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THE RELATIONSHIP BETWEEN INFORMATION ASYMMETRY AND REAL EARNINGS MANAGEMENT : THE MODERATING ROLE OF ORGANISATIONAL LIFE CYCLE

Mother. Emad Saleh Nehme
College of Administration and Economics/University of Tikrit
imad.salih@tu.edu.iq
Coed
Marwa Maad Muhammad
marwa.acc21@gmail.com

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Abstract:

The research aims to test the effect of information asymmetry in real earning management In light of the different stages of the organisational life cycle in the Iraqi industrial companies sector, the research dealt with the concept of information asymmetry, the concept of real earning management and its impact on the company's operations as well as addressing the concept of the organisational life cycle and the relationship between information asymmetry and real earning management, and the relationship between information asymmetry and real earning management under the organisational life cycle this was done according to a sample of industrial companies listed on the Iraq Stock Exchange during the period from 2010-2019, the research reached a set of results, the most important of which were: the concept of information asymmetry is gaining a lot of attention depending on the scale of predictions of financial analysts, real earning management also includes a series of decisions to direct business activities to achieve certain objectives to influence the decisions of users of financial reports, this is according to a series of stages through which the company and the existence of discrepancies in the relationship between information asymmetry and real earning management in light of the different stages of the organisational life cycle.

Keywords: information asymmetry, real earnings management, organisational life cycle

INTRODUCTION

Business companies, in all their activities, seek to achieve growth to ensure their survival and continuity. They work hard to enhance their capabilities to finance their financial needs, in addition to creating financial surpluses as well, or what is known as value creation (Hussein et al., 2022, 163)

There is a growing interest in obtaining financial statement information which senior management needs to make investment, financing and operational decisions And many other administrative practices that affect the management of the company during its useful life and interest in long-term projects this is a result of developments and increased competition and administrative requirements in accessing the most accurate data about the company's investments And how to manage this investment and what leads to it through the real financial statements.

Because of the development of the stock market, financial accounting led to the development of the company's investment environment, expanding the financial statements, and presenting the information more accurately and comprehensively, As well as its direct impact on both sides of the transaction and its impact on managing profits in the field of obtaining similar information, As the information asymmetry between the management of the company and the shareholders leads to increased motives for the company's management to exploit this information through the management practice of profits for real activities this is due to several reasons, the most important of which is the increase in the number of profits achieved and then increase the bonuses that the company gets, earnings management is generally one of the challenges facing financial markets as a

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result of its negative effects on the media content of the financial statements (Abda, 2020: 4).

Based on this, the management of the company's profits affects the informational content of the financial statements through dividends and profit management of real activities Real profit management is a departure from the normal operating practices of the company with the aim of misleading investors into believing that the objectives of the financial statements have been achieved through normal operating operations (Saleh, 2021: 32), therefore, companies seek to obtain real financial statement information by recognizing information asymmetry, which is the amount of variation in the amount of information available for different parties regarding transactions that do not make them equal in completing deals (Ghunaim, 2013: 13), that is, the availability of private information for some investors enable them to make decisions better than other investors, this information may be between investors with other parties, or between investors and the economic unit itself (Mohsen, 2020: 19), it leads to inefficient allocation of investment resources, adverse selection, and other negative outcomes of financial and non-financial information (Russell, 2015: 195), companies also seek to identify the stages of the company's life cycle which reflects the company's developmental stages through each stage (Beginning, growth, maturity and regression), to reflect complementary and complementary relationships (Su et al., 2015: 41)

Based on the above, researchers aim to identify information asymmetry and achieving efficiency in the accuracy of financial statement information because of its impact on managing the real profits of companies over the stages of the company's life cycle, therefore, the research sample will be applied based on the data of several companies from the Iraq Stock Exchange for the year 2021

