

MEASURING THE REAL EARNINGS MANAGEMENT IN UNDER OF THE AGENCY CONFLICT BETWEEN CONTROLLING AND NON-CONTROLLING SHAREHOLDERS: EVIDENCES FROM IRAQ

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DOI: 10.37648/ijrssh.v10i03.003

Received: 18th May, 2020; Accepted: 08th June, 2020; Published: 28th June, 2020

ABSTRACT

The research aimed to measure the Real Earnings Management and the extent of its impact on the rights of non-controlling shareholders in light of the agency conflict between controlling and non-controlling shareholders for a sample of economic units listed on the Iraq Stock Exchange, approving financial statements issued during a 5-year period that extends from 2010-2014, the research relied on a set of statistical measures to measure the Real Earnings Management, and the results show that the economic units of the research sample exercise the Real Earnings Management through manipulation of sales and through discretionary expenses indicating the reflection of such practices on violating the rights of non-controlling shareholders in the economic units of the research sample as well as the low level of earnings quality in the years covered by the research. The research also recommended, in light of the results and conclusions, the need to formulate mechanisms for corporate governance and strict application of them that would preserve the rights of non-controlling shareholders by controlling and limiting the opportunistic behavior of the controlling shareholder by reducing real earnings management cases through sales and through discretionary expenses which contributes to improving the quality of earnings.

Keywords: Agency conflict, Real earnings management, Conflict between controlling and non-controlling shareholders

INTRODUCTION

With the growth of economic units, the financial statements have taken more interest as a source of information about economic units, and this is due to the separation of ownership from the management of the economic unit, and therefore the stakeholders of the

economic unit have no direct knowledge of the operations of the economic unit, which led these parties to rely on the financial statements as the primary source for the results of the unit's business and their interests therein.

With the emergence of agency theory, the economic theory indicated that there is no reason to believe that the Management will always work for the benefit of owners and parties with other interests based on the theory that individuals are rational tend to achieve their benefits and maintain their interests at the expense of the interests of shareholders, which has generated a conflict between the management on the one hand and the shareholders on the other hand, which is the first type of agency conflict, which is called the classic conflict of the agency, and to mitigate this conflict, the solution was to adopt a set of mechanisms called corporate governance. When ownership is concentrated as a mechanism of governance in the hands of an individual or group of owners, they will get the incentive and influence to monitor the performance of the management in such a way that it does not deviate from contractual objectives.

However, some governance mechanisms will not be effective in a way that helps achieve the contractual goals in accordance with the responsibility of caring for the custody within the framework of the second type of agency conflict and emerging from a conflict of interests between the controlling and non-controlling shareholders, as well as parties with other interests, and the reason is due to the influence and control of the controlling shareholders in the Board of Directors of the economic unit, which is called (the private benefits of control), and as a result the controlling shareholders have incentives to confiscate the wealth of non-controlling shareholders similar to the case of incentives to control management in the framework of the classic agency conflict, and therefore the controlling shareholders have incentives and control enhanced with the size of ownership to seize wealth and maximize their benefits and this problem greatly overshadows the classic agency conflict problem. The second agency conflict and its accompanying opportunistic practices constitute a field for violating the rights of non-controlling shareholders, especially in cases of poor governance implementation, which affects the quality of earnings, so the current research aims to verify the extent of the practice of economic units listed in Iraq Stock Exchange to manage the real earnings and its repercussion on the rights of non-controlling shareholders, and in order to achieve the objectives of the research, it was divided into the following axes:

First axis: Research methodology, previous studies and the contribution that the current research will present.

Second axis: Agency conflict between the controlling and non-controlling shareholders

Third axis: Reearnings management and its measurement models (conceptual approach)

Fourth axis: Measuring the Real Earnings Management in the companies listed on the Iraq Stock Exchange, sample of the research

Fifth axis: Conclusions and recommendations.

