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THE EFFECT OF CORPORATE GOVERNANCE, CONCENTRATED OWNERSHIP, AND EARNINGS MANAGEMENT: EVIDENCE FROM EMERGING COUNTRY

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ABSTRACT

The purpose of the study was to ascertain how corporate governance (CG) elements affected earnings management (EM). Additionally, the study looks into how concentrated ownership may moderate the previously observed link. This study used a sample of 40 Iraqi private banks from 2018 to 2023 to fulfill its aims. STATA was employed to examine the data and ascertain the outcomes of the hypotheses. The findings indicated that EM, as determined by discretionary accruals, was negatively correlated with board independence, board size, and board overlap. Additionally, it found that board overlap, financial knowledge, and independence had a detrimental impact on EM., as assessed by REDCA. It was also found that concentrated ownership interacts with the association between CG and EM. This study enables Iraqi regulators and policymakers to enhance earnings quality because it gives them a clear understanding of the CG elements that affect EM. This is particularly important because CG is a relatively new issue in Iraq and requires more attention.

Keywords: Corporate governance, Earnings management, Concentrated ownership, Iraqi banks.

1. Introduction

During the years after the financial crisis that occurred in 2001, firms across the world have been experiencing numerous challenges in dealing with financial crises. Recent financial scandals, such as Enron and WorldCom in the U.S. and many companies in Taiwan, have shown substantial deficiencies in corporate governance and transparency. The incidents prompted regulatory reforms, including the Sarbanes-Oxley Act, and underscore the persistent necessity for enhanced monitoring and accountability in global financial reporting. (Al-Absy et al., 2019; Ghalib et al., 2021), and led to the loss of million dollars of investment. As a financial report reveals the financial performance of a firm, this report is prepared typically at the last step of the accounting process, which provides financial information of the firm describing its financial condition in a definite time. Such information could be applied as a management accountability tool that indicates the success (or failure) of the firm, which could be finally used when important decisions are being made. Therefore, any

financial report needs to be reliable, relevant, transparent, and clear (Gabrielsson & Winlund, 2000; Pucheta-Martínez et al., 2018).
In this regard, most of the banks and financial companies in Iraq are suffering from earnings management (EM) related issues (Ahmed, Ganesan, et al., 2021; Imad et al., 2017; Yaqoob, Fayhaa, Iman Mohammed, 2020). In Particular, most of the Iraqi banks manipulate their profits and are involved in managing their earnings, which exerts serious damage on the quality of their financial reporting (Ahmed, Ganesan, et al., 2021; Ahmed, GANESAN, et al., 2021; Sadaa, Ganesan, & Ahmed, 2023; Talab et al., 2017). According to Doski (2015), Iraq is one of the emerging countries, where corruption is at its peak. This view was further strengthened by the global corruption report issued by Transparency International in 2018 which ranked Iraq at 169th position out of 180, making it a significant issue in the country. Ahmed, Ganesan, et al. (2021) narrated two main issues causing a rampant corruption i.e., managers inefficiency and lack of transparency. Owing to rising corruption, Iraq is facing all kinds of financial and macroeconomic issues, which subsequently is creating an indelible blot on foreign investors' trust (Ahmed, GANESAN, et al., 2021). In this regard, to monitor management practices, stakeholders can depend on various corporate governance (CG) mechanisms (Salehi et al., 2017). According to Young et al. (2008), there are many commonalities between the CG systems of industrialized and developing countries. Despite its importance, CG has received little attention in Iraq's banking sector, and the system's CG has been weak and insufficient (Anwar, 2015). The crash of the economy during the 1997-1998 crisis in Asia exposed the fundamental reasons of the financial turmoil, including poor governance and insufficient standards. This experience compelled numerous Asian countries to learn from their mistakes and, appropriately, enhance their corporate governance mechanisms. (European Central Bank, 2016). Consequently, The CBI accepted the 2017 the Iraq Code of Corporate Governance (ICCG) (OECD, 2019). Furthermore, the Iraqi Stock Exchange and the CBI have begun to strengthen the effectiveness of other CG procedures, developing the best principles and frameworks for banks to follow. As a result, this study employs CG to enhance financial performance by reducing managers' opportunistic actions. Particularly, the mechanisms of CG are regarded efficient ways that might ease the challenges associated to EM (El Diri et al., 2020; Jensen & Meckling, 1976).
In this regard, relevant studies have focused particularly on developing countries that present many variations in governance structure and more dispersed ownership structure compared to Iraq (Boachie, 2023; Guizani & Abdalkrim, 2021; Hasan et al., 2023). However, Iraq's concentrated ownership structure creates an agency issue between major shareholders and minority stockholders. Large owners frequently aim to maximize their advantages and earnings at the expense of others (Hazzaa et al., 2024; Sadaa, Ganesan, & Ahmed, 2023). In addition, based on their voting power, they can elect board members in line with their interests (Alhmood et al., 2023; Singh & Rastogi, 2022). Therefore, internal governance mechanisms can be ineffective, and this conflict can only be resolved through external stakeholders and regulators (Torchia & Calabrò, 2016; Zong-jun et al., 2007). Though concentrated ownership is common and

shareholder rights are not as well protected as they are in Iraq, there are few prior research on the causes and effects of profits management in developing economies (ElBannan, 2015; O'Sullivan, 2009). The banking industry in Iraq is a great example of CG, EM, and bank ownership concentration (OC). Our findings contribute to previous research by providing evidence of the impact of corporate governance on profit management. assessing concentrated ownership's moderating impact on the Iraqi market, however. If decision-makers reassess the recently implemented CG rule, this study may enhance their comprehension of the CG elements that affect profit management. Furthermore, controlling shareholders might have the freedom to act in their own interests rather than the bank's overall interests. This leads to a number of issues because it makes CG procedures ineffective at stopping opportunistic behavior or managing earnings. As a result, the research may grant regulatory organizations like the Iraqi Stock Exchange additional authority to confirm that businesses are adhering to applicable laws and maybe to examine listing standards. Furthermore, judicial and legal institutions are probably going to be useful instruments for governance. Legislation may need to be changed by the government to safeguard minority shareholders and prevent conflicts of interest with dominant shareholders.