2. THE THEORETICAL FRAMEWORK OF THE RESEARCH

2.1. The concept of information asymmetry

The concept of information asymmetry refers to differences in obtaining information between buyers and sellers of financial contracts**,** resulting in an imbalance of control or power in transactions, which results from differences in access to information between borrowers and lenders (Yaacob et al., 2021: 3), The study (ElShafe, 2020: 15), clarified the concept of information asymmetry That managers can get more information about the company's future prospects from shareholders (owners) and other stakeholders, Expectations of disclosure of information may be more qualified, where the manager is obligated to provide the owner with indicative information about the status of the company, As the information provided often does not correspond to reality, because it allows managers to manage their profits, he believes (Abdullah, 2017: 16), that the concept of information asymmetry is the knowledge of the management or the internal parties of information about the current and future economic performance of the company, Either in a way that exceeds the possession of external parties, such as investors, creditors, and financial analysts, or in a way that hides such information from them, it arises from a significant asymmetry of information in the studies of finance and accounting after the economics (Akerlof) won the Nobel Prize in 1970 after his famous research (the market for lemons: quality uncertainty and market mechanism), in which he rooted the concept of information asymmetry between sellers and buyers in the market (Hassanin, 2012: 79).

2.2. Real Earning management

Earnings management through real activities is a type of earnings management on the accounting basis It is approved for the company with the aim of misleading stakeholders in order to achieve certain goals included in the financial statements without actually occurring, It includes targets that are related to operating decisions such as optional expenses, research and development expenses, and inventory evaluation, or it may be goals related to investment decisions such as buying and selling long-term assets, or the inclusion of goals related to financing decisions such as decisions to buy back shares and use financial derivatives (Mohamed, 2017: 310), (Muljono & Suk, 2018: 1) refers to changes within the company's operations through timing decisions or financing decisions that aim to direct profits in the desired way, he explained (Chowdhury & Eliwa, 2021: 4), that real earnings management is a method of manipulating profits by making sub-optimal managerial decisions regarding schedules and timing of economic events, he believes (Abda, 2020: 25), that managing real profits is a set of procedures carried out by the company's management, by using the operational decisions they make to control and manage profits and then influence the outputs of the accounting system, there are factors affecting the management of real profits, including: the size of the company, as it is one of the most important factors affecting the management of real profits.

where the study (Abad et al., 2018: 12) indicated that the greater the size of the company in

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terms of the size of its assets, the more managers tend to manipulate the management of real profits, In order to influence the final profit figure, and then influence the decisions of investors, the return on assets is one of the factors affecting earnings management practices, as indicated, by the study of (Khuong et al., 2020). showed that there is a positive relationship between the rate of return on assets and earnings management practices after examining a sample of 29 companies in the energy sector on the Vietnamese Stock Exchange in the period from 2010 to 2016, while the study indicated (Swai & Mbgela, 2016), indicates an inverse relationship between the rate of return on assets and earnings management practices through the use of operating cash flows or abnormal production costs, likewise, financial leverage is considered one of the factors affecting the management of real profits and one of the most important indicators that are used to assess the company's ability to fulfill its obligations on their due dates, however, it was noted that there was a difference between previous studies on the nature of the relationship between financial leverage and the extent to which companies practice real profit management practices, where some believe that the company's inability to pay its obligations on the specified dates will be a motive for the companies' managements to carry out profit management practices to improve the company's financial position before its creditors (Azzam & Zalat, 2020: 413).

The role of the administrative accountant in business organizations is formed through a set of functions, where some indicate that they are divided into two functions (Management Process, Development of the accounting management information system). (Jasim et al., 2019, 136)