FIRST AXIS: RESEARCH METHODOLOGY, PREVIOUS STUDIES AND THE CONTRIBUTION THAT THE CURRENT RESEARCH WILL PRESENT

First: Research methodology

1- Problem of the research

The research problem becomes clear in the role that the controlling shareholders can play due to the ownership they have achieved for control in excess of 50% of the issued shares, giving them full authority and control over the Board of Directors of the economic unit that pushes them towards entering into real earnings management practices that would have repercussion on the confiscation of the rights of non-controlling shareholders.

From the above, the research problem can be formulated with the following questions:

- 1- Do economic units practice reearnings management?
- 2- What is the effect of the practice of reearnings management in economic units on the quality of earnings?
- 3- Does the practice of reearnings management in economic units indicate a violation of the rights of non-controlling shareholders?

2- Objectives of the research

The research seeks to achieve the following objectives:

- A- Highlighting the concept of reearnings management (conceptual approach).
- B- Presenting real earnings management measurement models.
- C- Measuring the reearnings management in the economic units, sample of the research, listed on the Iraq Stock Exchange.

3- Hypothesis of the research

The research is based on a basic hypothesis that:

(The practice of economic units in Iraq to manage relearnings leads to a decline in the quality of earnings, which is a violation of the rights of non-controlling shareholders)

4- Significance of the research

The significance of the research stems from the importance of limiting the opportunistic practices of insiders in the economic units operating in the Iraqi business environment and what the shareholders, especially the non-controlling shareholders, in the economic units are subject to violating their rights by virtue of the controlling shareholder owning the majority of the issued shares, which enables him to control the Board of Economic Unit as well as the effects of these opportunistic practices on the level of quality of earnings that are reported periodically, as the importance of this comes from the area of research on this topic in Iraq is almost limited to the extent of the researcher's knowledge, therefore this research attempts to bridge the gap in the space of this type of accounting literature in Iraq.

Second: An overview of previous studies

The subject of measuring relearnings management has received remarkable attention from many studies and research presented by the periodicals of accounting, which varied among them in terms of results, and the researcher highlights a group of these Arab and foreign literature.

1- Al-Sharqawi - 2019

The research aimed to study and explain the relationship between real accounting earnings management practices and the type of report of the auditor and whether the risks of financial default and the risks of litigation against the auditor as two controlling variables in the relationship have a role that may contribute to adjusting the level of morale and direction of that relationship, The research concluded:

- A- There is a positive low correlation relationship with significant correlation between the type of auditor's report and each of the ratio of total clients to assets as a measure of the complexity of audits, and the delay in issuing the auditor's report.

- B- The absence of a statistically significant effect of the optional entitlements in the auditor's issuance of qualified reports.
- C- The results show that there is a significant relationship in the event of the financial default being entered as a controlling variable in the regression model of the relationship between accounting earnings management practices and the auditor issuing conservative reports, which means that the practice of accounting earnings management can affect the possibility that financially troubled economic units receive a qualified opinion.
- D- There is a positive impact of the risk of litigation against auditors, which results from an increased customer risk towards the auditor in issuing a conservative report in the event of auditing the financial statements of the economic units that perform earnings management in order to avoid the auditor's lawsuits against them.
- E- The presence of a statistically significant negative effect between real earnings management practices in the type of auditor's report.

2- Study of Al-Mashhadani and Al-Fatlawi (2012)

Objective of the research: The research aims to demonstrate the impact of the application of governance mechanisms in both Iraq and Oman to reduce earnings management practices and their impact on the level of earnings quality by applying to a sample of economic units listed in the Iraqi stock market and Oman Stock Exchange for the period 2006-2009, The research has found that each of the units listed in the Iraq and Oman stock exchanges exercise earnings management by affecting accounting operations and their reflection on the quality of earnings, and the study also found that the application of governance contributes to reducing earnings management practices and improves the quality level of earnings, and in light of the results, the study recommended the necessity of paying attention to the behavioral and ethical aspect and standards of professional behavior and monitoring the extent of application of governance mechanisms to limit opportunistic practices of economic units that affect the earnings numbers that are reported.