2. Review of Literature and Development of Hypotheses

2.1 Corporate Governance and Earnings Management

Agency theory focuses on resolving agency conflict, but the primary challenge in CG is whether shareholders' interests can be sufficiently preserved (Boachie & Mensah, 2022; Liu & Jiraporn, 2010). The split of ownership today requires companies to select the finest, most appropriate, and most stable governance solutions to ensure a successful alignment of interests between principals and agents. As per Vitolla et al. (2020) and Raimo et al. (2021), The primary objective of corporate governance is to reduce agency problems by balancing the interests of both sides. A board of directors, according to Jensen and Meckling (1976), represents the guiding principles. Similar to this, Kilincarslan (2021) contends that directors are a crucial instrument for limiting agency conflict by regulating and managing management. The crucial function that the board plays in managing the company for the benefit of the shareholders is further supported by agency theory (Fama & Jensen, 1983). The board is acknowledged as the highest level of management, is given tremendous responsibility, and has a fiduciary duty to guide the organization in achieving goals for competitive advantage while closely observing management operations to protect shareholder value. They are supposed to discharge the responsibility as the watcher on behalf of the shareholders (Busrai, 2019). Carter et al. (2010) assert that the board of directors has a legal obligation to safeguard the interests of shareholders, which management regards as paramount. The researchers also noted that effective CG practices have been shown by agency theory to improve board member effectiveness, increase the capacity to monitor management, decrease agency conflict, and improve the ability to mitigate EM (Cuevas-Rodríguez et al., 2012; Khalil, 2021). Consequently, the board establishes the optimal corporate governance structure that ensures the precision of the company's financial reporting system and fosters trust between management and

shareholders. Consequently, in terms of overseeing management, independent directors do their duties more effectively than internal directors. The reason is that they do not work for the firm. Moreover, such directors have more experience and acquaintance with financial issues and accounting practices (Adams & Mehran, 2011). For that reason, shareholders have a tendency to choose independent directors to enjoy independence from managers (Alshetwi, 2017).
Agency theory posits that an independent board of directors, including many non-executive members, should mitigate conflicts of interest between shareholders and corporate management. Council decisions benefit from the experience and impartiality of independent boards (Fama, 1980; Usman et al., 2022). Independence board members keep their position by providing effective monitoring, according to several research (El-Chaarani et al., 2022; Lee et al., 2020; Zhou et al., 2018). Prior research indicates that an autonomous board of the directors may provide efficient monitoring of financial statements e.g. Usman et al. (2022) established an inverse relationship amongst board independence and profit management in a sample of British enterprises from 2010 to 2019. Githaiga et al. (2022) demonstrate a negative relationship among independent board members and earnings management for a cohort of East African listed businesses from 2011 to 2020. Finally, using a sample of 292 observations from Nigeria spanning 2018 to 2021, Musa et al. (2023) discerned a negative correlation amongst board of directors' independence and earnings management (EM). Considering the above it is hypothesized that
H1: Board independence will negatively impact earnings management
However, some claim that when the board size is limited, the independent members are fewer and more controlled by administration personnel, decreasing their ability to recognize earnings management (Alam et al., 2020; Usman et al., 2022). Le and Nguyen (2023) assert that bigger boards of directors mitigate profit mismanagement due to the involvement of more knowledgeable and skilled individuals. Numerous studies have shown that the size of the board of directors is negatively related to profits management. For instance, Attia et al. (2022) identified an inverse correlation between board size and earnings management in 78 Egyptian firms from 2008 to 2017. A research by Abu Afifa et al. (2022) indicates that profitability optimization in service businesses listed on the Amman Stock Exchange from 2012 to 2019 was adversely affected by the size of the board of directors. Consequently, the analysis posits the premise that:
H2: Board Size will negatively impact earnings management
Furthermore, as financial acumen is a crucial factor influencing the quality of financial statements, the board of directors must have sufficient knowledge and expertise in finance and accounting. (EL Ammari, 2022; Mollah et al., 2021). Moreover, independent directors with financial and accounting experience directly impact the quality of financial statements, and these directors help companies avoid serious accounting problems that harm the company's reputation. This shows that directors with good financial experience are invaluable in supervising the preparation of the financial accounts of the corporation (Sadaa, Ganesan, Yet, et al., 2023). Burak Güner et al. (2008)

and Githaiga and Kosgei (2023) indicated that board members need knowledge of accounting and law in order to supervise management and make sound decisions that add value to the company and that members who do not have financial experience cannot detect errors in financial reporting. Through oversight and quality in the auditing process of the firm's audited financial statements, the board of directors' financial competence aids the company in controlling the EM (Rahman et al., 2023; Zalata et al., 2018). Through oversight and quality in the auditing process of the firm's audited financial statements, The financial acumen of the board of directors assists the corporation in managing its earnings.The financial knowledge of the board of directors is considered a fundamental attribute, with the primary responsibility of supervising the creation of financial reports. Managers need to be knowledgeable about accounting and finance in order to spot financial statement manipulations and make information more transparent. The board of directors also needs to be able to ask management questions, support the company's operations, and keep an eye on risk management, all of which are made possible by the board of directors' financial expertise, which in turn influences how the company's earnings are managed and its objectives are met (Idris et al., 2018).). In light of the aforementioned, we presumes that:

H3: Financial expertise will negatively impact earnings management

Moreover, professionals and scholars have increasingly questioned the desirability of redundant membership—where a minimum one board member also serves on a board subcommittee—from a governance standpoint. (Chandar et al., 2012; Habib & Bhuiyan, 2018). In order to critically analyze CEO performance, directors must first understand the metrics used to assess CEO performance and whether these metrics have been skewed. Consequently, Information exchange among overlapped executives can assist the board in managing the enterprise. (Fernández Méndez et al., 2017). According to resource dependence theory, businesses benefit when directors are chosen to serve on several committees because they can use the skills and information they acquire from one committee to improve their oversight duties on other committees.(Aldegis et al., 2023; Alshirah et al., 2021). Consequently, they may exhibit superior monitoring capabilities by reducing management's tendency to make accounting judgments driven by the aspiration to enhance their compensation. The alignment of board membership and board committees helps to improve knowledge of the possible hazards of misreporting caused by incentive compensation, particularly as performance-based awards may encourage directors to fabricate earnings (Aldhamari et al., 2020). As a consequence, the knowledge obtained improves the board's control of the financial reporting process, resulting in superior financial performance (Habib & Bhuiyan, 2016). It is anticipated that if overlap increases a board member's effectiveness, board overlap will increase the board's ability to offer independent recommendations free from the CEO's or executives' influence. Consequently, the research makes the following hypothesis:

