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-RESEARCH ARTICLE-

THE IMPACT OF EARNING MANAGEMENT, LIQUIDITY, AND EFFICIENCY ON THE COST OF EQUITY OF TOP TEN ORGANIZATIONS IN THE IRAQI STOCK EXCHANGE

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—Abstract—

Currently, the cost of equity (CE) is a requirement for investors and businesses to thrive in the market. This may be accomplished through effective earning management (EM) and stock efficiency. This element requires the attention of researchers and regulators. The current study evaluates the impact of EM, liquidity (LQ), efficiency (EFC), and return on assets (ROA) on the capitalization equivalence (CE) of the top 10 companies listed on the Iraqi stock exchange (ISE). The researchers utilized secondary data gathered from the financial accounts of the selected firms from 2012 to 2021. The researchers additionally examine the relationship between variables using the dynamic autoregressive distributed lag (DARDL) technique. The results suggested that the EM, LQ , EFC, and ROA of the top 10 companies on the ISE have a favorable relationship with their CE. The article directs policymakers in formulating high CE-related policies utilizing effective earning management and stock EFC.

Keywords: Earning management, stock efficiency, liquidity, ROA, cost of equity

1. INTRODUCTION

Companies worldwide begin and operate with a goal in mind, typically to generate a profit. The profitability of a business determines its existence and longevity. Historically, businesses were typically dependent only on their activities' profits. With time, however, corporations are altering their philosophies by investing in more enterprises to increase profits and diversify their revenue streams. Typically, businesses have two types of investments, including investments based on debt and investments in stock additions. Depending on their conditions, businesses choose between loan and equity options. Research suggests that large-scale enterprises prefer equity-based financing (Belo et al., 2019; Meslier et al., 2020; Flayyih & Khiari, 2023); hence, the present study seeks to investigate CE.

As their true assets, companies make maximum effort to ensure the satisfaction of their stakeholders. (Belo et al., 2019; Dowling et al., 2019) A single dissatisfied investor has a negative influence on the firm's investment. Before investing in any company, the investors confirm their maximum calculations. The CE represents the revenue an investor requires due to their participation in the company. The CE is essential in emerging nations since enterprises have fewer investors due to economic constraints. According to the literature, several market characteristics, including LQ , EFC, stock return, and ROA, influence investors' investment decisions (Goulder et al., 2019; Hidayat et al., 2020; Mazzorana-Kremer, 2019). Bearing in mind the significance, this study aimed to investigate the LQ , EFC, and ROA relationship with CE in Iraq.

Indarti and Widiatmoko (2021) and Gao et al. (2020) examined whether or not there is a relationship between CE and EM. But, the current study will also work on it with the addition of EFC, LQ , and ROA in Iraq using a new data set. 4), Zareian et al. (2021)

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and Tsai et al. (2021) examined whether or not there is a relationship between CE and EFC; however, the current study will also focus on this in addition to EM, LQ , and ROA in Iraq with a new sample set. 6) Pellegrini et al. (2019) and Faysal et al. (2021) checked whether there is a relationship between CE and ROA. Mazouz et al. (2022) and Roddenhof (2019) examined whether there is a relationship between CE and The current study has multiple implications, including 1) the current study emphasizes the significance and necessity of examining CE in Iraq; 2) the current study contributes to CE literature, particularly from an Iraqi perspective; and 3) the current study assists economy and finance professionals in updating their policies regarding equity decision making to support firms. 4) The CE has been extensively studied from many perspectives at various eras, but there are still many of its elements that remain undiscovered, so the current study investigates it.

2. LITERATURE REVIEW

Literature is abundant on the firm's finances. According to the existing literature, EM is crucial due to its link with equity. According to the literature, there is a connection between equity and EM. In this context, Indarti and Widiatmoko (2021) examined if a relationship exists between CE and EM. As a sample, the study used data from the past two years. The sample selected spans the years 2016 to 2018. The collected material was evaluated using the MRA method. The results of the investigation suggested a relationship between CE and EM.