2.3. Organisational life cycle

The company is a purposeful social being, as companies undergo a series of modifications and adaptations that represent the stages of development, It is known in the accounting literature as the organisational life cycle (OLC), and the scientist (Kenneth Boulding) has been referred to, being the first to introduce the concept of the organisational life cycle in the early fifties of the twentieth century, (Alfred Chandler) was the first to explain the stages of the organisational life cycle, In (1962) in his book Strategy and Structure, which showed four stages of the development of the organisational life (Hussain, 2017: 37), he believes (Hsieh, 2007: 37) that companies go through different stages of development and eventually become something that does not exist, and that the life cycle of a company is sequential and occurs as an irreversible progression that involves a wide range of activities and organizational structures, A study (Moradi et al., 2013: 3) clarified that the term organisational life cycle is a well-known term in accounting literature. the life cycle theory assumes that, like all living creatures, they are born, grow, age, descend completely, and have their own life cycle, Information has become an important element in determining the effectiveness and efficiency of the company, so companies tend to design and build information systems in order to control the huge amount of information necessary to manage the company, this is to ensure that reliable, correct and accurate information reaches all administrative levels in an appropriate manner and at the appropriate time in order to use it in decision-making, Studies indicated that companies systematically and gradually provide and process their information and the quality of decision-making across the most complex stages of the life cycle.

2.4. The relationship between information asymmetry and real earning management under the organisational life cycle

It deals with the relationship between variables through the results of previous studies, and then shows the modified role of the company's life cycle on the relationship between information asymmetry with real profit management through the following:

2.4.1. The relationship between information asymmetry and real earning management

That agency theory is a determinant of information asymmetry and profit management, this theory is considered as a contract between shareholders as principal and management as agents, this theory gives the client the authority to make decisions in favor of the agent, if both parties have different interests, it is not possible for the agent to act against the interests of the shareholders, Shareholders can reduce the activities of extraordinary agents by strengthening control over management activities such as the quality of internal auditors, there are also two main motives that motivate managers to manage profits, which are: (Jasman & Amin, 2017: 96-97).

- **Opportunistic goals:** these objectives may be harmful to users of the financial statements, because the information provided by management becomes unclear and does not reflect the core value of the company; this opportunistic attitude is seen as a fraudulent position for the company's management included in their financial statements when faced with a multiple choice It is a requirement that directs the

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executive to use certain decisions to report a positive performance of itself in the face of certain situations.

- **Referring to investors:** there is a good effect of the signals on the users of the financial statements, interesting financial performance information indicates to the principal that his investment is profitable, so managers try to communicate the opportunities that the company can achieve in the future, sign theory is concerned with how to address emerging problems about information asymmetry in any social environment.

As indicated by a study (Abda, 2020: 30), increased information asymmetry leads to increased motivation of the company's management towards the practice of real earnings management, with respect to abnormal levels of net cash flows from operating activities and production costs, that is, there is a fundamental positive relationship between information asymmetry and real earning management, This is due to the information asymmetry between the management of the company (Which has inside information about the decisions and profitability of the company and its future) on the one hand, potential shareholders, or prospects on the other hand, this leads to an increase in the motives for the exploitation of the company's management this information is obtained through the practice of managing real profits for several reasons, the most important of which are:

1. Increase the number of profits achieved, as well as increase the rewards you receive.
2. The difficulty of contributors discovering that practice of information asymmetry, In addition to the lack of sufficient information to enable them to monitor the management's behavior in relation to that practice.

2.4.2. The relationship between information asymmetry and the organisational life cycle

In order to build a competitive position in the market, it is necessary to increase investments including investment in research and development activities, In addition to achieving cash flows from investment activities with a negative net value, and by expanding access to external borrowing to finance these investments, this achieves cash flows from financing activities with a positive net value, the level of information asymmetry rises, the quality of accounting disclosure decreases, Due to the lack of interest of analysts and investors by following companies at the beginning stage of their life cycle, it is also in the case of the success of the company at the beginning of providing products and/or new services will pass into the stage of growth, in light of the company's transition from one age stage to another this will lead to an increase in the complexity of the operating environment, the organizational structure becomes less centralized more attention is given to coordination and cooperation between different departments, in addition, that transition will generate incentives can contribute to reducing information asymmetry, the quality of accounting disclosure increases with it. Due to the shift of interest of financial analysts and investors follow up companies in the growth stage In the event of an increase in the company's market share and an increase in its competitiveness, the company is moving into maturity this leads to a decrease in the level of information asymmetry as well. High quality accounting disclosure, given the interest of financial analysts and investors in following up companies at this stage. He also notes that companies tend to go through the start-up and growth phase to act proactively, however, at this stage, she is more conservative respond instead to competitors' actions, and Innovation is likely to arise at this point from the companies' accumulated experience over time, in the event of the inability of companies to maintain its competitive position in the market, for poor operating efficiency or failure to sustain innovation, it moves to the stage of decline (Younis, 2021: 349-350).