H4: Board overlapping will negatively impact earnings management

2.2 Ownership concentration as a mediating

OC is a significant external mechanism that gives a dominant shareholder more influence, improving oversight and reducing the board of directors' and other controls' effectiveness as well as effecting many managerial decisions such dividend payouts etc (Al Farooque et al., 2020; Shahrier et al., 2020; Murtaza et al., 2021). One prominent shareholder or a small consortia of substantial shareholders sometimes has the majority of shares in companies marked by concentrated ownership. Owners of substantial private enterprises often own significant financial connections to the business. (Ciampi, 2015). As a result, Manzaneque et al. (2016) said that when a firm with concentrated ownership fails financially, major shareholders suffer significant losses proportional to their concentrated ownership percentage in the shares of the distressed financial organization. They thus start to worry more about the company's performance. They successfully and totally control the activities of management and the performance of the company, in contrast to distributed ownership (Habib et al., 2020). This monitoring reduces the likelihood of managers engaging in self-serving behavior and neglecting their duties (Jensen & Meckling, 1976), potentially discouraging them from pursuing riskier initiatives. In Spanish banks, García-Marco and Robles-Fernández (2008) discovered a negative relationship between risk-taking and shareholder concentration. According to the negative consequence, higher levels of shareholder concentration in commercial banks serve as a means for shareholders to impose managerial control and discourage risk-taking behavior (Tarchouna et al., 2022).

Moreover, moral hazard and agency conflicts coexist when there is inadequate or no shareholder oversight (Mateev et al., 2022; Purkayastha et al., 2022). Make the assumption that management takes on more risk than is optimal for shareholders. In this case, the danger posed by moral hazard issues is outweighed by the increased risk brought on by the agency problem (Boussaada & Labaronne, 2015). Additionally, OC indicates the existence of significant owners. It has long been acknowledged as a powerful external tool for monitoring management choices and activities and influencing the board of directors. However, OC serves a number of purposes. Owners' behavior and performance will vary according to the kind of owners, the market environment, and institutional considerations (Haider & Fang, 2016). In this regard, it is worthwhile to investigate the benefits of OC in monitoring as opposed to alternative ownership and CG methods. The key advantage of OC over alternative instruments is the owner's capacity to oversee management, which can reduce conflict and agency costs (Shehzad et al., 2010). Dominant shareholders have an important role in monitoring and regulating directors, resulting in improved control, supporting the advantages of other mechanisms such as the board of directors, and lower agency costs (Madhani, 2016). Claessens et al. (2002) propose that the supervisory function of boards of directors may become increasingly relevant in organizations with substantial OC.

In the case of concentrated ownership, the owners tie a large part of their money in the company. Therefore, they always seek to preserve and maximize their wealth, and if the company is exposed to any loss, they share the largest part of it based on their ownership percentage in the company's shares. This loss may even exceed their own money. Therefore, they bring in competent and experienced board members and elect the CEO based on their voting power in the board of directors. The CEO is responsible for their interests and is dismissed in case the required goals are not achieved. It can be said that concentrated owners have the largest percentage of the company's shares. Therefore, they have sufficient voting power to control the company's management, draw up strategic plans, and follow up on their implementation. Accordingly:

H5: Concentrated ownership mediate the link between corporate governance and earnings management

3. Methodology

3.1 Sample size

The study adopted Iraqi banks working in the Iraqi environment and listed on the Iraqi Stock Exchange as the population of this study. The research sampling consists of the banks listed on the Iraqi Stock Exchange from 2018 to 2023. The reason behind choosing 2018 as a basis is that the first introduction of the Iraqi Code of Corporate Governance was in 2017 and came into effect in 2018. The sample size was determined by excluding enterprises from the non-financial sector (industrial, commercial, and services). The rationale for excluding these firms was based on the Companies Act of 2006 which states that these companies follow different instructions and rules. The banks that were formerly money transfer corporations before being turned into banks after 2018 were also disqualified. As a result, a final sample size of 40 banks was chosen from 2018-2023.

3.2 Variables measurements

The study's dependent variable is one of two EM metrics. Since the modified Jones model of discretionary accruals (DA) indicates active management involvement in earnings reporting, it is used as a stand-in for EM, as has been done in other research (Al-Thuneibat et al., 2011; Xiao et al., 2020). The degree of bias that management and the auditor have incorporated into financial statements may be evaluated using discretionary accruals. In several research, discretionary accruals have been utilized to symbolize audit independence and earnings quality (Bigus & Weicker, 2024; Imen & Anis, 2020; Sadaa, Ganesan, & Ahmed, 2023). Discriminatory accruals (DA) are calculated by deducting total accruals (TA) from non-discretionary accruals (NDA), as per the modified Jones model. The subsequent representation is the revised Jones model:

$$TA_t = \alpha_1 \left(\frac{1}{At-1}\right) + \alpha_2\left(\frac{\Delta REVt}{At-1} - \frac{\Delta RESt}{At-1}\right) + \alpha_3\left(\frac{PPEt}{At-1}\right) + \varepsilon it$$

(1)

Where: TA_t: Total Accruals = Net Income minus Operating Cash Flow, At: Total Assets, ΔREV_t: Net Revenue in the Current Year - Net Revenue in the Previous Year, ΔRES_t: Net Accruals in the Current Year - Net Accruals in the Previous Year, PPE_t: Total Property and Equipment in the Current Year

To prevent heteroscedasticity, all variables were divided by the Total Assets of the Previous Year (At – 1) (Labelle et al., 2010; Sadaa, Ganesan, & Ahmed, 2023). The research assessed NDA using the following equation based on the expected coefficients:

$$NDA_t = \hat{a}_1 \left(\frac{1}{At-1}\right) + \hat{a}_2 \left(\frac{\Delta REVt}{At-1} - \frac{\Delta RESt}{At-1}\right) + \hat{a}_3 \left(\frac{PPEt}{At-1}\right)$$

(2)

where â1, â2, and â3 were the estimated coefficients for a1, a2, and a3, respectively. After evaluating the NDA from Equation (2), the DA of the sample was measured by the difference between the total accruals (TA) and the non-discretionary accruals (NDA). The residual value was derived from the following equation:

DA= TA – NDA (3)

Corporate governance factors: The present study defined board independence as the ratio of independent directors to the total number of members of the board, in accordance with ICCG and contemporary research in this field. (Aksoy & Yilmaz, 2023; Alves, 2023). The number of directors on a board was used to determine its size (Andoh et al., 2022). The number of board members having financial experience divided by the total number of board members was used to calculate the board's financial expertise (Sadaa, Ganesan, Yet, et al., 2023). Board financial expertise information will be found under various headings such as the director's profile and directors or bank information in the annual report. Board overlap is measured by members who also serve on one of the board sub-committees divided by board size (Geng et al., 2022; Habib & Bhuiyan, 2016).

