The Moderating Role of CSR On the Antecedents And Out Come of Earnings Management in The Iraqi Firm

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ABSTRACT

The increase in the number of firms manipulating financial reports has misled shareholders' investment decisions and resulted in an indelible blot on foreign investors' trust. Due to earnings management (EM) practice, managers' inefficiency, and lack of transparency in Iraq companies. This study tested the influence of the corporate governance mechanisms (CG), (board independence, audit committee, meeting frequency) on EM based on agency theory, as well, to link between EM and firm's performance (FP) in Iraqi listed companies and the impact of moderating role of corporate social responsibility (CSR) based on the Stakeholder Theory. The study's sample consists of 65 companies for the 2013-2018 financial years. Data were collected mainly from the annual reports (secondary data) of the Iraqi listed firms. This study uses the M-score model to detect EM practices as practical techniques in detecting earnings manipulation practices. The panel static model estimators. Hence, this paper adds to the CG literature from the perspective of stakeholder theory using Iraq's unique industrial environment. Based on the research results, policy-makers might use the study's findings to recognize the essential roles of several CG mechanisms in alleviating the opportunistic practices in Iraq. Further, companies should also be encouraged to enhance the CSR disclosure quality.

Keywords: board independence, audit committee, meeting frequency, M-score model

INTRODUCTION

Opportunistic behavior is consistent with the definition of EM articulated by past studies (Fadhl & Hamad, 2015; Idris et al., 2018). Although some EM definitions imply that it is a form of fraud, even so, it is not a fraud. Because managers may utilise EM within the parameters of GAAP without breaching the rules, it is considered a lawful practise (Obigbemi et al., 2016). Thus, EM falls within the creative accounting umbrella. Mulford and Comiskey (2002) indicated that artistic accounting practices are all ways to apply accounting principles, fraudulent financial reporting, or EM. In this regard, Obigbemi et al.(2016) said that EM becomes a creative accounting when expected revenues are recorded in the books as turnover for the current year, decreasing R&D expenses.

Previous research have dispelled the confusion around the method managers use to pick certain accounting procedures and how it influences firm performance (FP)" (Tang & Chang, 2015). Therefore, Ezeagba and Innocent (2018) stated that accounting practice choice involves the deliberate nondisclosure of the information and accounting numbers manipulation. In this regard, Gargouri, Shabou, and Francoeur (2010) indicated that EM is used to change financial reports to mislead the stakeholders about the firm's economic performance. Therefore, today, accounting research in the business world is the extent of the managers' manipulation in the reported earnings for their interests (Wael, 2017). That is because EM practice leads to sap financial reporting credibility (Obigbemi et al., 2016). Hence, the financial report will be unreliable and understandable for the stakeholder (Filip & Raffournier, 2014; Sayari et al., 2013). As a result, opportunistic conduct and financial statement manipulation play a critical part in certain accounting crises that have happened in global corporations (Gopinath et al., 2015).

Due to this,, the focus of this study is practices of EM in Iraqi firms, due Iraqi firms have a high level of EM practise. According to past studies of Iraqi firms, the majority of Iraqi corporations engage in opportunistic EM activities (Fadhl & Hamad, 2015; Mohammed, 2017; Talab et al., 2017). Thus, that affected the firm's performance and affected stakeholders' and investors' trust in the financial statement that the managers provide. It is necessary to ensure stakeholders and investors function and thrive because the wrong financial information makes it difficult for financial statement users to make the right decision (Donker & Zahir, 2008).

Besides, CG mechanisms consider as beneficial characteristics to limit EM (El Diri et al., 2020). Therefore, legislation was introduced the CG in the USA, Europe, and most of the Asian countries (Al-Rahahleh, 2017; Kakanda et al., 2017), to ensure the quality, transparency, and reliability in the financial reports (Franceschetti & Koschtial, 2013). Mohamad, Pantamee, Keong, and Garrett (2020); Paradisea (2017) said that the CG monitors management to defend shareholders' interests. CG can also lead to competent, clean management and transparent. Alaraji (2017) concluded that compliance with CG standards leads to the issuance of reports and lists with more credible and fairer. Accordingly, developing and implementing CG mechanisms restrict opportunistic managerial behavior and improve financial statements' credibility (Gras-Gil et al., 2016).

Accordingly, CG is considered a system structured around combining several board members that manage and provide appropriate CG to firms' profitability and propriety (PeiZhi & Ramzan, 2020). Besides, CG is crucial in the company's operations sustainability and maintaining investors' trust (Sailendra & Mayangsari, 2020). Therefore, CG must be reinforced by expanding the analysis framework beyond the traditional standards to combine the values and norms (Omware et al., 2020). Hence, the possibility of executing governance laws may give managers and investors pause for thought (Michael et al., 2020). Although the inserted laws, regulations, and public monitoring bodies, the risk of EM practices continues. Because that laws, regulations, and insert of general monitoring bodies are not entirely meeting the expectations of changing market positions (Abdullahi & Ibrahim, 2017).

