continuing market activities and gaining the confidence of shareholders and investors, as well as have a full ability to attract domestic and foreign investors under accelerated environmental developments. Furthermore, it would be more useful for the general commission of ISX and supervisory authority to gain more knowledge from the rules of procedure of the capital markets and instructions which are issued by global financial markets. This pertains especially those instructions that are related to disclosure and which should be provided to shareholders, potential investors and other dealers in the market; to assist in making sound economic decisions, either regarding information which is relevant to the performance of companies or related to the trading of their shares in the market.

Apart from what has been mentioned above, the legal and regulatory framework contributes to establishing some areas of CG such as shareholders' rights, determining responsibilities of board members, as well as emphasising the importance of the powers of separation that are given to the chairman of the board and executive director. However, this contribution does not derive from the concept of CG itself, but from the legal and regulatory framework which include some terms, recommendations or commitment to organising the work of Iraqi companies. Moreover, from the researcher's perspective, it requires activating much legislation that is related to the CG and practice by corporates. Likewise, these legislations include:

- Protection of minority shareholders.
- Enabling shareholders to obtain compensation for violation of their rights.
- Protection of the stakeholders' rights, particularly employees.
- Providing new requirements for disclosure and transparency.
- Emphasising the independence of members of the BOD and its committees, particularly the Audit Committee.
- Formation of other committees, including Committee of CG that undertakes the duty of designing and developing corporate CG standards and measures the level of commitment of these standards.

In this regard, the formation of the Iraq Stock Exchange is the first step towards expanding Iraq's financial industry and facilitating better use of the country's available funds. In 2013, the Iraq Stock Exchange exchanged the shares of 83 different firms. Industries including banking, telecommunications, insurance, investment and services, as well as tourism, agricultural and industrial sectors are all served by these firms. The

number of publicly traded firms, their listed shares, and the volume of trading by market capitalization, are all shown in the table below.

Table 1.1 Iraqi Market Capitalization

SECTOR	TRADED SHARES	(%)	TRADING VOLUME	(%)	NO.OF TRANS	(%)	CO. LISTED
BANKS	864,664,735,753	94.24	312,946,096,694	73.33	51048	45.89	44
TELECOMMUNICATION	2,493,355,984	0.27	13,782,961,623	3.23	3570	3.21	2
INSURANCE	1,054,110,221	0.11	436,871,305	0.10	979	0.88	5
INVESTMENT	52,240,251	0.01	24,750,512	0.01	23	0.02	9
SERVICES	7,732,085,732	0.84	16,122,219,702	3.78	17949	16.14	11
INDUSTRY	37,133,273,190	4.05	55,294,180,307	12.96	21378	19.22	25
TOURISM AND HOTELS	3,500,393,476	0.38	24,727,326,935	5.79	11047	9.93	10
AGRICULTURAL	912,160,154	0.10	3,453,736,303	0.81	5248	4.72	6

Source ISX

1.4 Problem Statement

The study intends to figure out the implications of earnings management for the listed companies in Iraq. The main idea behind the study is to address the issues of earnings management that have created turmoil in the country due to the manipulation of financial data (Rahman, Mohammed, et al., 2021). This has in turn misled the decision-making of stakeholders of the entire investment hierarchy (Alzoubi, 2019). In addition to this, the arguments have been supported with the help of academic and industrial evidence. Later on, the research problem has been related to corporate governance mechanism, and firm performance while arguing on the moderating role of CSR. Keeping in view these insights, this segment endeavors to shed light on the issues of earnings management considering five major research problems.

First, earnings management has grabbed a lot of attention from accounting academicians and researchers in recent years, as it becomes a big topic in accounting research (Ajina et al., 2019; Daghsni et al., 2016). There exist two schools of thought that use the concept for the corporate sector. The first approach is used by accountants to control financial accounts to build up the look of a corporation's financial reputation

(Iriyadi, 2019). Whereas the other perspective elaborates that this is not the case as the robustness of earnings management strategies on corporate operations of firms leads to relentlessly lower integrity to financial exposure credibility (Mostafa & Ibrahim, 2019; Sudarman & Hidayat, 2020). This situation has created a state of a quandary regarding the true repercussions of earning's management that whether it serves the benefits managers or deteriorates the financial credibility of firms. In this regard, this study delves into exploring the true implications of earnings management and its associated issues in the case of Iraqi-listed companies.