Moderating variable: The ownership percentage owned by the bank's five largest shareholders functions as a moderating variable indicative of concentrated ownership. (Sadaa, Ganesan, Yet, et al., 2023).

Control Variables: The bank's size is ascertained by calculating the natural logarithm of its total assets. Bank age refers to how long a bank has been in operation from its founding; Short- and long-term debt divided by total assets is a measure of financial leverage (Hazzaa et al., 2024; Sadaa, Ganesan, Yet, et al., 2023).

3.3 Model Specification

$DA = \beta_0 + \beta_1 BI + \beta_2 BS + \beta_3 BFE + \beta_4 BO + \beta_5 SIZE + \beta_6 AGE + \beta_7 LEVERAGE + \varepsilon_{it}$ (1)

$DA = \beta_0 + \beta_1 BI + \beta_2 BS + \beta_3 BFE + \beta_4 BO + \beta_5 OC + \beta_6 BI*OC + \beta_7 BS*OC + \beta_8 BFE*OC + \beta_9 BO*OC + \beta_{10} SIZE \beta_{11} AGE + \beta_{12} LEVERAGE + \varepsilon_{it}$ (2)

BI: board independence
BS: board size
BFE: board financial expertise
BO: board overlap
OC: concentration ownership
SIZE: bank size
AGE: bank age
LEVERAGE: bank leverage

4.Data analysis and findings

4.1 Descriptive analysis

The following section provides details on the inquiry's dependent, independent, and moderating factors. Table 1 depicts the descriptive analysis of the variables employed in the study.

Table 1 Descriptive analysis

	Obs.	Mean	Std.Dev.	Median	Min.	Max.
DA	240	0.1694	0.3504	0.1799	-0.8820	**2.5281**
BI	240	0.5384	0.2701	0.5286	0.0000	**1.0000**
BS	240	7.3288	1.6518	7	4	**14**
BFE	240	0.4558	0.2112	0.4285	0.0000	**0.875**
BO	240	0.9325	0.2513	1.0000	0.0000	**1.0000**
OC	240	0.5738	0.3105	0.5622	0.2385	**0.9733**
SIZE	240	11.7240	0.1905	11.7234	10.9164	**12.1904**
AGE	240	15.2046	7.2315	15	1	**29**
LEV	240	0.5748	0.2548	0.5608	0.0896	**2.1796**

Table 4.1 indicated that the average estimated accruals were 0.1694, indicating that the estimated accruals are very high in the Iraqi banks in the study sample. This conclusion is in link with the prior studies such (Sadaa, Ganesan, & Ahmed, 2023), which found that the average estimated accruals of Iraqi private banks during the period 2008 to 2019 were (in absolute value: 0.185). Therefore, EM in Iraqi banks is considered high, i.e. the higher the estimated accruals, the higher the EM and vice versa. All board members of certain banks in the sample are independent directors for a certain number of years, according to the experimental outcome of BI, which demonstrates that the maximum was 1.000 percent. This indicates that Iraqi banks' boards of directors can have no more than one independent director. Furthermore, a significant proportion of Iraqi banks lack independent directors on its boards, which constitutes a 0.00% minimum need for BI. The proportion of independent directors relative to the total number of directors on the boards of Iraqi banks is markedly low, as seen by the average BI of 0.441. In accordance with the Iraqi Corporate Governance Law, which mandates that the board of directors must have at least seven members, the average board size of Iraqi banks was 7.4087. Nonetheless, the Corporate Governance Law's minimal BS of 4,000 indicates that several Iraqi banks do not adhere to its rules. With reference to Table 4.1, the Iraqi Banking Law of 2004 and the ICCG 2018 indicated that in order for boards of directors to effectively handle business complexity, competition, and change, they must have a diverse group of members with the necessary training and expertise. Nevertheless, the statutes did not outline the knowledge and expertise that directors needed. It is noteworthy that 0.4669 of the board members have financial expertise, according to this study. This means that the boards of directors of Iraqi banks are better equipped to keep an eye on risks that are unlikely to pay off or have an impact on the companies' financial stability, and they will advise senior managers to steer clear of them (Minton et al., 2014; Sarwar et al., 2018). The average percentage of board members who overlapped was 24%, indicating that a sizable portion of the board is made up of representatives from the board of

directors' internal committees. This accumulation of knowledge further enhances the board of directors' ability to oversee EM.

4.2 Correlation Matrix

The most common measure for evaluating pairwise and multiple variables is the variance inflation factor and the correlation matrix (Bryman, 2012). According to the correlation matrix, the highest correlation of 0.740 was observed between OC and BI. All other correlation coefficients fall within the range of -0.794 and 0.740, indicating that none of them is greater than 0.9 (Hair et al., 2014). Thus, there is no significant problem with multicollinearity.

