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THE ROLE OF EARNINGS MANAGEMENT AS A MODERATOR IN THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE IN IRAQ



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THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENT
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

FACULTY OF MANAGEMENT AND ECONOMICS
SULTAN IDRIS EDUCATION UNIVERSITY
2023



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DEDICATION

Dedicated to my beloved family, to the most precious people in my life. My mother, for her love and endless support, my father (God's mercy), my sisters, and my brothers.



ABSTRACT

Iraqi corporations still perform below expectation and are yet to fully comply with corporate social responsibility disclosure (CSR) requirements. Past research on corporate governance attributes (CGA) had shown positive effects on CSR. Thus, this research aims to investigate the effects of CGA, such as board of directors (BOD), audit committee (AC), and ownership structure (OWSR) on the level of CSR in Iraqi non-financial companies by focusing on the moderating effect of earnings management (EM). CSR in this study refers to disclosure in environment, product and consumers, community, and human resource. Hypotheses are developed using the multi-theoretical framework, including agency, stakeholder, and legitimacy theories. Data were collected from annual reports of 38 non-financial companies listed on the Iraq Stock Exchange (ISX) from 2016–2019. Panel data regression techniques were carried out, namely fixed effects estimation, random effects estimation, and pooled ordinary least squares regression. The descriptive results show that the level of CSR in Iraqi non-financial companies is relatively low, with an average of 31.84%. Results show that CGA has significant effects on CSR (AC independence, $\beta = 0.009$, $p < 0.05$; institutional ownership, $\beta = 0.029$, $p < 0.05$; government ownership, $\beta = 0.035$, $p < 0.05$; director ownership, $\beta = 0.068$, $p < 0.05$; board independence, $\beta = 0.094$, $p < 0.05$; AC meeting frequency, $\beta = 0.097$, $p < 0.05$; board meeting frequency, $\beta = 0.187$, $p < 0.05$; and board size, $\beta = 0.204$, $p < 0.05$). Furthermore, the EM moderated the positive and significant relationships between CSR and director ownership ($\beta = 0.189$, $p < 0.05$), AC meeting frequency ($\beta = 0.338$, $p < 0.05$), AC size ($\beta = 2.317$, $p < 0.05$), and board size ($\beta = 3.813$, $p < 0.05$). In conclusion, CGA play an important role in CSR, and EM is an influential moderator in the relationship between director ownership, AC meeting frequency, AC size, and board size with CSR. This study's implications provide insights into development and implementation of an optimal CG framework to address poor CSR and handle the problems of EM in Iraqi companies.



PERANAN PENGURUSAN PENDAPATAN SEBAGAI PENYEDERHANAAN DALAM HUBUNGAN URUS TADBIR KORPORAT DAN PENDEDAHAN TANGGUNGJAWAB SOSIAL KORPORAT DI IRAQ

ABSTRAK

Syarikat-syarikat di Iraq masih menunjukkan prestasi di bawah jangkaan dan belum mematuhi sepenuhnya kehendak pendedahan tanggungjawab sosial korporat (CSRSD). Kajian terdahulu mengenai sifat tadbir urus korporat (CGA) menunjukkan kesan positif ke atas CSRSD. Oleh itu, penyelidikan ini bertujuan menyiasat kesan CGA, seperti lembaga pengarah (BOD), jawatankuasa audit (AC), dan struktur pemilikan (OWSR) ke atas tahap CSRSD dalam syarikat-syarikat bukan kewangan Iraq dengan memberi tumpuan kepada kesan penyederhanaan pengurusan pendapatan (EM). CSRSD dalam kajian ini merujuk kepada pendedahan dalam persekitaran, produk dan pengguna, komuniti, dan sumber manusia. Hipotesis dibangunkan menggunakan rangka kerja pelbagai teori, termasuk teori agensi, teori pihak berkepentingan, dan teori kesahihan. Data dikumpulkan daripada laporan tahunan 38 syarikat bukan kewangan yang disenaraikan di Bursa Saham Iraq (ISX) dari 2016–2019. Teknik regresi data panel telah dijalankan iaitu anggaran kesan tetap, anggaran kesan rawak, dan regresi kuasa dua terkecil biasa terkumpul. Keputusan deskriptif menunjukkan bahawa tahap CSRSD dalam syarikat bukan kewangan Iraq adalah agak rendah, dengan purata 31.84%. Keputusan menunjukkan bahawa CGA mempunyai kesan yang signifikan ke atas CSRSD (kebebasan AC, $\beta = 0.009$, $p < 0.05$; pemilikan institusi, $\beta = 0.029$, $p < 0.05$; pemilikan kerajaan, $\beta = 0.035$, $p < 0.05$; pemilikan pengarah, $\beta = 0.068$, $p < 0.05$; kebebasan lembaga pengarah, $\beta = 0.094$, $p < 0.05$; kekerapan mesyuarat AC, $\beta = 0.097$, $p < 0.05$; kekerapan mesyuarat lembaga pengarah, $\beta = 0.187$, $p < 0.05$; dan saiz lembaga pengarah, $\beta = 0.204$, $p < 0.05$). Tambahan pula, EM mewujudkan kesan hubungan yang positif dan signifikan di antara CSRSD dan pemilikan pengarah ($\beta = 0.189$, $p < 0.05$), kekerapan mesyuarat AC ($\beta = 0.338$, $p < 0.05$), saiz AC ($\beta = 2.317$, $p < 0.05$), dan saiz lembaga pengarah ($\beta = 3.813$, $p < 0.05$). Kesimpulannya, CGA memainkan peranan penting dalam CSRSD, dan EM ialah bertindak penyederhana yang berpengaruh dalam hubungan di antara pemilikan pengarah, kekerapan mesyuarat AC, saiz AC, dan saiz lembaga pengarah dengan CSRSD. Implikasi kajian ini memberi pemahaman mengenai pembangunan dan pelaksanaan rangka kerja CG yang optimum untuk menangani CSRSD yang lemah serta masalah EM dalam syarikat Iraq.