Second, at the industry level in, a frequent number of Iraqi firms had been declared either bankrupt or delisted due to report forgery, information unevenness, and market ineptitudes (Aljawaheri et al., 2021; Rahman, Flayyih, et al., 2021; Rahman, Mohammed, et al., 2021; Talab et al., 2017). On the other side, the existing industrial evidence also affirms that corruption has also deteriorated the performance of Iraqi firms (Al-Dulaimi et al., 2020; Khudhair et al., 2019).

Third, loopholes in corporate governance would also accelerate the possibility of earning's management would lead to manipulation of managers to enhance their earnings (Idan et al., 2021; Rahman, Flayyih, et al., 2021). This implies that given the earning's management and corrupt setups of Iraqi firms, the analysis of the corporate governance mechanism would clarify the condition of enterprises in Iraq (Azeez et al., 2021 ; Mohammed et al., 2018).

Fourth, earnings management also affects the future performance of firms while affecting their different returns structures (Mostafa & Ibrahim, 2019; Talab et al., 2018), such as rates on equities, returns on assets, and price-to-earnings ratios.

Therefore, it is imperative to figure out whether firms involved in earnings management would experience a deteriorating market structure or not.

Fifth, earnings management exhibits long history in the corporate world, and this is the reason that it is still adept in developing nations like Iraq. Though academics, regulatory agencies, and companies are all considering the best methods to end this practice, superior governance is necessary for the inhibition, supervision, regulations, and overseeing inhibiting, supervising, regulating, and overseeing of the company's management and operations and management (Al Azeez et al., 2019). In this regard, CSR is a way forward to exploit managers' fear precisely in developing economies (Liu et al., 2019). Predominantly, CSR operations are taken out to profitable society and the environment, rather than to assist the managers' personal pursuits.

Additionally, Central Bank of Iraq has adopted a standard company law to assist and facilitate cross-border investments (OECD, 2019). Therefore, public-owned financial and non-financial enterprises would be a potential source to figure out the Iraqi business legislation and financial reporting requirements. This would serve this study with two prime objectives. First, it would be easy to predict whether the agency problem persists (Dwekat et al., 2021) in the Iraqi enterprise or not and how the issue can be associated with the earnings management (Rahman, Mohammed, et al., 2021), in both financial and non-financial companies. Second, the Iraqi context in this regard is relatively scant as there is substantial research covering divergent economies and variances on both theoretical and empirical grounds (Al-Zabari & Al-Fatlawi, 2019). Therefore, the inclusion of the Iraqi context in the existing literature would enhance the credibility of existing evidence.

Lastly, the other contradiction appears in terms of legal systems and investor protection laws in Iraq (Idan et al., 2021). This raise concerns on the enforcement approaches of public and private enterprises pertaining to reporting quality and governance code legislation (Majumder et al., 2017). Hence, it is crucial to classify conglomerates as an industry and meanwhile to group them into financial and non-financial enterprises.

However, there are three factors which motivated choosing Iraq as the study location. Firstly, Iraq is one of the few countries that does not apply corporate governance law, with most companies (financial and non-financial) following the Iraqi company Law. Secondly, internationally there is increasing recognition of the importance of corporate governance mechanisms in the success of firms. Most countries have issued recommendations and guidelines for best practices of governance. However, firms following the best practice recommendations regarding corporate governance characteristics will limit the earnings management practice; therefore, it should be empirically examined in the Iraqi context. Thirdly, Iraqi companies face challenges due to the unrest and political problems that negatively affect company performance. Therefore, it is imperative for the government of Iraq to address poor corporate governance by the board of directors, by introducing a corporate governance code which will guide the performances of Iraqi listed companies in ISX (Talab, Seri, & Abdul, 2017). In this regard, IFC has been working to improve corporate governance performance in Iraq since 2014, with the opening of the first institute for independent directors in Erbil in 2017 (International Finance Corporation, 2018).

