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Research Article

The Modified Role of Family Ownership in The impact of Environmental Disclosure on Earnings Management: An applied Study on A sample of Companies Listed on The Iraqi Stock Exchange

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ABSTRACT

The study aims to detect the effect of disclosing the environmental dimension on earnings management in light of the different level of family ownership. The study deals with analyzing the content of the financial statements published in the Iraqi Stock Exchange during the period (2011-2020) for a sample of companies from different sectors, using the multiple regression analysis to test the hypotheses of the study. The study concludes that the percentage of disclosure of social responsibility constitutes approximately 25%, and the percentage of family ownership in the study sample constitutes an amount of 27%. Moreover, there is a positive correlation between the percentage of disclosure of social responsibility and family ownership and a negative correlation between the environmental dimension and earnings management. In addition to the environment of companies in which the percentage of family ownership is high, the negative impact of disclosing the environmental dimension in the management of profits is less negative than that in the environment of companies in which the percentage of family ownership is low. The study recommends that social responsibility be given sufficient attention by companies due to its importance in the results and performance of companies, as well as the provision of professional organizations and accounting associations in Iraqi companies to provide a set of instructions that clarify how to disclose the dimensions of social responsibility and enact deterrent legislation for companies that practice earnings management in their financial statements. The concerned authorities in the Iraq Stock Exchange must spread awareness regarding the implications of practicing earning management operations.

Keywords: Disclosure of social responsibility, environmental dimension, earnings management, family ownership

INTRODUCTION

The Corporate social responsibility has received increasing attention in recent times, as a result of the rapid economic development. It has become a basis and standard for the ethical work of companies, and falls within the scope of their activities as investment in social responsibility activities is one of the things that must be taken into account by companies, especially in its impact on earning management. If the investment in social responsibility activities does not enhance the minimum benefits of the company, this investment will not last in the long term (Inoue & Lee, 2011). Due to the multiplicity of relevant parties and the conflict of interests among them, earning management has become the focus of many professional bodies for more than thirty years until now, especially after the global financial crisis in 2008 and the collapse of many major international companies. As a result of the management's manipulation of profits with the aim of increasing it, it is necessary to increase the interest in the companies' commitment to social responsibility activities and their disclosure to restore confidence to the users of the financial statements. Social responsibility is a strategic option for regulating relationships with stakeholders, whereby companies can, through the exercise of their activities, gain the legitimacy of society and support environmental groups. This is in turn reflected in increasing confidence in financial reports and improving the reputation and image of the company (Naseer, 2018). The ownership structure is one of the important topics that must be studied as it has a significant impact on the policies and procedures taken by companies, especially after the economic developments witnessed by the financial markets. In addition, the family ownership structure may have an impact on administrative decisions, especially with regard to accounting methods and policies used in preparing the company's financial reports, and the extent of its practice of managing profits.

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Despite the importance of the financial reports that companies disclose, the global financial crisis that the companies are exposed to, is a reason for the manipulation of earnings by the management, with the aim of increasing the profit disclosed in the financial statements, through earning management methods, which result in negative effects on these companies reflected on the confidence of users of the financial statements (Al-Duais et al2019:55). In addition, companies are not aware of the effects of adopting social responsibility in all their activities on performance in the short term and strategically in the long term. On the other hand, the literature indicates that the developing economies, including the Iraqi market, are characterized by the ownership structure in which the ownership structure is concentrated in the form of family ownership. Thus, this study has come to answer the following main question: (Is the impact of disclosing the environmental dimension different in earning management in light of the different level of family ownership?).

Research Hypotheses: To answer the research question, the main hypothesis of the research is formulated (the impact of disclosure of the environmental dimension in earning management varies in light of the different level of family ownership).

Significance of the study: The significance of the study lies in the fact that it deals with one of the most important scientific and practical tangible topics, which has become one of the controversial topics in the recent period, and is considered a broad field that requires research, purification and understanding. This study is important for many internal and external parties that rely on financial statements and statements to make decisions, and whose decisions depend on their confidence in that information.

Aims of the Study: This study aims to provide a theoretical framework for the study variables as a new addition to the accounting literature, especially in the Iraqi environment for companies listed on the Iraqi Stock Exchange during the period (2011-2020).

Scope of the Study: The study relies on a sample of companies listed in the Iraq Stock Exchange during the period (2011-2020).