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LIST OF ABBREVIATION

AC	Audit Committee
ACIND	Audit Committee Independence
ACMEET	Audit Committee Meeting frequency
ACSIZE	Audit Committee Size
BIND	Board Independence
BMEET	Board Meetings
BOD	Board Of Directors
BSIZE	Board Size
CBI	Central Bank Of Iraq
CEO	Chief Executive Officer
CG	Corporate Governance
CGA's	Corporate Governance attributes
CPI	Corruption Perceptions Index
CSR	Corporate Social Responsibility
CSRD	Corporate Social Responsibility Disclosure
DIROWN	Director Ownership
ECD	Economic Disclosure
EM	Earnings Management
END	Environmental Disclosure
EU	European Union
FE	Fixed Effect
GLCs	Government-Linked Companies
GOVOWN	Government Ownership
GRI	Global Reporting Initiative
GRI	Global Reporting Initiative
IFRS	International Financial Reporting Standards
INSTOWN	Institutional Ownership

ISIS	Islamic State in Iraq and Syria
ISX	Iraq Stock Exchange
MENA	Middle East And North Africa
MMR	Moderating Multiple Regression
OECD	Organisation For Economic Co-Operation And Development
OECD	Organisation for Economic Cooperation and Development
OLS	Ordinary Least Squares
OWNCONC	Ownership Concentration
PLCs	Public Listed Companies
POLS	Pooled Ordinary Least Squares
RE	Random Effect
SOD	Social Dimension
SOEs	State-Owned Enterprises.
UK	United Kingdom
UN	United Nations
UNGC	United Nations Global Compact
UNIDO	United Nations Industrial Development Organisation
US	United States
WBCSD	World Business Council for Sustainable Development



LIST OF APPENDICES

- A Systematic Review of Literatures on the Effects of CG and CSRD
- B List of Companies Sampled
- C CSRD Index
- D Published Articles and Conference Attendance





CHAPTER 1

INTRODUCTION



1.1 Introduction

This section starts by describing the research's backdrop, which includes a deliberation of the corporate governance (CG) ideas as well as corporate social responsibility (CSR) in Iraqi businesses. The problem statement for the study will be clarified in the second section of this chapter. The next section in this chapter identifies the research objectives, research questions, and research hypotheses. The research importance, the conceptual model, the research scope, and the explanation of words are then included in this chapter. Finally, it ends with a summary of this chapter.





1.2 Background of the Study

Corporate governance is now recognised as a global issue of company excellence and is thought to be extremely important to organisational management in advanced and advancing nations (Mwanzia & Wong, 2011). Prior to the 1990s, the phrase was hardly used at all, as opposed to today when it is brought up whenever commercial or financial concerns emerge. This rapidly developing idea is driven by the necessity to boost investor trust in financial markets (Nadeem, Zongjun & Shoaib, 2013).

CG pertains to organisational actions taken to manage the creation of a transparent, trustworthy and accountable climate (OECD, 2015a). In his analysis, Sir Arthur Cadbury refers to CG as a system that directs and controls firms (Cadbury Report 1993, p. 15). It relates to shareholder protection via the implementation of effective governance frameworks (Olof, Mattias & Johan, 2007). Generally, corporate governance is defined as a series of interactions between a firm's management, board of directors, shareholders, and stakeholders as stated by the Organization for Economic Co-operation and Development or OECD (2004).

Good corporate governance decreases the amount of influence that shareholders and other fund sources have upon managers, hence boosting the likelihood that managers will invest in initiatives with positive net present value (Shleifer & Vishny, 1997). The facilitation of management control and attainment of corporate value make up the fundamental principle shared by all governance systems (Poh & Grantley, 2013).



Corporations have improved their governance procedures across the world to increase their accountability, financial reporting transparency, and corporate information disclosure. The management would not be able to easily engage in opportunistic behaviours as transparent financial reporting allows for the overseeing of its actions and reduces information disparity (Ashbaugh-Skaife, Collins & LaFond, 2006).

As such, corporate governance boosts investor trust and shields shareholders from managerial expropriation. Managerial and shareholder information asymmetry as well as agency conflicts drive the increasing need for corporate disclosure. The agency theory states that such disagreements result from ownership and control separation, leading to misaligned interests between the managers and shareholders (Healy & Palepu, 2001).

Managerial and shareholder conflict, information asymmetry (Htay, Majdi, Akhyar & Meera, 2012), and agency costs (Nandi & Ghosh, 2012:46) can be reduced with greater levels of corporate disclosure. Otherwise, shareholders can be deceived into making poor investment choices that would eventually harm the firm's value and its shareholders' wealth. Low corporate disclosure could also result in wealth transfer from the owner to the manager, causing the firm's share prices to be undervalued by both current and prospective investors (Sun & Rath, 2008).

With CG implementation, it has succeeded in gaining the attention of the public due to the transparency of the financial status of the company (Shamsuddin, Ibrahim, Ridzwan, 2016). It has been emphasized that good governance is able to gain investment capital, reduce risk management, and improve the companies' performance (Ajanthan,

2013). According to Ehikioya (2009), good CG is developed due to the accountability and transparency of the company. Accountability and transparency of a business are measured based on the disclosure of information to the stakeholder. Therefore, disclosure of information has become crucial after increasing corporate scandals and financial crises (Neifar & Halioui, 2013).

History shows that many CG scandals have led to misleading information disclosure, such as Enron, WorldCom, Lehman Brothers, and Satyam Computer Services Ltd (Salleh & Othman, 2016). In response to CG scandals, tougher disclosure requirements have been imposed (Hermalin & Weisbach, 2012). However, the corporations willingly reveal their financial and non-financial information to the general public. One of the non-financial information reported by the company is CSRD. Bayoud (2012) mentioned that disclosing the CSRD is similar to extending the disclosure of the company's financial system, leading to greater expectancy from the society of the company's social responsibility to the economy.