Gao et al. (2020) investigated the possibility of a relationship between CE and EM. China was where the investigation was conducted. As a sample, the study utilized data from the past nine years. The selected sample spans the years 2008 through 2017. According to the analysis's findings, there is a correlation between CE and EM. In addition, Arianpoor and Farzaneh (2023) examined whether a relationship exists between CE and EM. The research was performed in Tehran. The study sampled data from seven years. The selected sample spans the years 2014 through 2021. The results of the investigation suggested a connection between CE and EM. In addition, Le and Moore (2021) investigated whether there is a relationship between CE and EM. The research was performed in Vietnam. The study sampled information from the previous decade. The sample selected spans the years 2007 to 2017. The results of the investigation suggested a connection between CE and EM. Saleh et al. (2022) study sampled information from 120 individuals. The information was acquired through questionnaires. The results of the investigation suggested a connection between CE and EM. In addition, Houqe et al. (2017) investigated the possibility of a relationship between CE and EM. The research was performed in India. The study sampled data from 7303 businesses. The information was acquired through questionnaires. The results of the investigation suggested a connection between CE and EM.

According to the literature, there is a connection between EFC and EM. In this respect, Zareian et al. (2021) was performed in Iran. As a sample, the study utilized data from the past nine years. The selected sample spans the years 2008 through 2017. The anticipated EFC results of the analysis influence the CE.

Moreover, Tsai et al. (2021) The research sampled the data from 100 institutions. Using questionnaires, a representative sample was collected. The findings of the investigation suggested that EFC influences CE. Similarly, Raimo et al. (2020) investigated if an association exists between EFC as measured by the EFC ratio and CE. The study sampled data over the past nine years. The selected sample spans the years 2010 through 2019. The collected sample was evaluated using the regression model. The findings of the investigation suggested that EFC influences CE. In addition, Yeh et al. (2020) investigated whether there is a correlation between EFC as measured by the EFC ratio and CE. The research was performed in China. The research utilized signaling theory. The research sampled data from three years. The sample selected spans the years 2008 to 2011. The findings of the investigation suggested that EFC influences CE. Chun and Song (2021) investigated if an association exists between EFC as measured by EFC ratio and CE. The research was performed in Korea. The findings of the investigation suggested that EFC influences CE.

The concept of LQ is deemed essential for businesses and their stakeholders. Mazouz et al. (2022) examined the possibility of a relationship between CE and LQ . According to the investigation results, there is a correlation between CE and LQ . Moreover, the higher LQ caused by dividend payments results in a substantial economic fall in CE capital. In addition, endogeneity difficulties, different methods of quantifying LQ risk and dividend distributions, and varied model parameters did not affect the findings.

Further study reveals that firms with insufficient governance and a murky information environment may have a lower LQ risk associated with dividend distributions. In addition, Roddenhof (2019) investigated the possibility of a relationship between CE and LQ . As a sample, the study included data from 5519 companies. The sample was collected through the use of questionnaires. The results of the investigation suggested a relationship between CE and LQ . In addition, Opare et al. (2021) investigated whether there is a relationship between CE and LQ .

The research was empirical. The study's results were based on a sample of 56 studies. According to the results of the investigation, there is a correlation between CE and LQ . In addition, Abu Alia et al. (2022) investigated the possibility of a relationship between CE and LQ . The research was performed in Palestine. As a sample, the study utilized data from the past nine years. The selected sample spans the years 2009 through 2018. The results of the investigation suggested a relationship between CE and LQ .

In addition, William M et al. (2021) investigated the likelihood of a connection between CE and LQ . Information from the past ten years was sampled for the study. The

population studied is comprised of years 2000 to 2010. The results of the investigation suggested a relationship between CE and LQ . Likewise, Amihud et al. (2015) investigated whether or not there is a relationship between CE and LQ . The research was performed in Germany. The research included data from 40 stock exchanges in Germany and other nations. According to the results of the investigation, there is a correlation between CE and LQ .