On the other hand, previous studies show that EM is related to FP (Espahbodi et al., 2018). Similarly, earlier research highlighted how managers pick unique accounting processes and how influence on FP (Tang & Chang 2015). Accordingly, the relationship between EM and FP changes based on a managerial firm quality (Dakhlallh et al. 2020). Pernamasari et al. (2020) mention that if the managers' earning information transfers valuable and superior knowledge about the firm's performance for the shareholders, then, in this case, EM may not be harmful to the public and shareholders.

Hence, this study considers local firms' CSR engagement as a moderator in the associates between the antecedents, outcomes of EM. Although previous studies have asserted CSR's effect as a moderating (Hong & Kim, 2017; Nikbin et al., 2016), no study has examined its moderating influence on the link between EM and FP. Therefore, this study provides several thoughts by examining the moderating impact of CSR's legal and ethical component on the relationship of EM and FP, representing the critical contribution of the study to the literature. Furthermore, this study depends on 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.

LITERATURE

According to the literature, this part develops a collection of hypotheses to treat research questions. The first discussion focuses on the results of the antecedents of EM. Then a discussion of the consequence of EM, particularly the connection between EM and FP, concludes with the findings on the moderator effect of CSR.

CG Mechanisms and EM

After several recent financial scandals, there has been a global direction toward developing and investigating CG mechanisms to fight the opportunistic behavior that weakens investors' credibility in financial information (Gras-Gil et al., 2016). Previous researches have shown two opposing correlations between EM and the CG. First, EM is classified as opportunistic or valued based on whether managers behave in the shareholders' best interests. Malmquist (1990) indicated two agency conflict types: management conflict with shareholders and shareholders conflict with bondholders. Second, managers are incentivized to use accounting methods that increase their wealth. As a result, if there is an agency conflict between the management and the shareholders, the managers will have the opportunity to make opportunistic accounting decisions (Tang & Chang, 2015).

The agency theory helps explain the link between CG mechanisms and EM, defined by the conflict of interests between shareholders and management (Fama & Jensen, 1983). Consequently, management tries to maximise their interests even if it means sacrificing shareholder's wealth.

Board Independence and EM

The agency theory has a unique interest in board independence (Adel Azar, FaribaHabibi Rad, 2014). In this regard, Gulzar and Zongjun (2011) stated, based on agency theory, that the external directors must control an internal board to increase the independence of the board from the management. That reduces conflicts of interest and ensures the board's independence in making management decisions (Kyereboah, 2008). Besides, Davidson et al. (2005) stated from the agency's perspective that the board's effectiveness as a monitoring tool is dependent on its independence from management. However, the independence term refers to the directors' board's independence from controlling the shareholders and management (Shen & Chih, 2007).

However, most research on board independence and EM showed the board's role in overseeing EM practices (Idris et al., 2018). In this regard, Monsif and Khamees (2016) indicated that firms with independent members have less discretionary accrual, reflecting a high earnings quality. Besides, Xie et al. (2003) indicated a higher proportion of independent directors would be less engage to EM. In this regards, there are numerous outcomes on board independence and EM. For example, Nugroho & Eko (2011) found no influence of board independence on EM practises in Indonesian listed firms. Abdullahi and Ibrahim (2017) had got the same result when they examined the relationship in Nigeria. While in other studies found that there is a negative impact of board independence on EM (Abbadi et al., 2016; Choi et al., 2013; Dimitropoulos & Asteriou, 2010; Idris et al., 2018b; Peasnell et al., 2005; Rajpal, 2012; Xie et al., 2003). In light of the foregoing, consider the following hypothesis:

H1: Board independence is negatively related to EM.

Audit Committee and EM

The audit committee considers as one of the effective mechanisms of CG. Thus, An audit committee role has received the researchers' attention and academics (Ali et al., 2018; Brennan & Solomon, 2008). So that the public oversight board has defined Governance as observer activities undertaken by the audit committee and directors board to ensure financial reporting integrity (Kayani et al., 2011). In this regard, Alzoubi (2019) defined an audit committee as a board subcommittee that allows a formal connection between the board of directors, external auditors, and the internal observers' system. While Eyenubo et al. (2017) have defined an audit committee as several selection members on the company that do the duty of observing the companies' accounting and financial reporting, considered a tool of Good Governance that boosts the financial reporting integrity. Based on definitions, the audit committee's duty boosts financial reporting integrity and decreases the audit risk, boosting reported figures' quality (Contessotto & Moroney, 2013). Hence, the audit committee's establishment ensures continuous communication between the company's board and external auditors. The committee regularly meets the auditors to review the audit processes, financial reports, internal systems, and controls (Gulzar & Zongjun, 2011). The audit committee should assume the duty of supervising and observing accounting and internal observe activities in the firm (Al-Rahahleh, 2017).