Tommy (2015) asserted that the main factor for implementing CSRD is to develop a positive image of the company to the public. This is because most firms are cognizant of the fact that CSR disclosure would bring favourable financial outcomes, boost brand image, and improve company sustainability (Laksmi & Kamila, 2018). Non-disclosure plants doubt among the public concerning the company's sustainability, ultimately causing local and foreign investors to back away (Sari & Mimba, 2015). CSRD covers revelations about the company's human resources, products, services, engagement in social and



philanthropic initiatives, as well as environmental-related activities (Esa & Ghazali, 2012). Information disclosure is also an indication of an effectual capital market, according to Beekes, Brown, Zhan, and Zhang (2012), providing better insight of the company's activities for creditors and investors. Disclosure also moderates organisational communication with stakeholders, thus providing investors access to the organisation's activities (Akhtaruddin, Hossain, Hossain, & Yao, 2009). This ultimately lessens management and investor conflicts. However, the firm's corporate governance (CG), according to Meeampol, Rodpetch, Srinamnuang, and Wongsorntham (2013), carries the responsibility of guaranteeing the reliability and quality of the source given.

In his observation of CSRD in developing countries, Underdeveloped countries are recognized inadequate awareness of CSRD that represents human rights and the environment. In addition, they have a weak level of legal systems (Andayani & Atmini, 2012). Visser (2008) contends that, in order to take CSRD to another level, good governance should be prioritized in Asian, African, and Latin American countries. Governance transformation, he believes, is the cornerstone to progress in all other areas, such as voluntary action, economic development, and the rule of law. As a result, in underdeveloped nations, adopting more fair and honest governance standards should be the basis of CSRD. To put it another way, good CG that fosters morals, justice, openness, and responsibility is thought to have a positive impact on a company's total financial and non-financial success. At the same time, organizations with good governance are more prone to participate in CSRD as a reliable means of indicating their governance quality (Beekes & Brown, 2006).





Institutional variations, on the other hand, may impact governance and, as a result, the disclosure extent (Mohamed, 2012). Furthermore, institutional surroundings are made up of a range of national institutions (such as cultural, political, and economic institutions) that influence how businesses behave (Jamali, 2014). Hence, the extent and type of CSRD would indicate management's response to their important stakeholders (Van der Laan Smith, Adhikari, Tondkar & Andrews, 2010). As a result, these distinctions aid in explaining the global variability in CSRD. Given this premise, the focus of this research is on the influence of CG on CSRD in Iraq by concentrating on the background of a developing country, with a particular emphasis on Iraq. The origin of CSRD in the context of Iraq can be traced back to the blockade of Iraq in the 1990s, where companies to create positive effects on society and the environment they operate define CSRD in the context of Iraqi as a voluntary business group created.



Iraq was chosen as a special and intriguing context to examine the connection between CSRD as well as many major economic and institutional characteristics. Firstly, Iraq is distinguished by a lack of transparency and disclosure as a consequence of trembling corporate disclosure standards (Hassan & Ahmed, 2018). Moreover, Mukht (2015) discovered that participation in CSRD is low, specifically in the field of environment compared to other activities. This is because no standardized regulations were being fixed in many of the Iraqi non-financial companies. Yet, the level of CSRD is still low in Iraq. Secondly, Iraq experiences shifts in its government regime defined by appropriate governance system stability (Al Bayati, 2010). When the Iraq war ended in 2003, the Republic of Iraq faced the need for reconstruction and development (AlKhazraji &





Alghanmi, 2017). Due to the destruction of infrastructure during the war, the deterioration of the environment and security witnessed by Iraq, and the absence of law and occupation led to a high rate of unemployment and poverty (Al Bayati, 2010). As a result, having a detrimental effect on society's livelihood denies society's well-being and living in a safe environment. Third, the organized environment in Iraq is in disarray, with local and non-state actors leading political transition, helped by an independent press and expanding civil organizations (AlKhazraji & Alghanmi, 2017). Research in this matter is critical particularly due to the dearth of empirical proof regarding CSRD and corporate governance in the Iraqi setting (Jazrawi & Khudair, 2014; Bakheet, 2013). Owing to global initiatives on corporate governance and the urge to develop its best practices, emerging nations such as Iraq have begun initiatives for improving their practice of corporate governance



With CG implementation, it has succeeded in gaining the attention of the public due to the traholders', and boards' attitudes on the CSRD (Madi & Talal, 2018). This will consequently lead to a small, complex, and frustrating business climate. As a result, there was a little variance between the institutional environments compared to other countries in a fragile-state cognizant. Developing country institutional mechanisms, methods, and regulations provide significant chances to acquire fresh perspectives about CSRD. Moreover, foreign investors had selected Iraq as one of the most important countries for investment (Onaiza & Ali, 2013) and the emergence of joint-stock companies and multi-national companies. In general, due to huge developments in the economic sector, the company continues to develop by increasing particular activities to be on par with the





economy. Therefore, the company must minimize the impact of corporate social responsibility activities (Alhashemi, Alhasnawi, and Aziz, 2017). At present, in view of the ongoing and continuous transformation in the political and economic sectors, the country's economy is undergoing a stage of development and integration to attain a global economic system after 2004 (Khalaf & Mansour, 2016). Additionally, Iraq has been involved in various initiatives with the United Nations (UN), European Union (EU), and United States Agency for International Development (USAID) to enhance its sustainable development (UNGC Iraq Network Annual Report, 2012). As a result of participating, these conferences sought Iraqi companies to apply CSRD. As a result, company executives share CSRD data since firms can get various benefits from cultivating a positive perception between stakeholders and forming social relationships with workers and local people, all of which produce reputational rewards (Bayoud & Kavanagh 2012; Almahrog, Ali Aribi & Arun 2018).