2.4.3. The relationship between real earning management and the organisational life cycle

A number of studies have dealt with the relationship of managing real profits with the life cycle of the company, and among these studies (Miller & Friesen 1984), (Shiue et al., 2012), (Chen, 2016), (Abda, 2020), (Hussein et al., 2020), (Shaban et al., 2021) as indicated by a study (Shiue et al., 2012), The company's position may affect different stages of the company's life cycle to move from earnings management to an accrual basis to manage earnings on real activities, The growth prospects are positively correlated and a senior managing earnings on an accrual basis negatively related to real earnings management, in addition, it is a must have for companies In the growth phase levels of real profit management practice lower than those in the stages of maturity and decline, as indicated by a study (Abda, 2020), It is in the growth phase of the company's life cycle Companies practice real earnings management to a lesser extent than in the stage of maturity and decline phases of the company's life cycle, that is, there is an inverse relationship between the growth stage and real profit management, so in the growth phase is the development of products and markets important to increase the company's share in the market, in addition to the expenditures on research and development advertising and other greater

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promotions, that is, companies can practice real earnings management to a lesser extent during the growth phase, while in the maturity stage of the company's life cycle, reduce costs by increasing the number of units produced, improve production efficiency, and maintain sales volume best overall strategy, that is, companies it can practice earnings management with real activities to a greater extent at this stage.

3. APPLIED SIDE

3.1. Research community and sample

The research community is represented by all the industrial companies listed in the Iraq Stock Exchange, while the sample was summarized as (12) companies, as shown in Table (1), The time limits for this sample were ten years, spanning from (2010) to (2019). To be the number of views the search included (120) views (company/year), data for the year 2009 have been relied upon. as well as on the data for each of the years (2020) and (2021), to complete the procedures for measuring research variables, this sample has been identified According to two basic conditions: the first, Availability of financial statements for 2021, As for the second condition, It is corporate persistence disclosure of its data for the specified years without interruption

Table 1: The research sample companies

	The Company's name	code		The Company's name	code
1.	Baghdad Soft Drinks Company	IBSD	7.	The Iraqi company for the manufacture and marketing of dates	IIDP
2.	The Iraqi Company for Carpets and Furniture	IITC	8.	Al-Hilal Mixed Industrial Company	IHLI
3.	Modern Sewing Company	IMOS	9.	Al-Kindi Company for the production of vaccines and veterinary medicines	IKLV
4.	Baghdad Company for the manufacture of packaging materials	IBPM	10.	Al-Mansour Company for Pharmaceutical Industries	IMAP
5.	Ready-to-wear production company	IRMC	11.	Chemical industries company	IMCI
6.	The National Company for Chemical and Plastic Industries	INCP	12.	National Company for Metallurgical Industries and Bicycles	IMIB

Source: the researchers based on the outputs of the statistical analysis prepared the table

3.2. Measuring search variables

The research included three types of variables, they are as follows:

3.2.1. the independent variable (information asymmetry (ASY) Information asymmetry is measured, by relying on a scale of financial analyst predictions, this is the scale on the idea of an inverse relationship between matching the predictions of financial analysts between information asymmetry, the greater the degree of information asymmetry the degree of matching the expectations of financial analysts decreased on a particular item and vice versa, it means that predictions match actual data when measured relative to forecast profitability the difference between the actual profit determined at the end of each year with the average predictions of financial analysts for the profit of the same year (Mohsen, 2020). he points out (Abda, 2020), to the predictions of financial analysts that whenever there are errors in the prediction of financial analysts company's share profit indicated an increase in information asymmetry, through the following equation:

$$ASY2_{i,t} = \frac{|EPS_{i,t} - mean\ forecasted\ EPS|}{P_{i,t}}$$

Whereas:

ASY2	It is the absolute number (for the difference between the actual earnings per share and the average financial analysts' prediction of the earnings per share divided by the closing price per share for company i in year t).