1.5 Research Objectives

RO1: To examine the effects of corporate governance mechanisms (Board Independence, Audit Committee, Internal Audit Function, Board Tenure, Board Meeting Frequency, and Female on Board) on the earnings management of Iraqi listed companies.

RO2: To examine the relationship between earnings management and firm performance of Iraqi listed companies.

RO3: To examine the moderating effect of CSR between earnings management and firm performance of Iraqi listed companies.

Based on the study's problem discussed earlier, it is crucial to provide clear information to identify the determinants of beneficiary satisfaction through the integrated lens of agency theory and stakeholder theory. As a result, the following questions were investigated.

1.6 Research Questions

RQ1: Do the corporate governance mechanisms (Board Independence, Audit Committee, Internal Audit Function, Board Tenure, Board Meeting Frequency, and Female on Board) affect the earnings management of Iraqi listed companies?

RQ2: What is the relationship between earnings management and firm performance of Iraqi listed companies?

RQ3: Does CSR play a moderating role in the relationship between Iraqi listed companies' earnings management and firm performance?

1.7 Research Gaps

This is due to the fact that there have only been a few studies conducted on corporate governance and the difficulties that have evolved as a consequence in Iraq up to now (Alamry & Abass, 2018; Alaraji, 2017; Talab et al., 2017). As a result, due to a scarcity of theoretical information, particularly in the context of Iraq, this research will make a significant contribution to the current literature by attempting to fill in the gaps in the study of corporate governance procedures pertaining to profits management in the Iraqi context, which is underrepresented in the literature at this time. Specifically, in this context, the issues of corporate governance and profit management have been explored in various contexts within the Iraqi economic system. A second focus of this study is on the use of financial metrics to investigate actual earnings management, particularly in the context of uncovering the underlying causes of earnings management behavior.

A scarcity of study is also evident in the areas of causes and consequences of corporate governance systems, earnings management, and corporate performance, to mention a few themes. With the use of these links, this research hopes to close the gap by explaining the antecedents and result correlations using agency and stakeholder theories, which will help to close the gap. The link between earnings management and business success has only been investigated in a few published empirical research; the objective of this study is to fill that gap by investigating the association between earnings management and firm performance in Iraq. As a result of the lack of research on corporate social responsibility (CSR) in Iraqi companies (Doski, 2014), this study will attempt to fill this research gap by developing a better understanding of CSR in Iraqi companies through an investigation into the impact of CSR's moderating role on the relationship between earnings management and firm performance. A small number

of studies, particularly in the Iraqi context, have investigated the role of corporate social responsibility as a moderating factor between profits management and economic success, with inconsistent findings.

In general, the M-score is regarded as a major tool for identifying profitable profit management tactics that are effective (Talab et al., 2017). The use of this strategy to uncover revenue management approaches is unusual in Iraq, and no research has been conducted on it to this point. It is believed that by using this method, this research will be able to close the gap. Also provided will be a thorough and integrated theoretical model that links the antecedents, consequences and moderating function together in a single framework, which will be discussed further below. By using the model described here, this research will fill a gap in the literature, despite the fact that many earlier empirical and theoretical investigations have looked at various parts of the study framework.