Owing to the benefit of disclosing CSR information, approximately 238 of the largest companies around the world had reported their CSRD (KPMG, 2011). The increasing attention on CSRD also attracted research attention on various aspects of CSRD. Considering the benefits of CSR, managers may engage in it for reasons other than exhibiting corporate stewardship to the surrounding social milieu, such as for personal benefit or for lessening the effects of company wrongdoing (McWilliams, Siegel, & Wright, 2006). Kim, Park, and Wier (2012) found that managers who engage in CSRD for strategic reasons are more likely to mislead stakeholders. In short, CSRD can be used to manipulate profit data in order to serve the managers' personal gains (Choi, Lee, & Park,





2013; McWilliams et al., 2006). As a result, CSRD is a useful tool for managers attempting to conceal earnings management (EM) action (Jo & Harjoto, 2011). This claim is supported where managers in companies that engage in EM are more likely to engage in these CSRD practices, which is in accordance with Gargouri, Shabou, & Francoeur, 2010; Jo & Harjoto (2011); Muttakin, Khan, & Azim, (2015a); Prior, Surroca & Tribó, (2008); and Scholtens & Kang (2013). This could be to assist them in keeping their jobs and boosting compensation or masking opportunistic managerial behavior of EM (Li, Mangena, and Pike 2012). EM is a discretionary managerial attempt to take purposeful actions to achieve the target level of reported earnings. Whenever managers use their judgment over accounting numbers, EM happens (Prior, Surroca & Tribó, 2008) Managers in companies that perform EM are more active in improving the company's public image and gaining support from stakeholders through CSRD policy.



Some CSRD, according to Rubin and Barnea (2010), may be related to expropriation. Managers participate in a variety of CSRD, as demonstrated by Waddock (2004) and Surroca and Tribo (2008), as a way of justifying their entrenchment via stakeholder concessions. Because of this, managers might participate in CSRD due to opportunistic motivations so as to advance their own interests, minimise the effects of corporate wrongdoing, hide EM activity, or deceive stakeholders. Additionally, it is believed that CSRD can be used to integrate social environment considerations into the process of business decision-making, which is advantageous for both investors and the general public. This becomes even more challenging when CSRD is employed to mask EM



activity. Hence, this study investigates if EM as a moderator applies to the various relationships between CGA and CSRD.

1.3 Problem Statement

It is crucial for organisations to incorporate sustainability considerations into their corporate reporting process, as evidenced by developments in enterprises around the world, particularly in connection to CSRD. The publishing of CSRD and its integration into company annual reports reflect the fact that the accountability side of businesses would not be complete if the reporting system is not in place. However, Iraq corporations are not showing their interested in disclosing the social responsibility and are not handling the financial and non-financial statements clearly which reflects their role to the environment and the social (Ali & Onaiza, 2013).

Urdaini (2006), Hatif (2006), and Alkhfaji and Aljjawi (2018) analysed the annual reports of ISX-listed firms and found that some of them did not observe specific CSR themes or had produced partial or non-coherent CSR disclosures. This may be attributed to the fact that CSRD is performed on a voluntary basis in Iraq; hence, the firms only disclose certain selected matters (Salman & Waheeb, 2019). Such partial disclosures mean that the public remain uninformed about the firms' activities (Ali & Onaiza, 2013).

Albulada and Ghazal (2013) asserted that most of the ISX-listed firms under study are unknowledgeable and unaware about CSRD. The study suggested the necessity for the firms to boost their CSRD level considering that they are lagging behind the global

standards (Al-Hasnawi & Jawad, 2019). Despite the fact that Iraqi corporations have participated in CSRD-related activities (Hatif, 2006). However, stakeholders have a hard time finding the information they need in annual reports or corporate websites (Alkhfaji & Aljjawi, 2018). Almagtome, Almusawi and Aureaar (2017) found that financial and non-financial firms in Iraq only disclose 35.26% of their activities in their annual reports, which is far behind their counterparts in Bangladesh, Egypt and Jordan. Meanwhile, Aldabbagh and Ibrahim (2014) found that the level of voluntary disclosure for Iraqi financial companies is only at 32.5%.

If the incidence of CSRD disclosure deficiency persists, Iraqi enterprises may face difficulties in the future, necessitating immediate intervention (Alkhfaji & Aljjawi, 2018).

Some studies found that CSRD can help improve stakeholder relations which in turn would strategically reduce business-related risks. According to Cheng et al. (2014), stakeholder communication is crucial for ethically-oriented consumers and is a huge appeal for attracting highly skilled personnel or ethical investments (Kapstein, 2001; Mohammed, 2018). As it is, firms in Iraq urgently need foreign direct investments. Proper CSR disclosures could help them in attracting ethically-oriented investors and boosting investor confidence (Mohammed, 2018).

Proper CSR disclosures can also help boost corporate image and stakeholder relations, which in turn lead to reputational gains (Almahrog, Ali Aribi & Arun 2018). Besides that, CSRD considerably affects the sustainability of companies (Jizi et al., 2014; Alkhfaji & Aljjawi, 2018). Hence, it can be deduced that most firms fail due to poor CSRD



in their annual reports, resulting in dearth of information which reflects the firms' contribution to society and the environment (Urdaini, 2006; Almagtome et al., 2017). This in turn causes investors to back away (Jabbar, 2018). Therefore, it is predicted that the research problem lies due to the CSRD that was considered to be weak and the absence of appropriate measures to address the weakness.

Having said that, there are no clear indications of the factors to this issue. Corporate governance attributes have been highlighted as among the key factors driving higher CSRD levels (Ntim & Soobaroyen 2013; Ali, Frynas, & Mahmood, 2017). According to Jabbar (2018), good corporate governance implementation is the best measure for tackling the downfall of businesses. As suggested by Jizi et al. (2014), comprehensive CG provides a solid foundation for sound CSRD practice, which in turn increases corporate transparency and accountability (Ghabayen, 2012). In addition, high CSRD level is linked to good CG attributes (Jizi et al., 2014).