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EPS i,t	is the actual earnings per share of company i in year t.
mean forecasted EPS	is the average predicted earnings per share for company i in year t
P i,t	is the closing price of company i's stock in year t

Therefore, the higher the value (ASY) in the above equation, this indicates an increase in the level of information asymmetry. given the lack of forecasts for corporate earnings by financial analysts in the Iraq Stock Exchange therefore, the next year's earnings will be relied upon as an indicator of analysts' predictions.

3.2.2. the dependent variable (real earning Management) REM)) : The dependent variable is measured using a model (Roychowdhury, 2006) In agreement with the study (Francis et al., 2016) According to the following activities (operating cash flow, production costs, optional expenses) Among these activities are the following:

3.2.2.1. Operating cash flows: The model begins by determining the normal level of operating cash flows based on the level of sales and changes in sales volume caused by a decrease in the selling price, According to the following regression:

$$CFO_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \varepsilon_t$$

whereas:

CFO t	It represents operating cash flows
$At-1$	Total assets for the period 1-t
St	sales for year t
ΔSt	The change in sales over period t

By estimating the regression equation, the beta values appear as follows:
(a0=0.080 ،(a1=0) ،(B1=0.387) ،(B2=0.769)

3.2.2.2. Optional expenses: Abnormal operating cash flows are accounted for it is the difference between normal operating cash flows and actual operating cash flows. the normal level of discretionary expenditures such as research and development and advertising is calculated as follows:

$$\frac{DISCEXP_{i,t}}{A_{i,t-1}} = \beta_1 \frac{1}{A_{i,t-1}} + \beta_2 \frac{SALES_{i,t-1}}{A_{i,t-1}} + \varepsilon_{i,t}$$

whereas:

DISEXPi, t	The sum of selling, research, development and advertising expenses of company i in year t
Ai, t – 1	The total assets of company i in year t-1
Sales i t – 1	Company i's sales in year t – 1
εi, t	A residual term showing the level of extraordinary discretionary expenditure of company i in year t
B1 :β2	They are fixed specific coefficients.

By estimating the regression equation, the beta values appear as follows:
(B1=0), (B2=0.002)

3.2.2.3. Production cost: real earning Management Through overproduction to take advantage of a lower fixed cost per unit, we estimate abnormal production costs through a model (Roychowdhury, 2006):

$$PROD_t/A_{t-1} = \alpha_0 + \alpha_1(1/A_{t-1}) + \beta_1(S_t/A_{t-1}) + \beta_2(\Delta S_t/A_{t-1}) + \beta_3(\Delta S_{t-1}/A_{t-1}) + \varepsilon_t$$

whereas:

PROD i,t	The sum of the cost of goods sold and the change in inventory of company i in year t

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Ai t − 1	The total assets of firm i in year t − 1
Sales	Company i sales in year t
Sales i t Δ:	Sales of firm i in year t minus sales of firm i in year t − 1
Salesi, t-1:Δ	The sales of firm i in year t − 1 minus the sales of firm i in year t − 2
εi,t:	A residual term showing the level of abnormal production costs for firm i in year t
B1, β2, β3:	They are fixed specific data

By estimating the regression equation, the beta values appear as follows:
(a0=0.023, (a1=0), (B1=0.011), (B2=0.002), (B3=0).
3.2.3.3. Modified variable (organization life cycle (OLC)): According to this variable, cash flows were adopted as the basis for classification. It is based on the classification presented by (Hussain, 2017: 122), for the purpose of initial identification the age stage, the life cycle of companies, the research sample.
1. The start (Operating cash flow -), (investment -), (financier +).
2. The growth (Operating cash flow +), (investment -), (financier +).
3. Maturity (Operating cash flow +), (investment -), (financier -).
4. Regression (Operating cash flow -), (investment +), (financier +-).
The rating has been enhanced by cash flow based on other indicators to be governing instruments or addressed in a blurred state or complete cash flow statements Among these approved indicators, Age limited to less than 10 years for the starting stage, unless sales growth, has exceeded 10%, then the company is in the growth phase. As for the stage of maturity, it was determined if it exceeded (10) years sales growth was less than 15%, If the growth is negative, the company is in the decline stage.