Method of Study: The use of the descriptive analytical method in achieving the aim of the study as it is the most widely used method in the study of social and human phenomena and is consistent with the subject of the current study. The following figure shows the study variables.

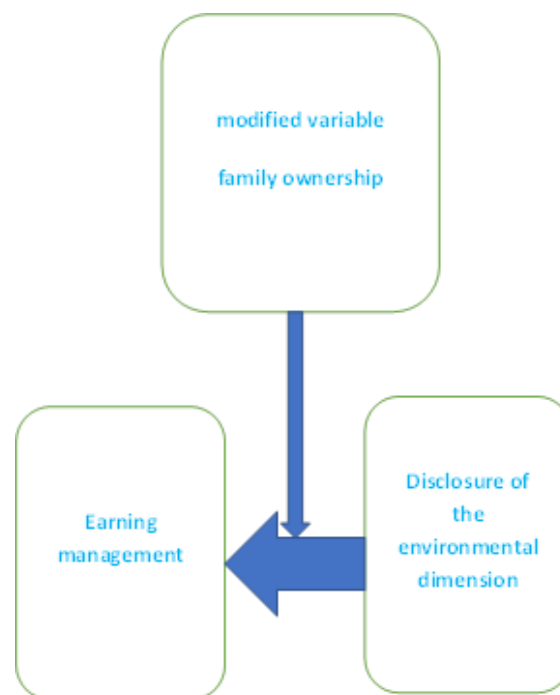


Figure 1: Research variables model

PRACTICAL ASPECT OF THE RESEARCH

The research community has been identified with companies listed in the Iraq Stock Exchange whose reports are published on the Iraqi Securities Commission website, for the period (2011-2020) and for various sectors. The study uses the content analysis technique. The content analysis has been widely used in CSR research (Gray et al.,1995:56) and is the most common method for analyzing social and environmental reports, especially in companies, to measure disclosure of the social responsibility of Iraqi companies. Each indicator disclosed by the company is given a value of "1", and if this item is not disclosed, it is given a value of "0". The total number of items disclosed is divided into the total number of items. For the purpose of calculating earning management, the Kothari (2005) model is used, based on the study by Bzeouich et al (2019) and Zergoun et al.(2018).

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TESTING OF HYPOTHESES

In this part of the research, the results of the research are presented after emptying the data collected for the research sample from the annual financial statements of companies in various sectors.

•Description of the variables: Table (1) presents the values of the arithmetic means and standard deviations of the research variables, which are obtained from the statistical analysis of the data.

Table 1: Descriptive analysis results

Variables	Variation coefficient	Highest value	Lowest value	Standard deviation	Arithmetic mean
Social responsibility	0.206	18	7	1.807	8.77
Economic dimension	0.000	5	5	0.00	5
Environmental dimension	0.747	5	1	0.964	1.29
Social dimension	0.563	11	1	1.396	2.48
Profits management	1.761	.11..3	0.0007	0.3255747	0.184859
Family ownership	0.964	0.86	0.00	0.26229	0.2722

Source: The table is prepared by the researchers based on the outputs of the statistical program (SPSS). Table (1) shows that there is a large level of dispersion in the rates of profit management among the study sample, followed by the percentage of family ownership and environmental disclosure. The lowest dispersion among the sample is primarily in the disclosure of the economic dimension, followed by the disclosure of social responsibility and then disclosure of the social dimension, in terms of the coefficient of variation and standard deviation values. The arithmetic mean values also indicate that the sample's disclosures about the social dimension are approximately 2 pieces of the total information of 15 pieces of information. The environmental dimension in the arithmetic mean is approximately 1 piece of the total information of 16 pieces of information, while the arithmetic mean of the economic dimension is 5 pieces of information out of the total information amounting to 5 pieces of information. As for the disclosure of social responsibility, the arithmetic mean is approximately 9 pieces of the total information of 36 pieces of information, and finally, the percentage of family ownership records an average of 27% of the total sample.

• Hypothesis testing: The hypothesis is dealt with as follows:

(H1) The first main hypothesis: The impact of disclosing the environmental dimension on earnings management varies in light of the different level of family ownership.

A multiple linear regression equation has been formulated to estimate the level of earnings management in terms of the level of disclosure of the environmental dimension in the study sample companies and in terms of family ownership, in order to find out the difference in the impact of the disclosure of the environmental dimension on the level of earnings management. Table (2) shows the results of the impact test.