Meanwhile, Kallamu and Saat (2015) indicated from the perspective of agency theory that the reason for reduced information asymmetry is when the directors on the board committee have multiple memberships. Besides, Mamun, Yasser, and Rahman (2013) stated that separating the directors on various committees can create asymmetry in information between directors. Thus, an audit committee's existence can be considered a crucial factor in impacting EM practices. Further, when inactive audit committee members are not attending the meetings, the committee's role will allow for opportunistic EM practices. Based on the above discussion and from the concept of agency theory, the following hypothesis could be empirically tested:

In light of the foregoing, consider the following hypothesis:

H2: The Audit Committee is negatively related to EM.

Frequency of Board Meeting and EM

The meeting frequency considers one of the essential CG characteristics, Where it has been considered a measure of the board intensity activity (Chen et al., 2006; Vafeas, 1999). Besides, (2009) indicated that the number of board meetings is considered one indicator that will reflect an attentiveness on the board duties. Therefore, Mashayekhi (2008) stated that the meeting frequency is the active board's important side.

Agency theory explains the relationship between meeting frequency and EM. However, Ntim and Osei (2011) found that the empirical result supported by agency theory indicated that the board with more meetings frequently improves the ability to provide practical advice, oversight, discipline. Besides, Sáenz González and García-Meca (2014) stated that it reduced the absolute discretionary accruals value because of agency theory's hypothesis of effective oversight. Furthermore, agency theory suggests that there is frequently a potential conflict of interest between the motives of stakeholders and agents (Fama & Jensen, 1983; Jensen & Meckling, 1976). Therefore, reducing the agency conflict of interest requires more monitoring and control. Hence, Ugwoke et al. (2013) stated that the board of directors should undertake the active monitoring function from the agency theory perspective for protecting the shareholders' interests.

There are several findings regarding the frequency of board meetings and EM. In this regards, Daghsn et al. (2016); Gulzar & Zongjun, (2011); Obigbemi et al., (2016) founds a positive association between EM and board meetings. At the same time, EM and meeting frequency were found to be negatively related (Abbadi et al., 2016; Kankanamage, 2016; Mohd Fadzilah, 2017; Monsif & Khamees, 2016; Xie et al., 2003). Besides, Mashayekhi (2008) found a significant association between meeting frequency and EM. In light of the above, suggest the following hypothesis:

H3: The board meeting frequency is negatively related to EM.

EM and FP

The most vital thing is to understand the way of EM because the firms' performance depends on net income where Managers can manipulate net income by current assets; for example, the Managers can overstate cancel inventory to manipulate the cost of goods sold (Gill et al., 2013). Nonetheless, the financial report's quality depends on the accounting treatment choice (Shah et al., 2009). However, accrual accounting grants the managers significant rights to set the earnings at different times (Ardekani et al., 2012). Thus, EM affects FP and threatens shareholder value by altering financial data to deceive investors about the firm's true economic condition (Hassan & Ahmed, 2012; Healy & Wahlen, 1998). Managers can intentionally mislead stakeholders regarding the firm's economic performance (Shah et al., 2009). Therefore, proper management may have a positive relationship with the stakeholders, which will lead to improving financial performance (Gras-Gil et al., 2016). Thus, firm economic performance influences the contractual results, depending on the numbers of reported accounting (Temile et al., 2018).

Moreover, often informed ideas drawn from agency theory, and conflicting results are often reported (Jensen, 1993; M. Jensen & Meckling, 1976). Noticeably, agency theory is supported through good performance or the opportunistic behavior that arises from supposed information asymmetry between the managers (firm agents) and shareholders (principals) (Fama & Jensen, 1983)f. Besides, EM can be added between various theories to explain the performance in the long and short term (Chiraz & Anis, 2013). From the agency theory perspective, the firm can be considered a network of contacts between the different stakeholders (Temile et al., 2018).

Moreover, the results of the EM-FP connection vary amongst authors. According to several research (Abdullah & Mohammed, 2016; Ardekani, Younesi, & Hashemijoo, 2012; Gill, Bigger, & Mand, 2013; Hassan & Ahmed, 2012; Khuong, Tran, Ha, & Thu, 2019; Kumari & Pattanayak, 2015; Louis, 2004), found varying results. For example, Kumari and Pattanayak (2015) showed a negative correlation between FP and EM in the private sector. In another study, Chiraz and Anis (2013) found no evidence between initial return and EM in French IPO businesses, whereas other research indicated a negative link among EM performance (Ardekani et al., 2012; Gill et al., 2013; Gong et al., 2008; Raoli, 2013).

H4: EM and FP have a negative connection..

CSR as a Moderator

From the last of the 20th century until now, the effect of corporate social responsibility(CSR) on economic performance has shown many interesting in the literature review (Barako & Brown, 2008; Chan et al., 2014; Gras-Gil et al., 2016; Lu, Ye, Flanagan, & Ye, 2016; Post, Rahman, & Rubow, 2011; Ulutaş Duman et al., 2016; Xia et al., 2018). Besides, the business world faces rising pressure to improve or adapt its CSR (Boulouta & Pitelis, 2014). Since the socially responsible for the company is inclined to boost a long-term relationship with stakeholders instead of maximizing the short-term earnings (Gras-Gil et al., 2016). Therefore, when deciding to invest, the shareholders ask to determine the firms' financial performance measures and metrics covering the firms' social and environmental performance, which are two CSR components (Dyck et al., 2019). Hence, many companies positively respond to maximize stakeholder’s attention as part of their CSR(Jensen, 2002). Therefore, most studies have focused on the firms' managers' characteristics to explain CSR investments (Cronqvist & Yu, 2017).