Jabbar (2018) added that CG attributes entail both shareholder and stakeholder needs, which would in turn help boost social welfare (Hermalin & Weisbach, 2003). Erkens, Hung, and Matos (2012) suggested stricter CG enforcement as way for protecting the public and shareholders. The development of CG frameworks has been the current focus of firms in the Middle East. Effectual CG enforcement is beyond the priorities of regional authorities (Amico, 2014). The framework of corporate governance in the region is comprised of the corporation legislation, securities law, and corporate governance code, which have been developed by practically all of the region's countries (Amico, 2014). The





corporate governance code was similar to that of mature markets. Despite an ongoing government push to promote corporate governance practice, corporate governance structures in Iraq are underdeveloped. In general, corporate governance rules governing board composition, annual general meeting conduct, and shareholder reporting are primarily governed by company and securities laws. As a result, the present legal and regulatory frameworks lack critical corporate governance norms that may have aided in creating the culture of transparent reporting (Hussein, 2018; Jazrawi & Khudair, 2014). The existing regulatory framework, for example, does not adequately clarify the definition of the board of directors. Iraqi company legislation only requires a set number of directors to be on the board. The current Iraqi company pays attention to the non-independent/ non-executive directors more than independent directors (Jazrawi & Khudair, 2014).



Additionally, most of the ISX-listed firms are under the control of shareholders, specifically state- and family-owned firms which have lowly CG structures. But even with such ownership structure, the prevailing legislation for Iraqi firms makes no provision for shareholder rights protection (Obeidi, 2011; Alsmarraie, 2018). Without a doubt, the absence of such a framework contributes to Iraq's inefficient corporate governance. In a developing country like Iraq, obstacles such as political upheaval and falling oil prices continue to impede economic diversification and foreign investment. Similarly, there is a lack of legal accounting and inadequate standards of compliance with international rules. This raises the issue of agency among listed corporations. The ISX's inadequate governance culture has resulted in a sharp drop in market performance. There is ample evidence that ISX does not have a uniform code for corporate governance regulation. As a



result, Iraqi enterprises' CSRD suffers as a result. Following years of political insecurity, Iraq is a developing economy in need of sound corporate governance to stimulate disclosure and transparency.

Three important attributes of CG namely the Audit Committee, Board of Directors, and Ownership Structure are highly significant in driving corporate disclosures among firms (Jabbar, 2018), especially for improving CSRD practice (Mallin et al., 2012). The main characteristic of CG attributes is the role of independent directors in protecting the shareholders' interests (Fama, 1980) and enhancing the level of CSRD (Jizi et al., 2014). The agency theory argues that the presence of independent directors can effectively improve the CG system and boost decision-making processes. Previous research had provided evidence for this theory (Ienciu, 2012; Sharif & Rashid, 2013). In developing countries, the role of independent directors seems to be limited when it comes to CSRD due to lack of knowledge and experience of CSRD (Haniffa & Cooke, 2005) and the focus on financial performance rather than on social activities (Esa & Ghazali, 2012).

In Iraq, the companies act pays attention to the non-independent non-executive directors more than independent directors. This might be due to the ownership structure in Iraq (Iraqi Securities Commission, 2016). Therefore, the various corporate ownership structures prevailing in Iraq may affect CSRD levels differently. The Iraqi Companies' Act states that firms can appoint one or more directors according to their ownership percentage to become their proxy in the board of investees (Article, 103, 2004). Hence, share concentration in the hands of legal ownership (institutional ownership) gives the right to



the institutions to appoint representative directors in the investing company board. As a result, independent directors will occupy insignificant seats. In return, the voting power and decision-making will be in the hand of large shareholders resulting in an agency conflict between majority and minority shareholders. In concentrated ownership in an Asian country such as Iraq, the major shareholders could utilise their control rights for attaining personal gains (Hassan & Mohsen, 2016). Hence, low disclosure levels are linked to the concentration of firm ownership.

Moreover, to address weak CSRD, the study endeavoured to investigate the effect of CG attributes on CSRD using earning management as a moderator. Based on Martínez-Ferrero et al. (2015), some managers opportunistically participate in CSRD for personal gain purposes, concealing their wrongdoing, hiding their EM activities, or misleading stakeholders. Prior et al. (2007) and Sun et al. (2010) supported this claim by concluding that managers who engage in EM have a higher tendency of being active in improving their firms' image and in drawing public and stakeholder support via CSRD policies. Therefore, CSRD could be employed as a diversion from dubious financial reporting (Khaled, 2018). EM is hence presumed to result in high CSRD levels in ISX-listed firms. As such, it is crucial for ensuring continuous CSRD growth especially in Iraq. Therefore, the study used EM as a moderating variable to address disclosure problems in Iraqi companies. Hence, elucidations on disclosure issues are imperative to the companies.



1.4 Research Objectives

This study mainly aims to examine the effect of corporate governance attributes (CGA) on the CSRD of Iraqi non-financial companies, with earnings management as a moderator. Upon reviewing numerous pieces of literature, the following objectives were formulated to guide the study.

Ro1: To determine the level of corporate social responsibility disclosure in Iraqi non-financial companies.

Ro2: To examine the effects of the BOD attributes on CSRD in Iraqi non-financial companies.

Ro3: To examine the effects of the AC attributes on CSRD in Iraqi non-financial companies.

Ro4: To examine the effects of ownership structure on CSRD in Iraqi non-financial companies.

Ro5: To examine whether earnings management moderates the relationship between corporate governance attributes (BOD, AC, and ownership structure) and CSRD in Iraqi non-financial companies.



1.5 Research Questions

The research goals were set depending on the effect of corporate governance attributes on CSRD in Iraqi enterprises, with earnings management as a moderator. The subsequent research questions will be prepared to lead the investigation in order to attain the aforementioned research objectives.

R_{Q1}: What is the level of CSRD in Iraqi non-financial companies?

R_{Q2}: Is there any significant effect of the BOD attributes on CSRD in Iraqi non-financial companies?

R_{Q3}: Is there any significant effect of AC attributes on CSRD in Iraqi non-financial companies?

R_{Q4}: Is there any significant effect of ownership structure on CSRD in Iraqi non-financial companies?