Table 2: A regression equation to show the difference in the impact of disclosure of the environmental dimension on earnings management according to the level of family ownership

Dimensions	R ²	R ² (modified)	(F) value (Sig.)	(T) value (Sig.)	regression coefficient (β)	constant coefficient (β ₀)
Disclosure of environmental dimension	0.058	0.044	4.039- (0.008)	(0.246)-1.164	5.060-	0.790
Family ownership				1.345- (0.180)	0.393-	
Environmental Dimension x Ownership				0.929 (0.354)	4.063	

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Source: Table prepared by the researcher based on the results of statistical analysis (SPSS)

It is noted from Table (2) that:

1. The stability of the regression model in terms of the (F) value of (4.039) which is significant at the level of significance of 5%, i.e. earnings management can be estimated in terms of disclosure of the environmental dimension and family ownership as an interactive variable. This indicates the validity of the model.
2. Instability of the fixed limit coefficient of the (T) value reaching (-1.164), (-1.345), (0.929), to disclose the environmental dimension and family ownership and family ownership as an interactive change with a significant significance greater than 5%. This indicates the insignificance of the impact of disclosure of the environmental dimension and family ownership as an interactive variable in earnings management.
3. The negative value of (β) of (-5.060), (-0.393) for the disclosure of the environmental dimension and family ownership, indicates that the effect is negative, although this effect is insignificant. This means that the higher the level of disclosure of the environmental dimension and the level of family ownership, the lower the level of earnings management. While the value of beta (β) of (4.063) indicates that family ownership as an interactive variable works to mitigate the negative impact of disclosing the environmental dimension in earnings management. In other words, in the environment of companies in which the proportion of family ownership is high, the negative impact of disclosing the social dimension in the management of earnings is less negative than that in the environment of companies in which the proportion of family ownership is low, but this interpretation remains ineffective due to the insignificance of the impact it has made by (T).
4. The value of the adjusted coefficient of determination (Adjusted R²) of (0.044) indicates that the disclosure of the environmental dimension and the percentage of family ownership as an interactive variable explains (4.4%) of the changes in earnings management, which is a very small percentage, and the largest explanation is (95.6%). It is due to other causes and factors that are not apparent in the current model.
5. Based on the foregoing, the main hypothesis is refuted, i.e., there is no impact of the environmental dimension on earnings management in light of the different level of family ownership.

CONCLUSIONS AND RECOMMENDATIONS

After reviewing the theoretical background, analyzing the results and testing the hypotheses for the research under study, a set of conclusions and recommendations that have been reached are to be presented.

CONCLUSIONS

1. The researchers have reached a number of conclusions, most notably:
2. Disclosure of social responsibility in its dimensions represented in the environmental dimension, is one of the most prominent topics that have attracted researchers' attention in recent times, due to the insufficient financial information to evaluate the company's economic performance.
3. The results of the current study show that the percentage of disclosure of social responsibility constitutes approximately 25%. In the opinion of the researcher, the reason for this is due to the companies' lack of awareness of the importance of disclosure of social responsibility.
4. The results of the current study show that the percentage of family ownership in the study sample is 27%.
5. The Iraqi environment in the economic, commercial, financial and service sectors faces obstacles to the disclosure of information related to social responsibility. This is due to the absence of a set of guidelines that obligate these companies to disclose social responsibility information with its dimensions.
6. Conducting earnings management negatively affects the credibility of the financial information.
7. The results of the current study show that the percentage of disclosure of social responsibility constitutes approximately 25%. In the opinion of the researcher, the reason for this is due to the companies' lack of awareness of the importance of disclosure of social responsibility.
8. There is no interest by the regulators regulating the Iraqi Stock Exchange in adequate disclosure of information related to social responsibility, and the guidelines and standards issued by the Global Reporting Organization (GRI) that regulate the process of disclosure of items related to the dimensions of social responsibility.

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RECOMMENDATIONS

1. Social responsibility, in its three dimensions, economic, social and environmental, must receive adequate attention by companies due to its importance in the results and performance of companies.
2. Professional organizations and accounting associations in Iraqi companies provide a set of instructions that explain how to adequately disclose the dimensions of social responsibility.
3. Enacting legislations that include deterrent penalties for companies that practice earning management in financial statements to limit these practices.
4. The concerned authorities in the Iraq Stock Exchange should spread awareness regarding the implications of practicing earning management operations.

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