3- Study of Surifa 2015

The research aims to verify the relationship between corporate governance and earnings management preferences that are chosen by controlling shareholders in economic units within the banking sector listed on the Indonesia Stock Exchange for the period 2006-2011. The research found through the results of the experimental study that banks in Indonesia controlled by families and institutions perform real earnings management at a higher level compared to banks controlled by the government and that perform real earnings management based on discretionary accruals which indicates, according to the results, that the economic units owned by the families and institutions are not characterized by the quality of earnings due to the control of these families and institutions over the units as a result of their control through the concentration of ownership, as this category of controlling owners exercises real earnings management in an effort to cover its activities related to the confiscation of wealth compared to earnings management based on accruals.

4- Study of Leuz et al 2003

The research aimed to verify the methodological differences in earnings management between 31 countries based on the idea that insiders benefit from the advantages of special control to hide the performance of the economic unit from uninformed parties using earnings management practices, which is reflected in the quality of earnings. The research concluded that strong legal protection for the uninformed, including investors, limits the ability of the insiders to enjoy the benefits of private control, which reduces their incentives to engage in earnings management practices to conceal the performance of the economic unit, and according to the findings of the research, the research concluded that there is a strong relationship between Corporate governance and quality of earnings reported.

5- Study of Sokhiaw 2016 - Thailand

The research aims to verify the effects of the controlling shareholders and the information asymmetry in the quality of earnings of the economic units listed on the Thai Stock Exchange for a sample consisting of all units listed on the Stock Exchange except the financing sector for the period from 2012-2014 using the structural equation model. The results of

the research showed that the controlling shareholders had an impact besides the information asymmetry in the quality of the earnings, and the study also found a negative impact relationship between the information asymmetry and the quality of the earnings, as the study showed, and in light of its results, that the increase in the ownership percentage of the controlling shareholders leads to an increase in the asymmetry of the information, which in turn leads to a low level of earnings quality.

Third: The contribution that the current research will present

- 1- The results of this research may be of interest to the economic units listed on the Iraq Stock Exchange to take the necessary measures to ensure enhancing the quality of earnings and protecting the rights of non-controlling shareholders in a manner that ensures the optimal allocation of economic resources in a manner that helps to ensure the continuation of its activity in the business environment.
- 2- The current research contributes to clarifying and understanding the nature of application of governance mechanisms in the Iraqi business environment and the extent of this impact on the quality of earnings and thus protecting the rights of interested parties, especially the rights of non-controlling shareholders from violations.
- 3- It is expected that the current research will receive the attention of those interested in the field of corporate governance to review and formulate general rules or principles of governance and its mechanisms that would preserve economic resources in economic units and preserve the rights of all shareholders, especially non-controlling shareholders and parties with other interests and not only holders of the majority of shares, especially in units and to reduce the opportunistic behavior of insiders who have the right to control and dispose of resources, especially management and controlling shareholders.
- 4- The current research is important for policy makers and accounting standards to determine the reasons for the variation in the quality

of earnings in the economic units listed in the Iraq Stock Exchange to develop appropriate solutions to related issues.

- 5- The current research raises the interest of those interested in researchers and academics on issues that are essential in its role affecting the quality of earnings, which will be highlighted, as the current research makes room for investigation through studies and research on such issues and proposing solutions to address them in a way that enhances the quality of earnings.

SECOND AXIS: THE CONFLICT BETWEEN THE CONTROLLING AND NON-CONTROLLING SHAREHOLDERS

Most studies have focused on alleviating the agency conflict raised between shareholders and management due to the separation of ownership from control, but this separation has been accompanied by another type of conflict, and the shareholders' conflict is represented by the preference of the controlling shareholders to their own interests over the shareholders' account of the shareholders' control (Noodezh, 2015)

As the separation of ownership from control usually generates the first agency conflict and perhaps one of the tools that can be used to reduce the intensity of this conflict is concentrated ownership, as it has the ability to control management decisions. This is on one side, but on the other hand, focused ownership leads to provoking another conflict in the agency conflict framework, which is the problem of conflict between the controlling and non-controlling shareholders, which is called the second agency conflict, which considers only the controlling shareholders as being authentic, whereas the non-controlling shareholders are strangers, and therefore in light of the perspective of the second agency conflict, the controlling shareholders are the agents who have the ability to control assets of the economic unit instead of the Management (Ratnadi et al, 2013)

The basic assumption for this type is a conflict of interests between the controlling and non-controlling shareholders, and the controlling shareholders are persons or groups of persons who own the majority of the shares in the economic unit while the non-

controlling shareholders are important to those who have a small share of the shares, and the controlling shareholders enjoy higher voting rights that enable them to take any decision that is in their interests, which creates difficulties for non-controlling shareholders to protect their wealth or interests (Panda & Leepsa, 2017).