Table 2 Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
(1) DA	1.000									
(2) REDCA	0.712	1.000								
(3) BI	-0.234	-0.078	1.000							
(4) BS	-0.189	-0.007	0.167	1.000						
(5) BFE	-0.582	-0.137	0.084	0.176	1.000					
(6) BO	-0.324	-0.165	0.230	0.075	0.016	1.000				
(7) OC	-0.471	-0.105	0.740	0.590	0.122	0.369	1.000			
(8) SIZE	-0.092	-0.033	0.138	0.106	0.055	0.029	0.015	1.000		
(9) Age	-0.010	-0.013	-0.794	-0.634	0.723	-0.645	0.001	0.364	1.000	
(10) LEV	-0.281	0.211	-0.240	-0.477	0.043	0.036	0.122	0.122	0.153	1.000

4.3 Hypothesis test

The subsequent steps are undertaken at the start of the research to establish an appropriate model for the interactions between CG and EM: The fixed effect was evaluated to compare the optimal model between the POLS effect and the FEM effect. Moreover, the diagnostic tests yield dependable and substantial outcomes. The initial phase involved employing tests for multicollinearity, serial correlation, and heteroskedasticity to assess the trustworthiness of the fixed effect model. The mean VIF of 1.20, which is below the 3.00 threshold, indicates the absence of considerable multicollinearity (Hair et al., 2014). The heteroskedasticity test findings indicated that the model exhibits heteroskedasticity (8735.74***(0.000). Additionally, the serial correlation test has indicated a significant autocorrelation issue (15.6493***(0.000). Consequently, a robust fixed effect model (Robust FEM) is employed in the study to address the issues of heteroskedasticity and serial correlation. The likelihood of the Fstatistic indicates that the model is dependable about the quality of fit of the robust fixed effect. The last column in Table 3 was utilized to ascertain the acceptance or rejection of the hypotheses presented in the present investigation.

Table 3 shows that discretionary accruals are negatively impacted by BI. Thus, our hypothesis that BI and EM are negatively correlated is validated. Our results support the claims made by agency theory that BI is a necessary component of efficient CG systems that lower agency costs and internal conflicts of interest (Dwekat et al., 2020; Wasan & Mulchandani, 2020). By decreasing the likelihood of insider fraud and profits manipulation, boards with a large percentage of independent directors are better monitors (Alves, 2014), nd enhance the integrity of financial reporting (Melgarejo, 2019). Furthermore, according to agency theory, a more independent board is better at preventing management from manipulating earnings and safeguarding the interests of shareholders (Idris et al., 2018). This is because independent directors don't pursue self-interested goals like deceiving investors or tampering with assets and executive compensation (Abbadi et al., 2016).

Table 3The effect of corporate governance on discretionary accruals

	(1)	(2)	(3)	(4)	(5)
	POLS	FEM	REM	Robust FEM	VIF
BI	-0.0551*(0.0956)	-0.1991**(0.034)	-0.1873**(-1.030)	-0.1991**(0.021)	1.08
BS	-0.2833**(0.036)	-.2174**(0.017)	-0.1986**(0.028)	-.2174**(0.033)	1.14
BFE	-0.0489(0.132)	-0.0488(0.304)	-0.0589(0.917)	-0.0488(0.291)	1.02
BO	-0.0316(0.205)	-0.1055*(0.091)	-0.0934*(0.064)	-0.1055*(0.071)	1.27
SIZE	-0.2841***(0.000)	-0.1395**(0.040)	-0.2245***(-3.507)	-0.1395**(0.017)	1.22
AGE	-0.1220*(0.053)	-0.2306**(0.034)	-0.1338*(1.865)	-0.2306**(0.048)	1.18
LEV	-0.0048(0.381)	-0.0078(0.141)	-0.0064(0.268)	-0.0078(0.183)	1.45
Constant	0.6430(0.346)	0.6281(0.338)	0.5896(0.518)	0.6281(0.362)	
R-squared/Pseudo R2	.3458	.4517	.4108	.5844	
Adj R2	.3234	.4195	-	.5162	
F-stat/Wald x2	12.7346	9.3826	143.55	12.4729	
Year Dummies	Yes	Yes	Yes	Yes	
Observations	240	240	240	240	
Poolability test (POLS vs FEM)			3.2745***(0.000)		
Breusch-Pagan LM test (POLS vs REM)			17.22***(0.000)		
Hausman test (FEM vs REM)			39.83***(0.000)		
Multicollinearity (VIF)		1.20			
Serial Correlation		15.6493***(0.000)			
Heteroskedasticity		8735.74***(0.000)			
p-values are in parentheses					
*** p<.01، ** p<.05، * p<.1					

The findings also indicated that in Iraqi private banks, discretionary accruals and BS are negatively correlated. In this sense, the outcome validated our theory. This result supports the agency theory's claim that a larger board of directors strengthens its control of the company's activities and increases its capability (Allegrini & Greco, 2013). Furthermore, greater external linkages and a wider range of skills are associated with larger boards (Mili & Alaali, 2023). Larger boards often include a diverse set of skills, knowledge, and experiences among board members. This diversity can enhance the board’s ability to provide strategic guidance and oversight, which may reduce the likelihood of risky financial decisions that could lead to financial distress (Zahra & Pearce, 1989). A bigger board may be able to monitor management's activities and financial results more effectively. Better decision-making and risk management techniques might result from more members' enhanced examination and debate of financial issues. According to earlier research, bigger boards also provide a number of benefits associated with a company's capacity to access director-held resources and information that may be required to meet corporate goals. A larger board may have access to more resources, such as specialized committees or outside advisors, that can assist with financial planning, risk assessment, and crisis management. This can help a company handle difficult financial situations more effectively (Pfeffer & Salancik, 2003; Sadaa, Ganesan, Yet, et al., 2023).

We discovered that BO has a detrimental impact on profits management. The results of the study confirmed the resource dependence theory's suppositions, which stated that members of the board of directors with overlaps contribute more CG experience, important confidential information, and knowledge, as well as more skills because of the complexity and scale of the operations they oversee. As a result, they are able to carry out their responsibilities with greater diligence and challenge management more frequently, which enhances the quality of financial reporting (Sultana et al., 2019). The findings support the agency's claims, and corporations benefit greatly from overlapped directors' increased expertise, expanded channel networks, and broader experience gained by sitting on other committees (Fernández Méndez et al., 2015). Nevertheless, the study found no evidence of a substantial impact of financial knowledge on discretionary accruals, which reflect EM. The association between discretionary accruals and the relationship's direction was negative, but the effect was not substantial enough. As a result, the third hypothesis of the study, which suggested a negative association between the board's financial ability and profits management, is dismissed. Because their presence on the board will be essential in identifying risks that could harm shareholders' interests, our findings contradict earlier research that suggested the board of directors' financial knowledge can function as a monitoring mechanism to highlight the board of directors' supervisory role (Jensen & Meckling, 1976; Sarwar et al., 2018). Given the ambiguous and complicated nature of the banking business, De Haan and Vlahu (2016) stated that the presence of financially competent directors is a significant policy concern, particularly from a risk management standpoint. According to other studies, a board with more financial knowledge may spot risks that could jeopardize the company's financial stability or fail to pay off and counsel senior management to steer clear of them (Burak Güner et al., 2008; Minton et al., 2012; Unda et al., 2019). Agency theory states that in order to "allow for effective governance and monitoring," bank board members should be sufficiently knowledgeable about the bank's core financial operations. This is because having more financial professionals on the board would surely lower risk (Minton et al., 2014).