Many theories have explained CSR, as stakeholder theory, legitimacy theory, the resource-based view (RBV), agency theory, and resource dependence theory (RDT), where the stakeholder theory considers as the most prominent to explaining the CSR’ behavior (Frynas & Yamahaki, 2016; Mellahi et al., 2016). Where the stakeholder theory is considered as accepted to explaining the socially responsible actions to maximize an investment long-term through confession the in the importance of stakeholder group and incorporating that knowledge with firms' strategy (Gras-Gil et al., 2016), besides, Frynas and Stephens (2015), Frynas and Yamahaki (2016), and Mellahi et al. (2016) indicated stakeholder's theory could be used to explain the results, processes, and motivations of CSR. Hence, the stakeholder theory considers CSR a successful way to manage stakeholder relations (Choi et al., 2013).

Therefore, to improve the relationship between antecedent-outcome of EM, this study employed CSR as moderator. This is because managers try to hide poor financial statements by suggesting higher levels of CSR. In turn, this helps management legitimate the corporation by deflecting investor attention away from the company's low profitability. (Moratis & van Egmond, 2018)

H5A: CSR moderates the influence of CG mechanisms on EM

H5B: CSR moderates the link between EM and FP.

Control variables

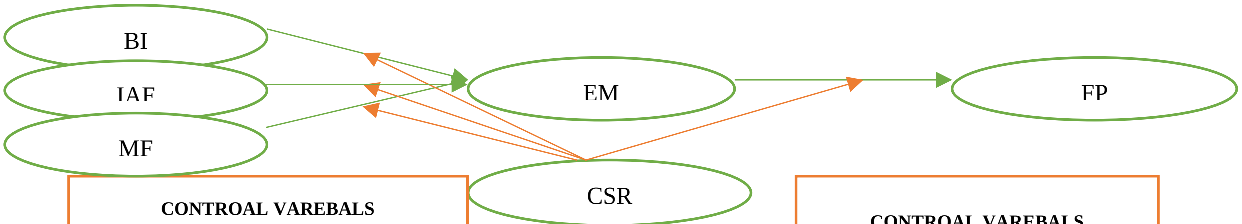
Certain firm-specific variables were derived from the prior literature, including financial leverage and sector type, to test this study's antecedent and outcome. Previous studies indicated that many variables might influence the process of governance or influence EM practices. This study testis four control variables (board size, ROA, ROE, and type of sector) to test the link between CG mechanisms (Board Independence, Audit Committee, and Board Meeting Frequency) and EM as an antecedent, and three control variables (board size, leverage, and type of sector) to test the moderoter reol of CSR on the link between EM, FP, as an outcome. To test a hypothesis of the study correctly.

Theoretical Framework

Although various theoretical frameworks have been used to study CSR in businesses, there is a lack of a universal paradigm that can be used globally. This review found four primary theoretical frameworks used to describe and evaluate the relationship between CG features, FP, and EM. These linkages are also interested in agency theory, stakeholder theory, stewardship theory, and institutional theory. So, the study's chosen hypothesis will be presented and justified.

This study examined the effect of CSR moderator role on CG mechanisms (antecedent) (Board Independence, Audit Committee, and Board Meeting Frequency), EM, and EM and FP (outcome) in Iraq. Agency theory suggests that separating management and ownership benefits both parties.

Stakeholders Theory underlying the interest in ethically treating with stakeholders, who could moderate economic' reasons or targets for any firm so that these firms take into account their moral role in society and a lot of social effects on citizens and society (Donaldson & Preston, 1995). Thus, stakeholder theory's target is to harmonize owners' goals with the different agents' goals because the firm is considered the organization with correlated parts that have adverse interests (Gray et al., 1995). Therefore, firms consider CSR practices a tool to respond to the stakeholders' requests, which ensure their support and restraint of their activism (Chan et al., 2014). Accordingly, this study used the stakeholder theory to explain CSR's moderator function between EM and FP as an outcome of the study's.



STUDY FRAMEWORK

METHODOLOGY

Data

This study's sample included Iraq Stock Exchange listed firms, between 2013 and 2018. This research discusses the sample selection method. The sample consists of all 65 financial and non-financial Iraqi Stock Exchange listed firms (ISX) from 2013 to 2018, with the year 2013 being chosen because it was the year before ISIS took control of a large portion of Iraq, and the year 2018 was the year when the CG code was introduced, which has influenced CSR practises and disclosures during the study period.