The ultimate objective of all investors is to maximize their return on investment. The company's assets play a crucial role in the kind of returns they generate. Literature suggests a connection between equity and returns on assets. In this connection, Pellegrini et al. (2019) examined if a correlation exists between CE and ROA. The research was performed in Iran. The study sampled information from 16 years. The selected sample spans the years 2002 to 2018. The data included 182 public companies. The investigation results suggested a relationship between CA and returned on assets. In addition, Faysal et al. (2021) examined whether a correlation exists between CE and ROA. The research was performed in Iran. The study used data from the previous five years as a sample. The chosen sample's time period is from 2012 to 2017. The multiple regression model was used to analyse the sample that was gathered.. The results of the study suggested that there is a correlation between CA and ROA. In addition, Hsieh et al. (2020) examined if a correlation exists between CE and ROA. The study was conducted in the United States. The study sampled information from 16 years. The selected sample spans the years 2000 to 2016. The investigation results suggested a relationship between CA and returned on assets. In addition, Muslim and Setiawan (2021) examined if a correlation exists between CE and ROA.

The research was empirical. The study's sample consisted of 984 observations. The selected sample spans four years of service. The results of the study suggested that there is a correlation between CA and ROA. In addition, Teti et al. (2016) investigated whether or not there is a correlation between CE and ROA. The research was empirical. The study included information from 90 companies as a sample. The sample was collected through the use of questionnaires. The investigation results suggested a relationship between CA and returned on assets. In addition, Dakhlaoui et al. (2017) examined whether or not there is a correlation between CE and ROA. The research was performed in Tunisia. The study sampled information over the past six years. The sample selected spans the years 2004 to 2010. The investigation results suggested a relationship between CA and returned on assets.

3. RESEARCH METHODS

This study investigates the influence of EM, LQ , EFC, and ROA on the CE of the top 10 companies listed on the ISE. The researchers utilized secondary data gathered from the financial accounts of the selected firms from 2012 to 2021. The estimated equation for the study is as follows:

$$CE_{it} = \alpha_0 + \beta_1 EM_{it} + \beta_2 LQ_{it} + \beta_3 EFC_{it} + \beta_4 ROA_{it} + e_{it} \quad \textbf{(1)}$$

Where;

CE	=	Cost of Equity
t	=	Time Period
i	=	Companies
EM	=	Earning Management
EFC	=	Efficiency
LQ	=	Liquidity
ROA	=	Return on Assets

The CE was employed as a surrogate for the dependent variable in the capital asset pricing model. In addition, the researchers employed two predictors, including EM proxies as the ratio of earnings standard deviation to operating cash flow standard deviation and EFC proxies as the ratio of cost of goods sold to inventory average. In addition, the researchers employed two additional control variables: LQ proxies as the ratio of current assets to current liabilities and ROA proxies as the ratio of net income to total assets. These measured variables are listed in Table 1 below.

Table 1. Variables with Measurements

S#	Variables	Measurement	Sources
01	CE	The capital asset pricing model	Financial Statements
02	EM	The ratio of earnings' standard deviation to operating cash flows' standard deviation.	Financial Statements
03	EFC	The ratio of cost of goods sold and the average of inventory.	Financial Statements
04	LQ	The ratio of current assets and current liabilities.	Financial Statements
05	ROA	The ratio of net income to total assets.	Financial Statements

The researchers applied descriptive statistics to check the variables' details. In addition, the researchers also applied the correlation matrix to check the correlation among predictors. Moreover, the researchers also applied the Phillips–Perron (PP) test and augmented Dickey–Fuller (ADF) test to check the unit root among variables. The equation is mentioned below:

$$d(Y_t) = \alpha_0 + \beta t + \gamma Y_{t-1} + d(Y_t(-1)) + \varepsilon_t \quad \textbf{(2)}$$

In addition, the researchers also applied the (Westerlund & Edgerton 2008) approach to examine the co-integration in the model. The equations are mentioned below:

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$$LM_{\varphi}(i) = T\hat{\varphi}_i\ (\hat{r}_i/\hat{\sigma}_i\ ) \quad \textbf{(3)}$$

$$LM_{\tau}(i) = \hat{\varphi}_i/SE(\hat{\varphi}_i) \quad \textbf{(4)}$$

Moreover, the researchers also applied the ARDL model to examine the directional association among the understudy constructs. It is a suitable approach when some variables have no unit at the level, and others have no unit at the first difference (Zaidi & Saidi, 2018; Flayyih and Khiari, 2022). The equation for the approach is mentioned below:

$$\Delta CE_t = \alpha_0 + \sum\delta_1\Delta CE_{t-1} + \sum\delta_2\Delta EM_{t-1} + \sum\delta_3\Delta EFC_{t-1} + \sum\delta_4\Delta LQ_{t-1} + \sum\delta_5\Delta ROA_{t-1} + +\varphi_1 CE_{t-1} + \varphi_2 EM_{t-1} + \varphi_3 EFC_{t-1} + \varphi_4 LQ_{t-1} + \varphi_5 ROA_{t-1} + \varepsilon_t \quad \textbf{(5)}$$