Table 4 the moderating effect of ownership concentration

	(1)	(2)	(3)	(4)
	POLS	FEM	REM	Robust REM
BI	-0.2064**(0.035)	-0.3109***(0.000)	-1.1064**(-1.443)	-1.1064**(-2.852)
BS	-0.2596**(0.038)	-0.3719(0.000)	-0.2167***(0.000)	-0.2167***(0.000)
BFE	-0.0922*(0.076)	-0.0022(0.495)	-0.0069(0.368)	-0.0069(0.214)
BO	-0.1004***(0.000)	-0.0185**(0.050)	-0.0693***(-.000)	-0.0693***(0.000)
OC	-0.3270***(0.000)	-0.1775**(0.048)	-0.2239***(0.000)	-0.2239***(0.000)
BI*OC	-0.0745***(0.000)	-0994***(0.000)	-1.4413***(-2.963)	-1.4413***(-5.346)
BS*OC	-0.1773***(0.002)	-0.1092**(0.018)	-0.1360***(0.000)	-0.1360***(0.000)
BFE*OC	-0.0436**(0.043)	-0.0588**(0.049)	-0.1878**(0.028)	-0.1878**(0.037)
BO*OC	-0.3204***(0.000)	-0.3019***(0.001)	-2.1165***(-4.384)	-2.1165***(-5.098)
SIZE	-0.1854*(0.069)	-0.1780*(0.083)	-0.0245**(0.052)	-0.1780*(0.069)
AGE	-0.0411*(0.088)	0.0640(0.107)	-0.5033(0.265)	-0.5033(0.233)
LEV	-0.8419(0.406)	-0.6422(0.274)	0.0238(0.153)	0.0238(0.118)
Constant	0.4435(0.226)	0.6453(0.245)	0.4251(0.119)	0.4251(0.195)
R-squared/Pseudo R2	.5481	.5830	.7104	.7915
Adj R2	.4957	.5643	-	.7155
F-stat/Wald x2	14.5362	11.5622	13.6435	134.75
Year Dummies	Yes	Yes	Yes	Yes
Observations	240	240	240	240
Poolability test (POLS vs FEM)		5.6433***(0.000)		
Breusch-Pagan LM test (POLS vs REM)		23.18***(0.000)		
Hausman test (FEM vs REM)		5.53(0.237)		
Multicollinearity (VIF)		1.20		
Serial Correlation		10.8975***(0.000)		
Heteroskedasticity		14.7456**(0.028)		
p-values are in parentheses				
*** p<.01، ** p<.05، * p<.1				

Hypothesis 5 is validated by Table 4, which demonstrates the connection between OC and the association between CG and EM. Accordingly, the findings are in line with earlier research. According to Karajeh (2019), when CG is inadequate, concentrated ownership may lessen agency conflicts. Iraq is one of the developing countries to whom this applies (Anwar, 2015). Given the lack of job security, the administration may choose to forego financial difficulties in favor of a temporary benefit if there is insufficient control (Donker et al., 2009; Lo et al., 2016). In this regard, Shehzad et al. (2010) contended that concentrated ownership lowers financial risk because concentrated-equity banks are more motivated to practice sound monitoring due to management responsibility to shareholders. Additionally, according to certain research, concentrated shareholders relieve the agency's problems by sending representatives to the executive team or board of directors; they may also have power over management and managers (Al Farooque et al., 2020; Jeanjean & Stolowy, 2009). Therefore, they have authority over the conduct and administration of CEOs' profits. Shahrier et al. (2020) asserted that big shareholders have a strong motive to keep an eye on managers and even fire them when they perform poorly. Companies with concentrated ownership may thus be better equipped to control EM than those with a more distributed ownership structure. Besides, Manzaneque et al. (2016) discovered that prominent shareholders incur large losses when businesses collapse because they are involved in a financially challenged company. As a result, they have to perform crucial oversight duties regarding opportunistic managerial conduct. The capacity of the owner to keep an eye on manager choices and provide strong incentives to steer clear of excessive risks in order to maintain ownership and ensure the bank's economic continuity is, therefore, the primary benefit of OC. Therefore, in the absence of useful supervision instruments, stock ownership serves as a replacement (Madhani, 2016).

It is assumed that shareholders are risk-neutral since they can diversify their risk exposure. Managers, on the other hand, are risk-averse when working only as agents, protecting their own interests. The agency theory states that ownership structure influences managerial decisions, which in turn influence company risk-taking (Jensen & Meckling, 1976). In this case, concentrated stockholders might influence management's financial decisions. Large owners have the means and ability to actively supervise management and utilize their influence to maximize earnings (Jiang & Kim, 2015). According to Grossman and Hart (1986), if the ownership structure is weakened, shareholders will be less motivated to monitor management choices because the costs of the agency's monitoring will be greater than any potential gains; this will undoubtedly not improve the performance of the business. According to agency theory, tiny owners are not motivated to monitor because they would be responsible for paying the most monitoring expenses. However, they will only get a small percentage of the benefits (Indarti et al., 2020; Jensen & Meckling, 1976). Therefore, major shareholders have a strong incentive to keep an eye on management in order to appropriately protect their most valuable assets. In order to preserve the company's existence and profitability, OC can thereby reduce agency costs by improving oversight and reducing managers' opportunistic conduct (Alves, 2011; Niu, 2006).