1.8 Significance of the Study

The study's significance emanates from the importance of variables used in this research from the perspective of corporate governance mechanisms (Board Independence, Board Tenure, Audit Committee, Female on Board, Internal Audit Function, and Board Meeting Frequency) and earnings management practices. These variables are referred to as critical instruments for creating controls on opportunistic management behavior and regulating the unpredictable flow of information between the parties involved. At the same time, this study can contribute to providing evidence on the direct relationship between earnings management and firm performance with the moderating role of CSR. The study's theoretical and practical significances are as below:

1.8.1 Theoretical Significance

This study will contribute to the literature by enhancing the understanding of the corporate governance concept by examining the impact of the corporate governance mechanism in Iraq, since this research response to the calls of previous researchers who have acknowledged that the research in this area is insufficient (Temile et al., 2018). In the Iraqi scenario, corporate governance and CSR are considered new practices (Doski, 2014; OECD, 2018). In light of this, the current study will bridge the gap of the debate on the link between CG and EM and increase understanding of corporate governance and CSR concepts in the Middle East and Iraq, particularly as developing countries. Thus, this study's findings may benefit many other developing countries with similar political, cultural, environmental and economic conditions, especially in the Middle East and North Africa. The first theoretical contribution of the current study is presented by increasing the understanding of the agency and stakeholder theories by explaining the study framework using a theoretical method.

Agency theory suggests that monitoring mechanisms are supposed to match shareholders' and managers' interests and relieve stresses of opportunistic behaviours and conflicts of interest. Therefore, from the perspective of the agency theory, this study will contribute to suppose corporate governance mechanisms as monitoring tools to reduce managers' incentive in practicing earnings management in the Iraqi environment. In addition, Stakeholder theory suggests that CSR aims to resolve the conflicts of interest between stakeholders and reduce practices which lead to trust loss and poor performance. Therefore, from the stakeholder theory perspective, this study will contribute to suppose that CSR is a moderating factor between earnings management and firm performance. Hence, the CSR perspective shows that the desire

to protect and maintain strong performance leads management to avoid socially irresponsible activities and reduce earnings management practices.

The second theoretical contribution of the current study is presented by increasing the understanding of the second theoretical contribution of the current research, presented by the growth in understanding the relationship between earnings management and firm performance by appointing CSR as a moderating factor. Thus, this study contributes by examining the effects of earnings management on Iraqi companies' performance by moderating CSR's role, which is lacking in literature. According to prior studies that used CSR as a moderator, CSR positively impacted the studies 'relationship (Hong & Kim, 2017; Li et al., 2015; Tuan, 2016).

As for the third reason, this study covers six years of a cross-sectional analysis range of Iraqi companies with Beneish M-score Model of earnings management measurement. Therefore, it offers a more comprehensive analysis and will add knowledge and contribute to a better understanding by the users of financial statements produced by Iraqi companies. Finally, this study's findings will also provide a map and guide to the prevailing situation of corporate governance in Iraq, which is interesting to local and international investors, managers and academic researchers, considering the role of the impact of corporate governance framework on earnings management.

1.8.2 Practical Significance

This This study helps corporate governance practitioners limit earnings management practice so that stakeholders and investors will be more satisfied, particularly in the Iraqi environment. Therefore, this study provides a basis for determining whether the existing best practices and listing requirements do enhance good governance in the Iraqi economic climate. It is hoped that the results will provide

further direction to the Iraqi Securities Commission, Bursa Iraqi and Iraqi Institute of Corporate Governance regarding the mechanisms of corporate governance.

In Iraqi companies. The study also helps stakeholders, beneficiaries and authorities devise policies that contribute to retaining transparency and credibility in financial reports. Meanwhile, studying this issue helps lower the agency cost rates, which could save firms millions of dollars in investment, not to mention also preserving the integrity and image of the reports in the Iraqi firms. It also helps develop firms in terms of performance to improve overall firm performance through CSR's moderating role.

Moreover, the study supports the management in forming a clearer picture of the most significant earnings management practices for Iraqi firms, and the Middle East in general. This study could also provide insights into the Iraqi Accounting Standard Board for future accounting standards in Iraq. However, the Iraqi financial sector regulations have been struggling with the insertion of Corporate Governance laws (OECD, 2019). Therefore, such an investigation will strengthen the economic environment and impact firm performance, while also contributing to bridging some gaps in the issues of corporate governance laws to limit earnings management practices in Iraqi companies.