Because the firm's performance and EM practise frequently change over time, the research is confined to six years of data. Additionally, from 2013 to 2018, the DataStream database has current data for Iraqi businesses with less missing figures. Another reason for choosing Iraqi companies for six years is the small number of companies that are registered on the Iraqi stock exchange, both financial and non-financial, and account for a significant portion of the country's economic output, ensuring that the sample is large enough to conduct statistical procedures. The sampled companies are drawn from the total number of companies listed on the Iraqi stock exchange. Thirty-three (33) non-financial and thirty two (32) financial firms were selected for this study from a total of hundred and twenty-nine (129) financial and non-financial companies listed on the Iraqi stock exchange between 2013 and 2018.

Measurement of Variables

According to the previous studies, the Beneish M-score model is used to calculate the EM (Anh & Linh, 2016; Beneish, 1999; Omar et al., 2014; Talab et al., 2017). EM is calculated by the statistical M-score model, which has eight variables.

The second dependent variable is the firm's performance measured by return on assets (ROA) by dividing the ratio of net income to total assets (Gopinath et al., 2015; Huei Ng et al., 2016; Liao et al., 2014). In addition, between CG and EM there is a moderator variable, and the other side EM and FP, which is CSR. The study uses content analysis to measure CSR based on several factors, which are social items, human rights, labor practice, decent work, environmental items, sustainability, product responsibility, and stakeholders. Finally, the independent variables are CG mechanisms, including board independence, audit committee, and meeting frequency.

Measuring FP

Several research have utilised ROA to assess performance (Dhamadasa et al., 2014; Hanh et al., 2018; Tang & Chang, 2015) due to two main reasons First, profits deflated by assets equal the return on assets. Second, comparing ROA to other matching factors in past studies on long-run abnormal stock return and abnormal operational performance leads in more rigorous and specific testing (Santos & Brito, 2012).

Thus, the following equation was employed to calculate ROA in this study:

$$ROA = \frac{Net\ Income\ After\ Tax}{TotalAsset}$$

Measuring EM

As part of the Beneish approach, five variables are used to calculate EM: days sales in receivables (DSRI), gross margins (GMI) and asset quality indices (AQI), as well as sales growth indices (SGI) and depreciation indices (DEPI) (Franceschetti & Koschtial, 2013). M-score greater than -2.22 indicates that the firm is EM (Anh & Linh, 2016; Beneish, 1999; Omar et al., 2014).

Beneish's methodology focuses on uncovering EM practises in companies and aids in the investigation of EM's real presence. This model differs substantially from Dechow et al(1995) .'s prior model, which solely looked at average accrual techniques. It also aids in the identification of the incentives involved in GAAP breaches. Furthermore, the researchers included numerous variables to capture the financial data distortions caused by GAAP breaches. As a result, it assists businesses in spotting unusual accruals. therefor, the Beneish model was utilised to identify EM in this investigation. Beneish's model is described as follows:

M-score = -4.84 + (GMI + DSRI + DEPI +SGI +AQI)

Measuring CG Mechanisms

The CG mechanism is measured in depth based on board independence, audit committee, and meeting frequency. Furthermore, the metrics for each CG mechanism were based on the governance information supplied in the yearly reports. Table 3.1 summarises the factors examined in order to assess the efficiency of the CG mechanisms.

Table 3.1 Measuring Corporate Governance Mechanisms

Variables	Code	Measurement	References
Board independence	BOI	Percentage of independent director's member divided total member director on the board	(Bajra & Cadez, 2018; Daghsn et al., 2016; Dhamadasa et al., 2014; García-Sánchez, 2010; Liao et al., 2014)
Audit committee	AC	Assign value one if the firm has an audit committee and value 0 if the firm has no such committee	(Al-Rahahleh, 2017; Lin et al., 2011; Yan-Leung et al., 2008)
Board Meeting Frequency	BOMF	The number of board meetings each year.	(Al-Rahahleh, 2017; Bajra & Cadez, 2018; Daghsn et al.,

			2016; García-Sánchez, 2010; Liao et al., 2014)
Control Variables			
Firm Leverage	LVGI	a ratio of liabilities total to the assets total	(Al-Swidi, 2012; Kamal et al., 2016; Wu et al., 2016)
Type of Sector	ToS	dummy variable tak a value “1” to "4" depent on type of sector	
Board size	BS	Number of board members	(Lasyoud & Yusoff, 2018; Lippolis & Grimaldi, 2020)

Measuring CSR

In content analysis, the researcher is interested in the information of CSR that existing in the corporate reports provided from the companies’ sample to their stakeholders (Cuganesan et al., 2010). According to the past literature, this study used content analysis to determine the information amount in the annual reports. Content analysis is a systematic, repeatable method for condensing a large amount of text into a smaller number of content categories using specific coding criteria (Lu et al., 2016). Past studies suggest that the content analysis provides valid results for corporate social reporting research. As a result, the researcher can assess the extent to which various elements have been disclosed (Cuganesan et al., 2010; Fodio et al., 2013; Lungu et al., 2011).