4.4 Additional Analysis

According to certain research, discretionary accruals are understated by non-compensatory accruals determined using the modified Jones model. According to certain research, businesses that receive ongoing feedback have significant negative accruals, or things that lower revenue. Severe financial difficulties might lead to negative discretionary accruals. Accordingly, some scholars think that these findings contradict EM and auditors' justifications for their reservations between their judgment and discretionary accruals (Al-Thuneibat et al., 2011; Butler et al., 2004). In this regard, Francis (2004) offered a critical perspective on the modified Jones model in this respect, pointing out that it mainly depends on two essential components of the financial statements—changes in revenues and property, plant, and equipment—to materialize discretionary accruals. Accordingly, and since prior research has shown that estimated accruals and firm performance are related (Dechow et al., 1995; Hoitash et al., 2007; Kothari et al., 2005), we guarantee firm performance by incorporating return on assets and presenting an accrual measure that is comparable to that of earlier research (Abid et al., 2018; Hoitash et al., 2007), as follows:

$$CA = \alpha \frac{1}{TA_{t-1}} + \beta(\Delta REV) + \gamma(ROA_{t-1}) + \varepsilon_t \quad (4)$$

$$ECA = \hat{\alpha} \frac{1}{TA_{t-1}} + \hat{\beta}(\Delta REV - \Delta AR) + \hat{\gamma}(ROA_{t-1}) \quad (5)$$

Where:

CA: Net income before extraordinary items + depreciation and amortization - operating cash flows. Measured by total assets at the beginning of the year, TA_{t-1}: Total assets at the beginning of the year, ΔREV: Current year net revenues - prior year net revenues. Measured by total assets at the beginning of the year, ΔAR: Current year accounts receivable - prior year accounts receivable, ranked by total assets at the beginning of the year, ECA: Expected current accruals, REDCA: Represents the difference between CA and ECA. A higher level of current estimated performance-adjusted accruals indicates a higher degree of EM.

Emprical models:

REDCA = β_0 + β_1 BI + β_2 BS + β_3 BFE+ β_4 BO + β_5 SIZE + β_6 AGE + β_7 LEVERAGE + ε_{it} (1)

REDCA = β_0 + β_1 BI + β_2 BS + β_3 BFE+ β_4 BO + β_5 OC + β_6 BI*OC + β_7 BS*OC + β_8 BFE*OC + β_9 BO*OC + β_{10} SIZE β_{11} AGE + β_{12} LEVERAGE + ε_{it} (2)

Table 5 Descriptive Analysis for REDCA

	Obs.	Mean	Std.Dev.	Median	Min.	Max.
REDCA	240	0.1252	0.6659	0.2765	-1.8569	**4.5490**

The overall descriptive data for REDCA from 2018 to 2023 are shown in Table 3. The REDCA's mean is 0.1694. We thus draw the conclusion that Iraqi private banks have a high level of profits management. Additionally, Table 6 demonstrated that BO, financial knowledge, and independence had a detrimental effect on profits management. BS, however, had no discernible effect. The study's findings are in some ways in line with our own research, which measured EM using the discretionary accruals measure. As a consequence, decision-makers, regulators, and scholars may trust the results achieved in the original scale (estimated entitlements), which have been verified.

Table 6 Corporate governance and REDCA

	(1)	(2)	(3)	(4)
	POLS	FEM	REM	Robust FEM
BI	-0.0120(0.659)	-0.1441**(0.098)	-0.0314(0.280)	-0.1441**(0.026)
BS	-0.1862*(0.073)	-0.0244(0.193)	-0.0452(0.128)	-0.0244(0.132)
BFE	-0.1421*(0.061)	-0.1909**(0.020)	-0.1103*(0.052)	-0.1909**(0.018)
BO	-0.2891**(0.049)	-0.1821**(0.038)	-0.0190(0.271)	0.1821**(0.025)
SIZE	-0.3298***(0.000)	-0.2018**(0.026)	-0.2833***(0.000)	-0.2018**(0.023)
AGE	-0.0058(0.470)	-0.0198(0.392)	-0.1053*(0.199)	0.0198(0.217)
LEV	-1293*(0.053)	-0.1489*(0.069)	-0.3918**(0.031)	-0.1489*(0.062)
Constant	1.0463(1.225)	5.2734***(0.000)	1.4120(1.362)	5.2734***(0.000)
R-squared/Pseudo R2	.3044	.4394	.3620	.4427
Adj R2	.2888	-	.3211	-
F-stat/Wald x2	23.6239	30.1673	126.41	61.78
Year Dummies	Yes	Yes	Yes	Yes
Observations	240	240	240	240
Poolability test (POLS vs FEM)			7.11***(0.0000)	
Breusch-Pagan LM test (POLS vs REM)		150.02***(0.0000)		
Hausman test (FEM vs REM)		53.12***(0.0027)		
Multicollinearity (Mean VIF)		1.20		
Serial correlation		16.446***(0.0012)		
Heteroskedasticity		3812.40***(0.0000)		
p-values are in parentheses				
*** p<.01‹ ** p<.05‹ * p<.1				

Table 7 demonstrated that the association between board features and EM utilizing REDCA was significantly impacted by OC. Furthermore, research suggesting that big shareholders have a strong incentive to maximize the value of their firms is supported by the importance of the 1% relationship and correlation between OC and EM using two metrics. Due of their ability to gather data, oversee management, and utilize their riches to assist struggling businesses (Habib et al., 2020; Manzaneque et al., 2016).

Table 7 the moderating effect of ownership concentration between corporate governance and REDCA

	(1)	(2)	(3)	(4)
	POLS	FEM	REM	Robust REM
BI	-0.3086***(0.000)	-0.1798**(0.051)	-0.1312*(0.083)	-0.1312*(0.058)
BS	-0.0284(0.263)	-0.0274(0.453)	-0.1563*(0.059)	-0.1563*(0.066)
BFE	-0.1276*(0.082)	-0.0163(0.238)	-0.0097(0.195)	-0.0097(0.147)
BO	-0.4378***(0.000)	-0.3532***(0.000)	-0.1948**(0.062)	-0.1948**(0.083)
OC	-0.2603***(0.000)	-0.1503**(0.048)	-0.2315***(0.000)	-0.2315***(0.000)
BI*OC	-0.2217***(0.000)	-0.3721***(0.000)	-1.2449***(-2.524)	-1.2449***(-3.857)
BS*OC	-0.1967**(0.078)	-0.1182*(0.062)	-2.3227***(8.693)	-2.3227***(-8.045)
BFE*OC	-0.1062*(0.073)	-0.2378***(0.009)	-0.1478**(0.028)	-0.1478**(0.024)
BO*OC	-0.1941***(0.000)	-0.1395**(0.063)	-0.1845**(0.050)	-0.1845**(0.043)
SIZE	-0.1072**(0.048)	-0.1188**(0.041)	-0.1891**(0.016)	-0.1891**(0.034)
AGE	-0.0230(0.354)	-0.0503(0.253)	-0.0078(0.615)	-0.0078(0.582)
LEV	-0.2046**(0.033)	-0.5422***(0.000)	-0.1804**(0.027)	-0.1804**(0.031)
Constant	0.9134(0.000)	1.4562(0.348)	1.3486(0.075)	1.3486(0.046)
R-squared/Pseudo R2	.6172	.5531	.6837	.7039
Adj R2	.5928	.5288	-	.6846
F-stat/Wald x2	23.7563	16.4536	21.7864	19.7045
Year Dummies	Yes	Yes	Yes	Yes
Observations	240	240	240	240
Poolability test (POLS vs FEM)		8.3874***(0.000)		
Breusch-Pagan LM test (POLS vs REM)		9.5436***(0.000)		
Hausman test (FEM vs REM)		9.44***(0.117)		
Multicollinearity (VIF)		1.20		
Serial Correlation		34.4885***(0.000)		
Heteroskedasticity		3569.08***(0.000)		
p-values are in parentheses				
*** p<.01، ** p<.05، * p<.1				