The governance system assumes that the controlling shareholder holds a large block of shares enabling him to control the economic unit by owning the majority of shares. This type is the dominant ownership concentration and is called the control structure. Control may take another pattern: the shareholder has a large percentage of voting rights in spite of holding a small percentage of shares, for example, the shareholder's possession of 10% of the shares, but he is able to exercise 51% of the voting rights in the economic unit by means of leverage mechanisms for voting rights and it is referred to this system as (Minority Voting Structure) as applicable in China, Europe, South America, South Africa, Asia and other countries (Kang, 2014)

When the controlling shareholders control the decisions of the economic unit effectively and efficiently, they proceed to transfer the economic unit's funds towards their own benefits, which the rest of the shareholders do not participate in, which motivates the controlling shareholders to pay compensation to themselves excessively, and enables them to control the ability to elect the board of directors, and the ability to consume bonuses and transfer of resources at the expense of non-controlling shareholders, which leads to the problem of confiscating the wealth of non-controlling shareholders (Darvishzadeh et al, 2013)

Villalonga et al. say that the exploitation of the controlling shareholder of his position controlling the economic unit would achieve the so-called benefits of controlling the account of the non-controlling shareholders, so the controlling shareholders have incentives to confiscate the rights of the non-controlling shareholders (Villalonga et al. 2015, 639:640).

The confiscation of wealth of non-controlling shareholders can take several forms:

- 1- High compensation payments to major shareholders.
- 2- Taking over the assets of the economic unit.

- 3- Reducing the share of non-controlling shareholders by issuing shares or reducing distributions.
- 4- Placement of less-qualified family members in key positions.
- 5- Buying materials and supplies at higher prices from the market or selling products and services at lower prices with deals with the economic units owned or controlled by the controlling shareholders.
- 6- Participate and enter into strategies presented at personal, familial or political levels at the expense of the performance of the economic unit, such as excessive diversification of investments.

THIRD AXIS: MANAGING REALEARNINGS AND FORMS OF THEIR MEASUREMENTS (CONCEPTUAL APPROACH)

A survey of 400 executives in the United States of America indicated that executives are ready to address real business activities to manage reported earnings with a view to reaching target earnings, and that manipulation of real activities by deviating from investment and financing activities will change the levels of discretionary expenditures such as research, development, advertising, sale, and general and administrative expenses to achieve an increase in earnings levels, and that this reduction in the volume of expenses has an effect on reducing outflow of cash flows, which reflects positively on abnormal cash flows during the current period but has a negative impact on future cash flows (Tan, 2013: 23).

Real earnings management is defined as deviating from normal business practices that aim to meet the objectives of financial reporting and that manipulation of actual activity can be done through deduction of prices and the reduction of discretionary expenditures (Surifah, 2015: 928).

Real earnings management is implemented through several methods, which are manipulating sales and optional expenses, selling assets, and overproduction. The following is an explanation of these methods:

- A- Manipulation of sales:** The department can manipulate sales to cause a temporary increase in sales during the current period by offering

discounts and price reductions or granting more lenient credit conditions, the Management can also generate additional sales by accelerating next year's sales for the current year, this increase in sales volume as a result of temporarily granted discounts is likely to disappear when the economic unit re-operates at previous prices, the cash flows for each sale process and the net deductions from the additional sales are less than the level of the decrease in the gross profit margin, and the gross profit in the period in which the reduction takes place is higher if the additional sales achieve positive earnings margins, but the low earnings margin due to the lower prices leads to the high production costs associated with reduced sales abnormally (Roychowdhury, 2006).