R_{Q5}: Does earnings management moderate the relationship between corporate governance attributes (BOD, AC, and ownership structure) and CSRD in Iraqi non-financial companies?



1.6 Research Hypotheses

This research examines the effect of CGA's on CSRD in Iraqi non-financial companies, with earnings management as a moderator, and provides research objectives and research questions. Therefore, 20 hypotheses were formulated for this study. Direct effect hypotheses concerning the effect of CGA's on CSRD in Iraqi firms are among the hypotheses. Moderating effect theories, on the other hand, include the earnings management moderate's effect in CGA's on CSRD, as well as the preceding hypotheses:

Direct Effect Hypotheses:

H1: There is a significant effect of board of directors' attributes on the level of CSRD in Iraqi non-financial companies.

H1a: There is a significant effect of board size on the level of CSRD in Iraqi non-financial companies.

H1b: There is a significant effect of board independence on the level of CSRD in Iraqi non-financial companies.

H1c: There is a significant effect of the board meeting frequency on the level of CSRD in Iraqi non-financial companies.

H2: There is a significant effect of the audit committee attributes on the level of CSRD in Iraqi non-financial companies.

H2a: There is a significant effect of the audit committee size on the level of CSRD in Iraqi non-financial companies.


H2b: There is a significant effect of the audit committee's independence on the level of CSRD in Iraqi non-financial companies.

H2c: There is a significant effect of the audit committee meeting frequency on the level of CSRD in Iraqi non-financial companies.

H3: There is a significant effect of ownership structure on the level of CSRD in Iraqi non-financial companies.

H3a: There is a significant effect of government ownership on the level of CSRD in Iraqi non-financial companies.

H3b: There is a significant effect of institutional ownership on the level of CSRD in Iraqi non-financial companies.

 05-4506832 **H3c:** There is a significant effect of the director ownership on the level of CSRD in Iraqi non-financial companies.

H3d: There is a significant effect of the concentration ownership on the level of CSRD in Iraqi non-financial companies.

Moderating Effect Hypotheses:

H4: Earnings management moderates the relationship between board of directors' attributes and the level of CSRD in Iraqi non-financial companies.

H4a: Earnings management moderates the relationship between the board size and the level of CSRD in Iraqi non-financial companies.

H4b: Earnings management moderates the relationship between the board independence and the level of CSRD in Iraqi non-financial companies.

H4c: Earnings management moderates the relationship between the board meeting frequency and the level of CSRD in Iraqi non-financial companies.

H5: Earnings management moderates the relationship between the audit committee attributes and the level of CSRD in Iraqi non-financial companies.

H5a: Earnings management moderates the relationship between the audit committee size and the level of CSRD in Iraqi non-financial companies.

H5b: Earnings management moderates the relationship between the audit committee independence and the level of CSRD in Iraqi non-financial companies.

 05-4506832 **H5c:** Earnings management moderates the relationship between audit committee meeting frequency and the level of CSRD in Iraqi non-financial companies.

H6: Earnings management moderates the relationship between ownership structure and the level of CSRD in Iraqi non-financial companies.

H6a: Earnings management moderates the relationship between government ownership and the level of CSRD in Iraqi non-financial companies.

H6b: Earnings management moderates the relationship between institutional ownership and the level of CSRD in Iraqi non-financial companies.

H6c: Earnings management moderates the relationship between director ownership and the level of CSRD in Iraqi non-financial companies.

H6d: Earnings management moderates the relationship between ownership concentration and the level of CSRD in Iraqi non-financial companies.

1.7 Conceptual Framework

A conceptual framework aids a study in comprehending the relationship between study variables (Muthusi, 2017). It demonstrates the variables' quantitative formulation, operationalization, information gathering, and assessment. The conceptual framework also outlines the many factors in the research, as stated by Muthusi (2017). CGA's independent variable will serve as the theoretical research foundation. It is decided by the BOD, AC, and OWSR dimensions. The dimensions of environmental disclosure, human resources disclosure, product and customer disclosure, and community engagement disclosure that operate as dependent variables were believed to be linked by CG and CSRD.

Hence, this study considers different independent variables to explain the level of CSRD. To investigate the effects of the BOD on the degree of CSRD, three independent variables are taken into account: board size, independence of the board, and frequency of board meetings. The board size and board independence are highly considered in CG studies because they are the key variables to explain the effectiveness of the board. Thus, they are considered in this study to assess their influence on the CSRD level. Furthermore, the purpose of this research is to give some attention to the effects of AC Size, AC Independence, and AC Meeting frequency on the level of CSRD. Because the audit committee (AC) is a monitoring tool with the goal of improving corporate reporting policy, it is taken into account.

Past studies have affirmed that the AC is a crucial element in developing the criterion of the CG as it can significantly affect the reliability of the financial reporting. Thus, they are considered in this study to examine their effects on the level of CSRD. Regarding the OWSR, four independent variables are considered, namely; Government Ownership, Institutional Ownership, director ownership, and Ownership Concentration. Different studies have considered those variables, or some of them, to explain the level of CSRD in different markets.

However, the OWSR in Iraq seems to be different and unique. The institutional and government ownership domination is a prominent aspect of the Iraqi economy because it is extremely consolidated (Hassan & Mohsen, 2016). As a result, the amount of compulsion on Iraqi companies to participate in CSRD practices is dictated by the OWSR of the firm. Furthermore, the results of past research on the effects of the BOD, AC, and OWSR on the degree of CSRD have been conflicting. Therefore, the study looks beyond the direct effects, which uses the EM as a moderating variable to examine the effects of the OWSR, BOD, and AC on the disclosure level if they will be stronger or weaker. Thus, the EM plays a moderating role in the indirect relationship, in compliance with the conceptual structure. In this research, the study combines various concepts to understand the effect of CGA's on the CSRD by having the EM as the moderating variable. Furthermore, control variables are important in interpreting study results because they elucidate the link between independent and dependent variables (Meyers et al., 2006). Thus, four control variables were examined in all the models in this study namely: company size, company age, leverage, and profitability (ROA). Due to the complexities of CSRD, this study adopts

multiple theories such as (legitimacy theory, agency theory, and stakeholder's theory) to elaborate on CGA's effect on CSRD. The study uses the preceding description and hypotheses presented as bases to illustrate the conceptual framework in Figure 1.1.