Is calculating the CSR index. Previous studies used several techniques to develop CSR dimensions. The dimensions of analysis are one of the most critical issues in content analysis. A dimension is an identified communication component used to measure variables (Akben Selcuk & Kiymaz, 2017). However, the study used sentences as an analytical technique since the coder's subjective judgment is needed (Riyadh et al., 2019). In addition, searching for specific dimensions in the sentences is considered a reliable method of content analysis. In this regard, this study measuring the CSR index by the number of sentences contains CSR keywords divided by the total number of sentences on the annual report (Akben Selcuk & Kiymaz, 2017; Chan et al., 2014; Hooks & van Staden, 2011) as follows to the sum of CSR measurement.

$$\textbf{CSR Index} = \frac{\text{Number of The Sentences Contains CSR keywords}}{\text{Total Number Of The Annual Report Sentences}} \times 100$$

Table 3.2 CSR Index Classification

Social Items

1. Human Rights
2. procurement practices and Investment
3. Non-discrimination
4. Collective bargaining and association Freedom
5. Child labor
6. Security practices
7. Indigenous rights
8. Decent Work & Labor
9. Employment
10. Employee /Management relation
11. Safety and occupational health
12. education and training
13. equal opportunity and diversity

Product Responsibility

1. Customer service and satisfaction
2. Customer privacy Compliance
3. product and service labeling
4. Marketing communication

Sustainability

1. CSR reports the in the annual report, there should include a CSR or sustainability component (all firms in our sample have a specific section in the annual report dedicated to CSR or sustainability).

Stakeholders

1. Experimental projects

Environmental items

1. Materials
2. Energy
3. Water consumption
4. Emissions effluents and waste
5. Climate
6. Products and services

Data Analysis and Results

Statistic Descriptive

This section describes the study's independent, dependent, and moderating variables. The objective is to determine whether the data is normal. The M-SCORE model is used to assess EM as the dependent variable in this study, as mentioned in the methods chapter. Days Sales in Receivables Index (DRI), Gross Margin Index (GMI), Asset Quality Index (AQI), Sales Growth Index (SGI), and Depreciation Index are all part of the M-SCORE model (DEPI). Board Independence, Audit Committee, and Board Meeting are among the explanatory factors. Corporate social responsibility is the moderating variable, and it is used to test the moderating effect of CSR, according to FP (measured using return on assets). Leverage, board size, and sector kinds are the control variables.

Table 4.1

Statistic Descriptive (Categorical Variables)

Variables	Measure	Percent	Cum. Pert
Audit Committee	**0**	**59.23**	**59.23**
	1	**40.77**	**100.00**
Sector type	**1**	**53.85**	**53.85**
	2	**18.46**	**72.31**
	3	**21.54**	**93.85**
	4	**6.15**	**100.00**

Table 4.1 presents, the percentage of firms with an audit committee in Iraqi firms is 40.77 percent, indicating that approximately 26 out of 65 firms (40.77% of 65 firms) have an audit committee. In contrast, about 39 firms, representing 59.23 percent, do not have an established audit committee. This study samples four industries, including financial and non-financial companies. The study also sampled both businesses' firms to analyse panel data to better understand EM, CSR, and CG in Iraq.

Table 4.2

Variable	Mean	Std. Dev.	Min	Max
Earnings management	1.5943	0.8185	0.3839	3.76
Firm performance	-0.7984	17.241	-143.44	38.1
Board independent	29.369	30.744	0.0000	100
Audit Committee	0.4076	0.4920	0.0000	1.00
Board meeting frequency	10.020	6.0447	0.0000	64.0
CSR	1.4077	1.1338	0.037	9.50
Leverage	26.468	23.394	-0.5814	96.974
Board size	7.1	1.4791	4	13
Roe	11.330	97.854	-154.65	1103
Type of sector	1.8	0.9810	1	4

Table 4.2 shows the descriptive statistics for the study's variables. The mean, minimum, and maximum all have positive values in EM. It implies that companies create and publish financial statements in order to provide an excessively optimistic perspective of their operations and financial situation. Earnings management has positive minimum and maximum values, indicating that EM is not widely used in Iraqi businesses. The mean value for EM is 1.594, indicating that Iraqi businesses use less EM on average.

The highest value of EM is 3.76, suggesting that some Iraqi businesses still manipulate results to please investors and other stakeholders. It may also imply that Iraqi financial data is less reliable. Finally, EM remains strong in Iraqi financial businesses.

Return on assets measures FP. Financial performance ranges from -10.73 percent to 11.07 percent. It shows that over the research period 2013-2018, certain businesses had negative ROA, a net loss on assets, and are prone to significant corporate performance loss and insolvency. During the research period, Iraqi companies reported a maximum asset return of 11.07 percent (after controlling for outliers using winsorization). This shows that non-financial companies are more prone to poor performance and insolvency.