Real earnings management resulting from manipulation of sales can be measured by measuring abnormal cash flows from operating operations by speeding up sales time or generating sales that are not related to the current period, and the measurement is according to the following steps (Al-Shattarat, 2017)

First step: extracting (generating) natural cash flows from operating operations as a linear function of sales revenue and change in sales revenue in the current period by estimating parameters using the following form:

$$(1) \text{CFO}_{i,t} / \text{TA}_{i,t-1} = a_0 + \beta_1 * (1/\text{TA}_{i,t-1}) + \beta_2 * (\text{SR}_{i,t} / \text{TA}_{i,t-1}) + \beta_3 * (\Delta \text{SR}_{i,t} / \text{TA}_{i,t-1}) + e_{i,t} \dots)$$

Whereas

$\text{CFO}_{i,t}$: Cash flows of economic unit i for a period of time t

$\text{TA}_{i,t-1}$: Total asset of economic unit i for the $t-1$ time period

$\text{SR}_{i,t}$: Sales of economic units i for a period of time t

$\Delta \text{SR}_{i,t}$: Change in sales per unit of economic i for the time period t sales for the current period minus sales of the previous period)

a_0 : Fixed limit

β : Estimated parameter

e : Random error

i : economic unit

t : Period

Second step: the estimated parameters ($\beta_1 - \beta_2 - \beta_3 - \hat{a}_0$) from the previous step in Form No. (1) are used to estimate the natural cash flows from operating operations (CFO i, t - Normal) for all economic units and for each year and for each industry according to the following model:

$$\text{Normal -CFO } i, t = \hat{a}_0 + \beta_1 * (1/TA \ i, t-1) + \beta_2 * (SR_i, t/TA \ i, t-1) + \beta_3 * (\Delta SR_i, t/TA \ i, t-1) \dots (2)$$

Third step: For each economic unit, the abnormal level of cash flows from operating operations is measured (CFO i, t - Ab-Normal) which is calculated by total cash flows from operating operations minus the normal level of natural cash flows from operating operations (CFO i, t - Normal) expected from the model (2) for all economic units, for each year, and for each industry according to the following model:

$$\text{Ab-Normal- CFO } i, t = (\text{CFO } i, t / TA \ i, t-1) - \text{Normal-CFO } i, t \dots (3)$$

B- Discretionary expenses: The real earnings management can be practiced through the optional expenses as it affects the operations of increasing and reducing the expenses of research and development, maintenance, advertising, promotion, advertising, administrative expenses and selling expenses to reach the targeted earnings levels, especially if these expenses do not contribute to achieving income in the current period (Muhammad, 2017: 395)

The real earnings management practices resulting from the manipulation of optional expenses are measured through the following steps (Al-Shattarat, 2017: 128-129)

First step: The parameters necessary to estimate the natural level of optional expenses, which can be represented as a linear function of sales for all economic units and for each year, are estimated according to the following model:

$$\text{DISEX}_i, t/TA \ i, t-1 = a_0 + \beta_1 * (1/TA \ i, t-1) + \beta_2 * (SR_i, t/TA \ i, t-1) + e_i, t \dots (4)$$

Whereas

DISEX_i, t : Discretionary expenses, which include research and development, advertising, advertising, selling, and general and administrative expenses for the period t of the economic unit i .

SR_i, t : Sales of the period t

Second step: Measuring the normal level of optional expenses (Normal -DEXEX $_i, t$) using the estimated parameters ($\beta_1 - \beta_2 - \beta_3 - \hat{a}_0$) in Form No. (4) for each economic unit and for each year according to the following form:

$$\text{Normal -DISEX}_i, t = a_0 + \beta_1 * (1/TA \ i, t-1) + \beta_2 * (SR_i, t/TA \ i, t-1) \dots (5)$$

Third step: Measurement of abnormal discretionary expenses) Ab -Normal -DISEX $_i, t$ (by the difference between the actual optional expenses and the normal level of the optional expenses according to the following form:

$$\text{Ab -Normal -DISEX}_i, t = (\text{DISEX}_i, t/TA \ i, t-1) - \text{Normal -DISEX}_i, t \dots (6)$$