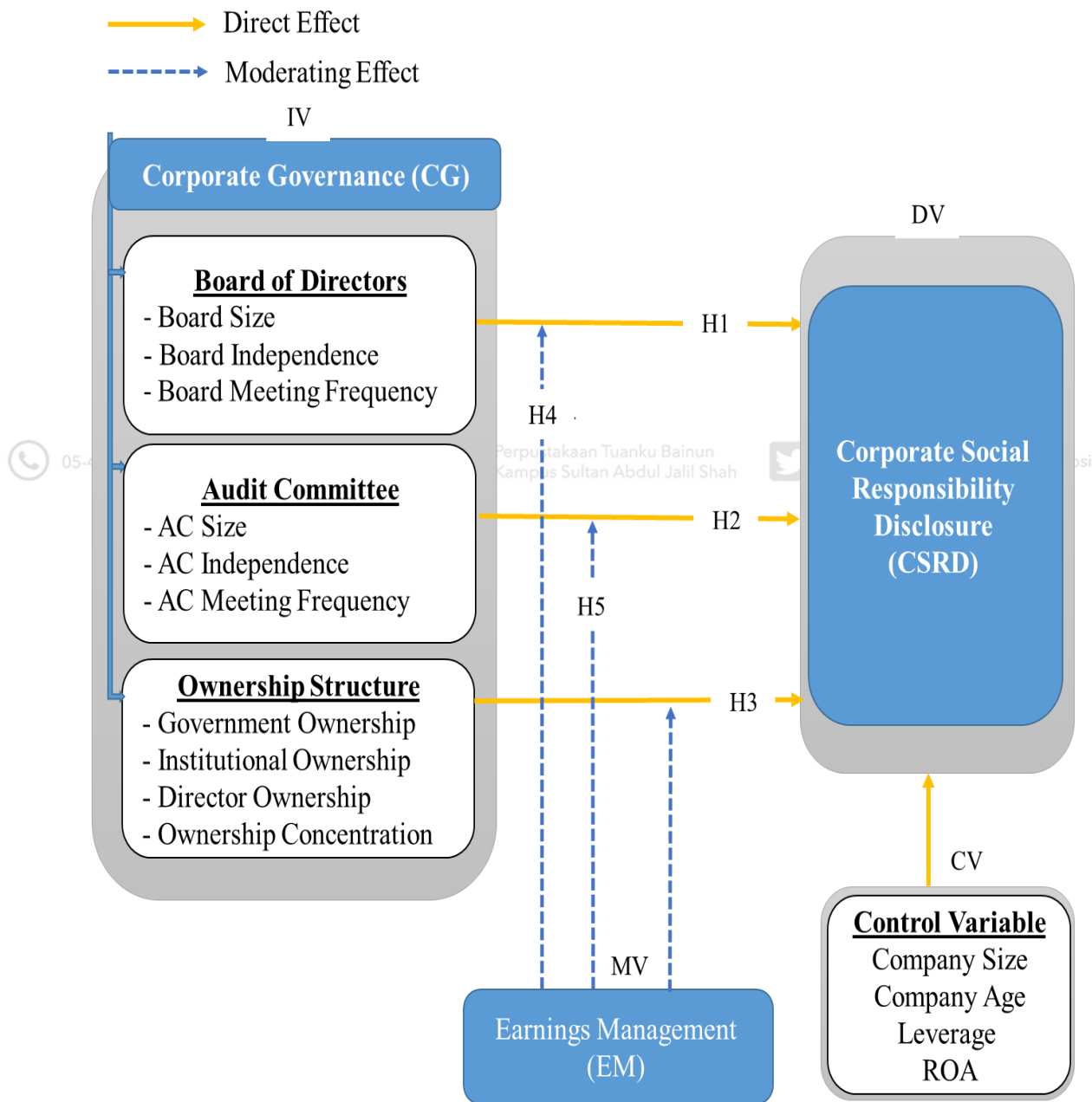


Figure 1.1. Conceptual Framework

1.8 Significance of the Study

The application of CG attributes of the Iraqi companies and the identification of the CG attributes and their impact on CSRD is of interest in this study. This study also affirms the crucial role of Iraq's economy, including the non-financial sectors listed in the ISX and its employees, to examine and resolve the weak points. It represents an essential theoretical contribution to the current literature that deals with the impact of CG attributes on CSRD. The study would help reduce the research gap in Iraq related to these topics. The study is also anticipated to be of considerable importance to all stakeholders.

This study is essential, given that it contributes to knowledge and policy. To boost CSRD in Iraqi non-financial companies, it would serve substantially as literature that contributes to scholarly awareness in the field of CG attributes of the Iraqi companies. Intuitions will also be given to support future studies on CG attributes for companies in this field. This is due to no previous research has investigated the effect of CG attributes on CSRD in Iraq non-financial sectors listed on the ISX using the EM as a moderator element, to the best of the study knowledge.

Regarding the policy contribution, the study's results and recommendations can be used by the government agencies regulating the work of companies in Iraq, such as management of ISX, the Ministry of Commerce, the Ministry of Labour and Social Affairs, to establish or reshape efficient CG attributes that will aid the companies in attaining its CSRD. It will also assist policymakers in the non-financial sectors listed in the ISX to



implement effective policies to fuel economic development and sustainability in Iraq, leading to better CSRD in Iraqi non-financial companies. CSRD can also draw in prospective employees and investments. Ultimately, this leads to boosting the firm's financial returns. Methodologically, this study contributes to CSRD studies in Iraq via the application of a CSRD index. This is the first study to use a dichotomous process to gather CSRD information and create a CSRD index for non-financial companies in Iraq.