5. Implication and future direction

Theoretically, most Middle Eastern countries experience considerable agency costs. Moreover, Iraq's banking sector operates under a distinct setting compared to other Middle Eastern nations, especially in the aftermath of the 2003 conflict with the United States, along with ensuing economic sanctions, political challenges, and internal turmoil. These factors indicate that Iraq may emerge as a new locus for the conflict of interest and agency dilemma. Consequently, by providing an enhanced understanding of the elements influencing banks' profit management and the role of the agency problem within the Iraqi setting, this study can be advantageous. This study contributes to the little literature on corporate governance (CG) in Iraq by enhancing understanding of the CG concept via an analysis of its mechanisms and impacts inside the country.

From a pragmatic perspective, the study's findings indicate that BI has a negative correlation with profit management. The rise in the presence of independent members on Iraqi bank boards, relative to previous eras, may account for the significant influence (Hazzaa et al., 2024). A substantial proportion of independent directors on the board enhances its efficacy in evaluating and overseeing profit management by mitigating the owners' influence. The study indicates that Iraqi banks utilize a significant number of independent managers who provide the board of directors with essential skills and expertise, facilitating informed decision-making and engagement in the strategic planning process. Furthermore, it is recommended that Iraqi authorities establish a listing requirement for banks to adopt and adhere to the ICCG's guidelines for independent board members. BS also adversely affected EM, in accordance with prior research. A board of directors with a large number of members is considered a mixture of financial, industrial, and legal expertise that can help identify risks that the institution will not reap the benefits of, and they are also more knowledgeable and aware of the financial statements. These boards can also make sound decisions to reduce the mechanical risks that may hinder the future financial growth of the company and threaten its survival. The findings showed that the Iraqi banks in the study sample had a moderate commitment to the CG rules concerning the minimum number of board members, which stipulates that the board should have at least seven members. The study also discovered that the board of directors' financial background plays a significant part in managing EM. Iraqi banks' boards of directors ought to include a number of experienced directors with financial experience. Therefore, authorities and decision-makers in Iraqi banks should reevaluate how to entice more competent managers to serve on their boards of directors, since they have an interest to shield banks from the dangers of manipulating results. The findings also recommends that Iraqi regulators and decision-makers, including the Central Bank of Iraq, reevaluate the CG law with regard to the need that banks' boards of directors include a certain amount of individuals with financial experience.

Board members who overlap have a detrimental effect on EM. Accordingly, overlapping boards can contribute a range of experiences to the board of directors. Additionally, more thorough debates and better decision-making are the results of having a diverse board of directors. In order to ensure a seamless flow of information, an overlapping board of directors can also help the board of directors and its committees communicate and work together. Therefore, it is advised to encourage the practice of overlapping board members, whether they are members of the same bank or members of the boards of directors of other banks and businesses. This is particularly important because overlapping board members foster close and solid relationships among members and improve their collaboration in accomplishing the objectives. Lastly, the findings demonstrated that Iraq has a relatively large OC. This indicates that a small number of investors possess a significant portion of the shares in Iraqi banks. The ability of the controlling shareholders to act in their own interests rather than the interests of the bank as a whole leads to a number of issues since it makes CG procedures less effective at stopping opportunistic conduct or managing profitability. Accordingly, this report suggests granting authorities such as the Iraqi Stock Exchange further authority to verify that companies are following applicable laws and maybe to examine listing standards. Furthermore, it is probable that the legal and judicial systems will serve as effective instruments for governance. The government may wish to amend legislation to protect minority shareholders and sidestep the problem of conflicts of interest with controlling shareholders.

Conclusion

Iraq suffers from increased EM practices and the negative repercussions of these practices on the Iraqi banking sector, especially since investors avoid investing in high-risk banks. Decision-makers and regulatory agencies in Iraqi banks are looking for suitable ways to keep an eye on and regulate the conduct of CEOs in order to address the issue of opportunistic behaviors. They also want to guarantee that these executives are working to defend stakeholders' interests and meet the goals that have been established. The study intended to evaluate how CG methods - such as BI, size, financial understanding, and overlap - impact profits management. This study also looked into how concentrated ownership affected the link between EM and CG. The study's aims were met by selecting a sample of 40 Iraqi private banks registered on the Iraqi Stock Exchange between 2018 and 2023. STATA was used to evaluate the information. Three different analytic methods were applied, and the best one was chosen through comparison. The findings demonstrated a negative correlation between BO, size, and independence and EM as determined by discretionary accruals. Additionally, it discovered that BI, financial expertise, and overlap had a negative impact on EM as determined by REDCA. The study also discovered that the connection between CG and EM (as determined by REDCA and discretionary accruals) was influenced by concentrated ownership as a moderating variable. By including the impact of novel CG components, such BO, on EM, the study broadened its theoretical framework. It also added a new contribution to previous studies by adopting the moderating effect of concentrated ownership. The study found that concentrated ownership is an important variable in various models, which opens new horizons for future studies, especially since OC is a widespread characteristic in banks in Arab countries.

Data Availability The data supporting the analysis and results of this work are accessible from the corresponding author upon request.

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