Board independence is scaled on percentage. The empirical result shows that 80 percent of total board members in Iraqi firms are independent directors at the maximum. It suggests that the maximum number of independent directors on the Iraqi firms' board is in a ratio of 0.8 to 1. At the same time, some Iraqi firms also have no independent directors on the board. This is depicted in the minimum value of board independence, which is 0.00 percent. The mean board independence is 29.37, suggesting that, on average, the percentage of independent directors to the total directors on board for Iraqi firms is 29.37 percent.

An audit committee is scaled on 1 for firms with an audit committee in place and value 0 for firms with no audit committee in place. The audit committee's minimum and maximum values are 0 and 1.0, suggesting that some firms sampled have no audit committee in place. In contrast, other sampled firms have an established audit committee in place. The 75th percentile of the audit committee is 1.000. In contrast, the 25th and 50th (median) percentiles have 0.000, which suggests that only more than one-quarter of the sampled firms have an established and functioning audit committee.

The board meeting is a formal gathering of all directors to discuss corporate performance and legal problems. It may be held periodically, based on board choices and organisation policy. The number of board meetings each year is defined. The selected businesses' lowest and maximum board meetings are 0 and 64. The typical board meeting is ten times, implying that the studied businesses meet ten times each year. The maximum number of board meetings in Iraqi firm is 64. For both financial and non-financial firm, the minimum board meeting is 0, which is contrary to Iraqi rules that require directors to meet at least three times each year.

The number of CSR words measures CSR to the total number of sentences counts in annual reports. The maximum value of CSR is 9.50, suggesting there is still a low CSRdisclosure level among firms in Iraqi. Its minimum value of 0.037 and mean value of 1.407 also indicate a shallow level of CSR activities in Iraqi firms. These results may imply that the societal demands for Iraqi firms' social responsibilities in the Iraqi business environment are high because corporate firms face high macroeconomic challenges and geopolitical risks. The frequency counts were found in an annual report by searching for each index. The frequency counts of each index classified to the dimensions were added up to generate a dimension score. The three highest-scoring dimensions all have similar dimension ratios of more than 80%. However, it is worth noting that the environmental dimension is much lower, at 59 percent.

On the other hand, all of the dimensions have dimension ratios of more than 50%, indicating that they are more likely than not to be included in a random index. The frequency counts from the yearly report are used to analyze this. Indicates how many dimensions are contained in how many indexes and what proportion of the total they account for.

Multicollinearity (Correlation Matrix)

Multicollinearity is one of the ordinary least square assumptions when the regression technique analyses relationships between independent variables. Correlation analysis is usually performed to conduct a multicollinearity test. Table 4.3 shows the correlation matrix of all the variables of the study. When regression models are estimated, the correlation matrix assesses the multicollinearity problem and linearity assumptions of the ordinary least square. All the correlation coefficients also depict the linearity assumption of correlation between the independent, moderating, and dependent variables is fulfilled. To interpret the linearity results, corporate social responsibility, the board size, and leverage negatively correlate with FP. For CG variables, board independence, audit committee, and board meeting have positive correlations with EM.

In contrast, CSR and sector type have a negative correlation with EM. Concerning the multicollinearity issue, the correlation coefficients are within the range -0.573 and 0.478, suggesting that none of the correlation coefficients is higher than 0.80 (E. M. Al-Matari, Al-Swidi, & Btfadzil, 2014). Therefore, there is no serious multicollinearity problem.

Table 4.3 correlation matrix

	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Earnings management	1.0000									
Firm performance	0.0523	1.0000								
Audit committee	0.4780	0.0091	1.0000							

Board independent	0.0883	0.0554	0.0908	1.0000						
Board meeting frequency	0.1341	0.0174	0.2272	0.2379	1.0000					
CSR	-0.1693	-0.0851	-0.2093	0.0788	0.1499	1.0000				
Leverage	0.4350	-0.0053	0.2883	0.0085	0.0457	-0.1050	1.0000			
Roe	0.0395	-0.2209	0.1078	0.0285	0.1331	0.0246	-0.0441	1.0000		
Board size	0.0583	0.0032	0.1636	-0.1058	-0.2132	-0.1183	0.1508	-0.1138	1.0000	
Type of sector	-0.5735	0.0610	-0.3371	0.1540	-0.0275	0.3679	-0.2708	-0.0529	-0.1124	1.0000

Research Hypotheses Test

Antecedents of EM

The hypotheses are examined to confirm or deny them. This study examines six theories. The research hypotheses are analysed using panel regression estimation. Testing the hypotheses with POLS regression estimators.
The POLS effect's appropriateness is shown by the f-statistics' likelihood. The results show that independent boards and audit committees significantly improve EM in Iraqi businesses. According to the robust fixed effect model, board independence, board meeting frequency, and audit committee together may explain 18.44 percent in EM. This implies that CG processes influence EM. Thus, Iraqi businesses should use more effective CG measures to decrease EM's high practise.