The research also supports the EM of the companies by ensuring that proper procedures are successful in tracking the potential risks in the work of the companies through the CG attributes which are essential for minimising risks to an appropriate degree.

Furthermore, employees will utilise the findings' implications to enhance their CSRD by





1.9 Scope of the Study

This study focuses on ISX-listed non-financial firms. The independent and moderator variables applied the secondary data, whilst the dependent variable underwent content analysis specifically on the environmental, human resource, product and customer, and community engagement items disclosed in the firms' annual reports. This study sets out to prove the effect of earnings management on CSRD level. Shareholders and stakeholders gain clear company information from full disclosures made by the firms. The study was conducted over the 2016-2019 period owing to the data availability at the time. The study is quantitative in nature to ensure greater accuracy and credibility.

1.10 Operational Definitions



Below are some of the key phrases applied in this research. They are included to clarify the definition and interpretation of the terminology in the framework of this research.

1.10.1 Corporate Governance (CG)


This term relates to the relations between the firm management, board of directors, shareholders and stakeholders. CG entails the framework that defines the organisational goals and methods for attaining them as well as for performance measurement (OECD, 2015a). Cadbury (2000) described CG as the manner for striking a balance between social and economic goals, and between collective and individual goals. A CG structure improves resource efficiency whilst relying on accountability as its steward. The primary aim is to align individual, corporate, and social interests as much as possible.



1.10.1.1 Board of Directors (BOD)

According to the OECD (2011), the board of directors referred to the key players to govern the companies. They are responsible for the overall operation of the company by showing strategic leadership skills and motivating guidance to the management. Jizi et al. (2014) point out that the main job of the BOD is to resolve conflicts of interest between stakeholders, and this role may be directly linked to the company's CSR attention (Halme & Huse, 1997). For the scope of this research, the BOD's characteristics are expected to affect CSR, including board independence, board size, and board meeting frequency.

1.10.1.2 Audit Committee (AC)

 05-4506832 The audit committee is one of the sub-committees that exists under the BOD. They are in charge of the BOD official communication, monitoring the internal system, and acting as the external auditors. Moreover, to preserve the connection with the shareholders, the AC will also examine the function of management in auditing, creating financial reports, monitoring internal control, and risk management in the firm (Appuhami & Tashakor, 2017; Dwekat, 2021). For the purpose of this study, the AC that will be observed are the size, independence, and meeting frequency of the AC.

1.10.1.3 Ownership Structure (OWSR)

The varying compositions of ownership in a firm are known as the OWSR, which can be categorized directly based on several observable aspects such as institutional ownership, director ownership, private ownership, or governmental ownership. In this way, shareholders are committed to giving specified degrees of managerial control (Al-Jazrawi & Khudair, 2014). For the purpose of this study, the OWSR observed are governmental ownership, institutional ownership, director ownership, and concentration of ownership.

1.10.2 Earnings Management (EM)

Earnings management is a modification done by the company onto the company's economic report to either misinform the stakeholders or to influence the contractual outcomes. Managers often face explicit and implicit contracts in order to manage the earnings, especially when it comes to the company's connection with the capital market that requires external financing, political and regulatory environments (Chi, Hung, Cheng & Lieu, 2015). According to Schipper (1989) as well as Healy and Wahlen (1999), EM is defined as the decisive intervention of the manager in the financial reporting process by modifying the reported accounting numbers to mislead the stakeholders.

1.10.3 Corporate Social Responsibility (CSR)

In Iraq, CSR refers to the voluntary business group created by companies to create positive effects on the environment where they operate. In order to promote a favourable perception of the business and its social function, CSR attempts to satisfy stakeholders, consumers,

and employees (Asmaa & Ala, 2015). Consolidating positive stakeholder relationship is essential since competitive forces make up the strength of the business and its product. As the business is interconnected with the society, this responsibility entails awareness (Aljajawy & Alkhfaji, 2018). In this research, CSR is described as voluntary acts taken by a company to progress the aims of specified stakeholder groups, including employees, customers, the local community, non-governmental organizations, or broader social purposes (e.g., improving diversity or environmental performance).

1.10.4 Corporate Social Responsibility Disclosure (CSRD)

CSRD refers to voluntary disclosure of activities involving employees, the social setting, the economy, and the surroundings. The major goal of such disclosure is to keep businesses accountable to their communities and promote the company's good effects on all parties involved (Ghabayen, Mohamad & Ahmad, 2016). As stated by Holt (2004), CSRD is viewed as a matter of transparency on the effect of a company's activities on stakeholders such as employees, clients, the government, investors, authorities, and the public at large. Hopkins (2004) summarised the CSR description as follows: "CSR is serving the firm's stakeholders morally or responsibly". In this research, CSRD is described as the voluntary practice of reporting a firm's environmental and social performance to a variety of stakeholders, including employees, clients, goods, and the public, by the use of annual reports.

1.11 Summary

The history of the phrases CG and corporate social responsibility in Iraq is discussed in this section. Then, the research problems are presented to inform the readers of the issues related to this study. The study then develops a number of research objectives and research questions together with the research's ambit to indicate the research's development. These matters will give a better understanding of the study as well as enable the study to have a clear guideline to investigate the level of CSRD in Iraqi non-financial companies. The current study believes that this study will contribute significantly to the field of studies by providing better insight into the practices of CSRD in Iraq.

Next, this study aims to develop a comprehensive investigation of the relationship between the CGA's and the CSRD and EM of the companies listed in the ISX. In addition, this study is significant as it can enhance the understanding of the management theories in explaining the CSRD to the agency, stakeholders, and legitimacy theories that had been the foundation of CSRD in Iraq. Furthermore, by applying the CSRD index, this study will have a big effect on the methodology of studies related to CSRD in Iraq. This will indirectly enhance the quality of future studies related to CGA's and CSRD in Iraq. The subsequent chapter will explore the literature review for the research topic to give the study a better understanding of the research topic and help the study stay on track for a fruitful investigation.