C- Excessive production: The increase in production is considered one of the tools of real earnings management. Excess production contributes to the distribution of fixed costs to the largest number of units produced and consequently the decrease in the share of one unit of fixed costs which reduces the cost of goods sold, but the economic units incur additional storage costs that adversely affect cash flows from operating operations compared to normal sales levels (Tan, 2013: 23)

To measure the level of abnormal production, the production cost model is used to measure the real earnings management resulting from overproduction through three variables: sales revenue, change in sales revenue in the current period, and a change in sales revenue in the previous period to express the natural level of production costs as a linear function of current sales. According to the following steps (Al-Shattarat, 2017: 130-131)

First step: Estimating the parameters of the function variables according to the model:

$$\text{PROD } i, t/TA \ i, t-1 = a_0 + \beta_1 * (1/TA \ i, t-1) + \beta_2 * (SR_i, t/TA \ i, t-1) + \beta_3 * (\Delta SR_i, t/TA \ i, t-1) + \beta_4 * (\Delta SR_i, t-1/TA \ i, t-1) + e_i, t \dots (7)$$

Whereas :

$\text{PROD } i, t$: production costs that represent the total cost of goods sold in term t of economic unit i and change in stock from the previous period $t-1$ to the current period t

$\Delta SR_i, t-1$: change from sales for the previous period $t-1$.

Second step: The parameters estimated in Form (7) ($a_0 - \beta_3 - \beta_2 - \beta_1 - \beta_4$) are used to measure the normal level of production costs using the following form:

Normal - $PROD_{i,t} = a_0 + \beta_1 * (1/TA_{i,t-1}) + \beta_2 * (SR_{i,t}/TA_{i,t-1}) + \beta_3 * (\Delta SR_{i,t}/TA_{i,t-1}) + \beta_4 * (\Delta SR_{i,t-1}/TA_{i,t-1}) \dots\dots\dots (8)$

Third step: to measure the abnormal level of production costs is to subtract the normal level of production costs (Normal-PROD $_{i,t}$) from the total actual production costs ($PROD_{i,t}/TA_{i,t-1}$) according to the following form:

Normal - $PROD_{i,t} = a_0 + \beta_1 * (1/TA_{i,t-1}) + \beta_2 * (SR_{i,t}/TA_{i,t-1}) + \beta_3 * (\Delta SR_{i,t}/TA_{i,t-1}) + \beta_4 * (\Delta SR_{i,t-1}/TA_{i,t-1}) \dots\dots(8)$

Ab - Normal - $PROD_{i,t} = (PROD_{i,t}/TA_{i,t-1}) - \text{Normal - } PROD_{i,t} \dots\dots\dots(9)$

D- Sale of Assets: The Management makes a decision to sell one of the financial assets or investments in the event of an increase in its market value to achieve additional earnings that are included in the income statement for the fiscal period in which the sale is made (as a result of the difference between the net book value and the current market price) and therefore timing of the asset's sale can be used as one of the tools of practicing earnings management, especially in times when earnings witness a noticeable decrease with the desire of the management to increase earnings exploiting the increase in the market value of the non-current asset, so the income from selling the asset can be used to manage earnings. Gunny explained that Japanese managers use the gains resulting from the sale of non-current assets and securities when the operating income increases or decreases, which is higher or lower than the management's expectations (Gunny, 2005: 6-7).

"Surifah" indicates that the agency conflict between shareholders has an impact on the practice of managing earnings and thus on the quality of earnings, so the controlling shareholders tend strongly to confiscate the resources of the economic unit at the expense of the non-controlling shareholders, so the controlling shareholders prefer to hide the benefits of private

control by utilizing the real earnings management instead of using earnings management with discretionary dues, as it is not always possible to manage earnings through dues by concealing the private control benefits that controlling shareholders acquire (Surifah, 2015: 927-928).