Table 4.4 Moderating Role of CSR on The Antecedents of EM

Earnings management	**Coef.**	**P>|t|**
Board independent	0.0052	0.015
Audit Committee	0.5133	0.000
Board meeting frequency	0.0225	0.050
CSR	-0.0086	0.000
Board independent- CSR	-0.2528	0.049
Audit Committee- CSR	-0.1483	0.068
Board meeting frequency- CSR	-0.6313	0.338
ROA	0.0031	0.180
Board size	2.0188	0.043
ROE	0.0003	0.377
cons	1.0994	0.000
Years Effect	Yes	Yes
Industry Effect	Yes	Yes

CG mechanisms (board independence, audit committee, and the meeting frequency) have a significant positive relationship with EM in Iraqi firms. The board independence coefficient is 0.0052 at the 1.5% level. It suggests that an increase in board independence increases EM, which indicates that firms that engage more in EM do not benefit from the increased board independence and may induce agency conflicts. In addition, the audit committee and meeting frequency have a positive effect on the EM.

At the same time, corporate social responsivity has a significant negative relationship with EM at the 8% level. Meanwhile, the moderating role of CSRon the relationship between board independence and EM is negatively significant at the 5% level (Beta = -0.2528; p-value = 0.049), likely. The audit committee has a significate effect on EM when the CSR moderates the relation, therefore suggesting that CSR has a negative moderating effect on EM, thereby increasing the financial performance of Iraqi firms. This indicates that CSR practices play an essential role in reducing Iraqi firms' practices, further enhancing their financial performance. In contrast, CSR has not moderated the relation between meeting frequency and EM.

The outcome of Earnings Management

Table 4.5 shows the moderating effect of CSR on the relationship between EM and financial performance. The results in Table 4.6 show that the REM effect (robust) is appropriate for CSR's moderating effect. The results interpreted for the formulated hypothesis height (H8) of the study are presented in the last column in Table 4.5.

EM has a significant negative relationship with FP (measured as return on assets) in Iraqi firms. The EM coefficient is -1.0455 at the 1% level. It suggests that an increase in EM reduces FP (i.e., return on assets) by 1.0455%, which indicates that firms that engage more in EM do not benefit from the increased company performance and may induce agency conflicts.

Corporate social responsivity has a significant positive relationship with a financial performance at the 1% level. Meanwhile, the moderating role of CSR on the relationship between EM and FP is positively significant at the 1% level (Beta = 1.384; p-value = 0.005), suggesting that CSR has a positive moderating effect on EM and thereby increases the financial performance of Iraqi firms. This indicates that CSR practices play an essential role in reducing Iraqi firms' EM practices, further enhancing Iraqi firms' financial performance.

The results in Table 4.5 are robust to all the diagnostics tests. For example, r square shows that EM and CSR explain about 14.73% variations in Iraq firms' financial performance.

Table 4.5Moderating Role of CSR on The Outcome of EM

Firm performance	**Coef.**	**P>|t|**
Earnings management	-1.087406	0.000
CSR	.2260459	0.119
Earnings management - CSR	1.619006	0.031
Board size	-.0323017	0.720
Leverage	-.0042936	0.593
Type of sector	-.2491886	0.039
Cons	1.905768	0.018
Year's effect	Yes	Yes
Industry effect	Yes	Yes

Conclusion

The practice of EM has been persistent in the business world, and it is occurring in developing countries, including Iraq. Academicians, regulatory authorities, and businesses are searching for the best CG mechanism that could eliminate this activity. Preventing this opportunistic behavior is not only a crucial issue, but the effect of EM is also harmful to businesses' goals and objectives. Regarding the discussion in this chapter, it is concluded that superior Governance is essential for preventing, monitoring, controlling, and supervising the business operations and management. The findings from this study contribute some empirical and solid evidence on the importance of having more female directors, high meeting frequency, and increased board tenure in the boardroom.

In particular, a few of the CG attributes could alleviate, elevate and even serve no effect in influencing the EM practices. Hence, the present study's findings can be utilized by all kinds of stakeholders (such as the regulatory authorities, businesses, investors, and the general public).

Furthermore, this study is driven by the management's fear of CSR being misused just like in the developed countries, particularly in concealing the EM. Fortunately, findings contrast with what the Iraqi Central Bank postulated are for fulfilling the managers' private interest and not for practicing and engaging in CSR activities to give back to society and the environment. This may indicate that companies are unselfishly investing their money, time, and effort to satisfy the needs of the public. Alternatively, as an alternative, companies may have invested in CSR programs as a means to cover opportunistic behavior.

Thus, overall, EM requires further and continuous research due to its breadth, whereby its prevention and consequences impact the business environment across the world. In conclusion, having an antecedent and consequence study on EM is highly beneficial. The antecedent (CG) could help avoid and restrain Iraq's EM practices from becoming severe and extreme. Following that, looking at the role of CSR from the entrenchment perspective gives a different view and awareness on the negative use of CSR, which is to conceal EM practices. Lastly, examining CSR as moderating role gives many insights in terms of literature and theory. Perhaps, future research could consider the suggestions for future research and provide more polished findings and insights.

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