This study has implications on international investors and regulators. The opportunistic practice of earnings management misleads and erodes the trust of investors. Hence, there is a need for effective mechanisms set-up to limit the manipulation of earnings. This study will contribute to suggestions that regulators could indicate empirical evidence in presenting more beneficial recommendations to

Iraqi listed companies. Moreover, future studies could build on this study's findings and discover more governance mechanisms that apply to Iraqi listed companies.

1.9 Scope of Study

The scope of this proposed study is that the Iraqi publicly traded organizations were to be subjected to a study of earnings management in financial and non-financial firms with the purpose of identifying financial and non-financial enterprises. When the ISX Board established it in 2004 to meet the growing need for financial reporting in Iraq, it was widely regarded as a model for other nations. Iraqi Sentral Bank accepted the universal standard of the company's legislation as part of its efforts to assist and ease cross-border investments and reporting comparison. This was part of the bank's efforts to assist and ease cross-border investments and reporting comparability. According to the researcher's goal of the study, it is aimed to choose study cases from among the population of Iraqi financial and non-financial enterprises, with a specific emphasis on chosen organizations, for inclusion in the proposed study, which would be based on his or her previous research.

There are a variety of reasons why Iraq was chosen as the research location for this study, including the fact that the nation has a long history of violence. In order to establish the presence of the agency problem, the research challenge must be met, which makes Iraq a relevant environment in which the agency problem is still present as a starting point. Second, the great majority of prior research were carried out in other countries, and at this time, there is no evidence accessible on these practices in Iraqi culture as a result of this. Although many features of nations are shared in other areas, there are considerable disparities in corporate governance laws and listing requirements, institutional ownership concentration in a firm, and the balance between

insiders and outsiders on board structures. Because of these differences, it is likely that the results of empirical studies undertaken in these nations will be inapplicable to the realities of Iraqi society.

In contrast to the auditor and other company laws, the legal systems demonstrated divergent views of investor protection laws, resulting in a different enforcement environment when compared to those laws. This has an impact on reporting quality, with the governance code law demonstrating demonstrably weaker enforcement when compared to the auditor and other company laws, which influences the reporting quality (Wang & Cho, 2019). In addition to the banking and insurance industries, investment and financial services, industrial manufacturing, agriculture, telecommunications, the hotel and tourism industries, as well as other sectors, small and medium-sized enterprises (SMEs) affiliated with the selected organizations were identified. In order to examine linkages and national or jurisdictional uniqueness despite the fact that all share a common legal code, it was decided that conglomerates should be considered an industry. This was done because the researcher wanted to examine linkages as well as national or jurisdictional uniqueness. Because of their merger of financial and non-financial operations, conglomerates were designated as an industry in Iraq.

1.10 Definition of Key Terms

1.10.1 Firm's Performance (FP)

The firm performance is organisational performance, including manufacturing of products and services that the firm provides; the functioning of different units of the firm performance of its employees, and the outcomes of their work in total (Taouab &

Issor, 2019); that can refer to current assets for the company, which can be calculated as a ratio of net income to total assets (Khuong et al., 2019).

1.10.2 Earnings Management (EM)

It is a meaningful intervention in the process of financial reporting to obtain private gains; therefore, it is considered an unethical practice when earnings management occurs as managers manipulate accounting numbers, which reduces the financial statement quality and misleads stakeholders about the actual value of the firm (Ajina et al., 2019). It will be calculated using the Beneish M-score model (Talab et al., 2017).

1.10.3 Corporate Social Responsibility (CSR)

Refers to the corporation's responsibility of their consequences on society and the process of combining environmental, social, ethical and consumer concerns, together with human rights, with the firm's business, core strategy and operations; in close cooperation with firm stakeholders with respects to the collective agreements and applicable legislation between the social partners (Waheed et al., 2021). It will be calculated by content analysis(Cesar, 2020).

1.10.4 Corporate Governance (CG)

A compilation of rules, laws and regulations can enhance its resource performance to act efficiently and generate economic value for the long term, in the interest of shareholders and stakeholders (El Diri et al., 2020). This study will measure corporate governance by using the following variables.