FOURTH AXIS: MEASURING EARNINGS MANAGEMENT IN COMPANIES LISTED ON THE IRAQ STOCK EXCHANGE, SAMPLE OF THE RESEARCH

First: Description of the research sample

In order to measure earnings management, the researcher chose a sample represented by the economic units subject to the control of another economic unit (holding), and the sample was limited to economic units that fall under the control of another economic unit that owns the majority of the shares issued in it in order to determine the repercussions of the second agency conflict between the controlling shareholders and the non-controlling shareholders, which involves the violation of the controlling shareholders of the rights of the non-controlling shareholders by engaging in activities that violate the rights of the last category, so controlling shareholders and by virtue of their control over the Board of Directors of the Economic Unit are looking to increase their wealth at the expense of non-controlling shareholders by entering into earnings management practices, especially real earnings management as the controlling parties seek to hide the practices that violate the rights of the non-controlling shareholders and what mechanisms can limit the opportunistic behavior of the controlling shareholders to protect the rights of the non-controlling shareholders, and to measure earnings management in light of the agency conflict between the controlling shareholders and the non-controlling shareholders, we have relied on the financial reports of a number of the economic units included in Iraq Stock Exchange, which are (5) economic units for the period (2010-2014).

Second: Measurement of Real Earnings Management:

The following is a measure of the quality of earnings through the abovementioned earnings management measures, according to the necessary steps and appropriate measurement models:

A- Real earnings management through sales manipulation

Measuring real earnings management on the basis of sales manipulation as a representative of the quality of earnings is by measuring the abnormal level of cash flows from operating operations, and the real earnings tool is measured by manipulating sales as a measure of the quality of earnings according to the following steps:

First step: Estimating the statistical parameters for each year and for all economic units according to Form (1).

Second step: Estimated parameters ($\beta_3 - \beta_2 - \beta_1 - \hat{\alpha}_0$) from the previous step of Form (1) are used to estimate the normal cash flows from operating operations ($Normal - CFO_{i,t}$) for each economic unit and for each year according to Form (2).

Third step: For each economic unit and for each year the abnormal level of cash flows from operating operations is measured ($Ab-Normal - CFO_{i,t}$) which is calculated by total cash flows from operating operations minus the normal level of natural cash flows from operations ($Ab-Normal - CFO_{i,t}$) expected from Form (2) according to Form (3) as shown in Table (1):

Table (1)

Table of measuring the abnormal level of cash flows from operating operations and descriptive statistics of economic units (dinars)

Period The Details	2010	2011	2012	2013	2014
Mean of absolute values	5611255983	5129261866	24500633862	13103200174	51342582939
Standard deviation of absolute values	3174279904	3936060071	17455202512	15505619301	60882737212
Highest absolute value	10100153958	11915006133	47646512778	30730081673	123948391106
Lowest absolute value	2244066632	2355829178	2233708715	1534976379	2482447147
Coefficient of variation	56.57%	76.74%	71.24%	118.33%	118.58%

Source: Preparing the researcher by relying on the SPSS program outputs

By tracing the results in the above table, it became clear that:

- 1- **2014:** Through the results of the analysis, it is clear that the year of 2014 has the highest percentage coefficient of variation, as it reached 118.58% with a mean of absolute values of 51342582939 dinars and a standard deviation of absolute values of 60882737212 dinars, which indicates that it is the lowest quality of earnings due to the practice of real earnings management through manipulation of sales.
- 2- **2013:** The coefficient of variation of 118.33% indicates that the year 2013 came second in terms of the low level of earnings quality with a mean of absolute values of 13103200174 dinars and a standard deviation for absolute values 15505619301 dinars.
- 3- **2011:** By observing the coefficient of variation of 76.74% and with a mean of absolute values of 5129261866 dinars and a standard deviation of absolute values of 3936060071 dinars, the researcher finds that the year 2011 came in third place in terms of the level of earnings quality.
- 4- **2012:** The year 2012 came fourth in terms of the quality of earnings with a coefficient of variation of absolute values of 71.24% and with a mean of absolute values of 24500633862 dinars and a standard deviation of absolute values of 17455202512 dinars.
- 5- **2010:** The lowest coefficient of variation of 56.57% with a mean of absolute values of

5611255983 dinars and a standard deviation of absolute values of 3174279904 denotes that 2010 is the highest quality of earnings among the years covered by the study due to the lowest impact of the practices of real earnings management through sales.