3.3. Test the effect of the hypothesis on the relationship of the variables

The effect of information asymmetry on real earnings management varies In light of the varying stages of the organization life cycle.
A multiple linear regression equation was formulated to estimate the management of real earning in terms of information asymmetry and the company life cycle as a modified variable, for knowing the level of influence of the latter in managing real earning under contrast different stages of the life cycle of the company, Table 2 shows the results of the impact test.

Table (2): The impact of information asymmetry in managing real profits in light of the varying stages of the company's life cycle.

Dimensions	constant coefficient (β0)	regression (β) coefficient	Value (T) (Sig.)	Value (F) (sig.)	(R)	(R) average
Information asymmetry	.086	9.250	3.107 (.002)	7.909 (.000)	.170	.148
Organization life cycle		.083	1.953 (.053)			
Information asymmetry × Organization life cycle		2.105	2.787 (.006)			

Source: the researchers based on the results of the statistical analysis prepared the table

It is noted from Table (2) that:
1. The stability of the regression model in terms of the (F) value of (7.909) it is significant at the 5% level of significance, this means that earnings management can be estimated in terms of information asymmetry and the company life cycle as a modified variable, this indicates the validity of the model.
2. The stability of the coefficient of the constant limit of the value of (T) of (3.107) (1.953) (2.787), Information asymmetry and the company life cycle as

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a modified variable significantly less than 5% which indicates a significant effect of information asymmetry and the company life cycle as a modified variable In real earnings management.

3. The value of beta (β) of (9.250), (.083), (2.105) indicates information asymmetry and the company life cycle as a modified variable, that the effect is positive, meaning the greater the level of information asymmetry The company's life cycle has also progressed in the decline stage This was reflected in the high level of real profit management. Meaning in a corporate environment that are in the stage of maturity and decline i.e. the late stages of the life cycle of the company as an interactive variable it works to enhance the power of positive influence Information asymmetry in managing real profits.

4. The value of the modified coefficient of determination (Adjusted R2) adult (0.148) on that information asymmetry and the company life cycle as a modified variable Explains (14.8%) Of the changes in real earnings management it is a rather small percentage though the largest interpretation rate of (85.2%) It is due to other reasons and factors that are not apparent in the current model. Based on the above, the hypothesis is accepted.

CONCLUSIONS:

1. The concept of information asymmetry is gaining a lot of attention as one of the variables affecting the financial markets, recalling differences in obtaining information between buyers and sellers in financial contracts, which leads to an imbalance of control or force in transactions, which results from the differences in obtaining information between borrowers and lenders.
2. Real earnings management included Management takes a series of decisions to direct business activities to achieve the specified results that management wishes to report in the financial statements, Including misrepresenting the company's real economic performance and standardize the true information content of financial reports for the purpose of achieving certain goals to influence the decisions of users of these reports.
3. The life cycle of the organization it is a series of distinct stages through which the company is transferred from its inception to its end which results from changes in internal factors (choosing strategies, financial resources, management capacity) and external factors (competitive environment, macroeconomic factors) of which many arise on the strategic decisions taken by the company.
4. The impact of information asymmetry varies in real earnings management In light of the different stages of the organization's life cycle, this effect is positive, meaning the greater the level of information asymmetry the life cycle of the organization has also progressed to be in the decline stage this was reflected in the high level of real earning management. Meaning in a corporate environment that is in the stage of maturity and decline i.e. the late stages of the life cycle of the organization as a modified variable it works to enhance the power of positive influence information asymmetry in real earnings management.

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