B- Measurement of the real earnings management through discretionary expenses:

Measurement of the real earnings management through voluntary expenses as a representative of the quality of earnings is through measuring the abnormal level of optional expenses, and real earnings management practices resulting from the manipulation of optional expenses are measured through the following steps:

Table (2)

Table of measurement of the abnormal level of discretionary expenses and descriptive statistics of economic units (dinars)

Period The Details	2010	2011	2012	2013	2014
Mean of absolute values	2577897571	4162240494	1506793754	1874029880	1348552911
Standard deviation of absolute values	1170405499	4059385327	911835173	1243655937	1342526864
Highest absolute value	3622112619	10229462364	2760588662	3417753261	3004502149
Lowest absolute value	609422059	526167238	412278705	566717584	69235921
Coefficient of variation	45.40%	97.53%	60.51%	66.36%	99.55%

Source: Prepared by the researcher depending on the SPSS program outputs

We indicated through Table (2) the following:

- 1- **2014**: The year of 2014 came first in terms of the effect of real earnings management practices through discretionary expenses with the highest coefficient of variation of 99.55% and a mean of absolute values of 1348552911 dinars and a standard deviation of absolute values 1342526864 dinars.
- 2- **2011**: The year 2011 came second in terms of the effect of real earnings management practices through discretionary expenses with the highest coefficient of variation of 97.53% and a mean of absolute values of 4162240494

First step: The parameters required to estimate the normal level of optional expenses for each year for all economic units are estimated according to Form (4).

Second step: Measuring the normal level of optional expenses (*Normal -DEXEX_{i, t}*) using the estimated parameters ($\beta_1 - \beta_2 - \hat{\alpha}$) for each year and for each economic unit according to Form (5) .

Third step: Measuring abnormal discretionary expenses (*Ab-Normal -DISEX_{i, t}*) through the difference between the actual discretionary expenses and the normal level of discretionary expenses for each year according to Form (6) as shown in Table (2) :

- 3- **2013**: The year 2013 came third in terms of the impact of real earnings management practices through discretionary expenses with the highest coefficient of variation of 66.36% and an average mean of absolute values of 1874029880 dinars and a standard deviation of absolute values of 1243655937 dinars.
- 4- **2012**: The year 2012 came fourth in terms of the effect of real earnings management practices through discretionary expenses at the highest coefficient of variation of 60.51% and with a mean of absolute values of 1506793754

dinars and a standard deviation of absolute values of 911835173 dinars.

- 5- **2010:** The year 2010 ranked fifth in terms of the impact of real earnings management practices through discretionary expenses with the highest coefficient of variation of 45.40% and a mean of absolute values of 2577897571 dinars and a standard deviation of absolute values of 1170405499 dinars.

FIFTH AXIS: CONCLUSIONS AND RECOMMENDATIONS

It is clear from the above results that the economic units, sample of the research, exercise relearnings management through manipulation of sales and through optional expenses to influence the earnings that are reported in a way that reflects on their quality. The practices of earnings management and the low quality of earnings in economic units can be attributed to the impact of the factor of control by virtue of the concentration of ownership achieved in controlling the economic units, which is one of the motivating factors

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for the exercise of economic units to manage relearnings, which is reflected in the confiscation of the wealth of the shareholders who are not controlling them as a result of the controlling shareholder enjoying the power of control over the Board of Directors of the units by virtue of its large share of the total issued shares which allow it to make decisions separately within the Board of Directors and consequently the practice of concentration of ownership has a negative impact rather than the positive one on the quality of earnings in economic units in order to confiscate the rights of non-controlling shareholders.

In the light of the results and conclusions reached by the researcher, he recommends the necessity of formulating mechanisms for corporate governance and applying them strictly that will preserve the rights of non-controlling shareholders by controlling and limiting the opportunistic behaviors of the controlling shareholder by reducing cases of relearnings management through sales and through discretionary expenses and this contributes to improving the quality of the earnings reported.

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