The researchers also check the association among variables by applying the DARDL approach. The selected approach controls the heteroscedasticity and autocorrelation effects on the estimations (Nazir et al., 2018). This approach is established by Jordan and Philips (2018). It covers all the issues left to undress in the ARDL model. The equation is mentioned below:

$$\Delta CE_t = \alpha_0 + \sum\delta_1\Delta CE_{t-1} + \sum\delta_2\Delta EM_t + \sum\delta_3\Delta EM_{t-1} + \sum\delta_4\Delta EFC_t + \sum\delta_5\Delta EFC_{t-1} + \sum\delta_6\Delta LQ_t + \sum\delta_7\Delta LQ_{t-1} + \sum\delta_8\Delta ROA_t + \sum\delta_9\Delta ROA_{t-1} + \varepsilon_t \quad \textbf{(6)}$$

4. FINDINGS RESULTS

The researchers employed descriptive statistics to examine the specifics of the variables. The data revealed that the CE average was -0.049 percent, the EM mean value was 0.271 percent, and the EFC average number was 4.208 percent. In addition, the average LQ percentage was 3.291%, and the average ROA percentage was 25.5944%. These numbers are presented in Table 2.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CE	100	-0.049	0.645	-3.984	5.123
EM	100	0.271	0.425	0.001	2.821
EFC	100	4.208	1.596	3.019	7.210
LQ	100	3.291	0.372	2.101	4.301
ROA	100	25.594	5.401	11.298	31.202

Also, the researchers utilized the correlation matrix to examine the association between predictors. The results suggested that the EM, LQ , EFC, and ROA of the top 10 companies on the ISE have a favorable relationship with their CE. These numbers are presented in Table 3.

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Table 3. Matrix of Correlations

Variables	CE	EM	EFC	LQ	ROA
CE	1.000				
EM	0.575	1.000			
EFC	0.430	0.584	1.000		
LQ	0.546	0.402	0.657	1.000	
ROA	0.534	0.288	0.438	0.429	1.000

In addition, the researchers employed the PP and ADF tests to determine the unit root among variables. The results revealed that the CE, EM, and ROA lack unit roots at a level, while the EFC and LQ lack unit roots at the first difference. These numbers are presented in Table 4.

Table 4. Unit Root Test

	ADF		PP	
Series	Level	First difference	Level	First difference
CE	-2.091***	------	-2.102***	------
EM	-2.738***	------	-2.645***	------
EFC	------	-4.893***	------	-5.304***
LQ	------	-4.637***	------	-5.744***
ROA	-3.453***	------	-3.129***	------

In addition, the researchers utilized the (Westerlund & Edgerton, 2008) method to analyze the model's co-integration. The results indicated a t-value greater than 1.96 and a p-value less than 0.05. These numbers demonstrated the existence of co-integration. These numbers are presented in Table 5.

Table 5: Co-integration test

Model	No Shift		Mean Shift		Regime Shift	
	Test Stat	**p-value**	**Test Stat**	**p-value**	**Test Stat**	**p-value**
LM_{τ}	-5.948	0.000	-5.554	0.000	-6.443	0.000
LM_{φ}	-5.444	0.000	-5.718	0.000	-6.598	0.000

The researchers additionally examine the connection between factors using the DARDL method. The results suggested that the EM, LQ , EFC, and ROA of the top 10 companies on the ISE have a favorable relationship with their CE. These relationships are shown in Table 6.

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Table 6. Dynamic ARDL model

Variable	Coefficient	t-Statistic	Prob.
ECT	-3.664***	-5.784	0.000
EM_{t-1}	1.983***	4.392	0.000
EM	2.367***	4.982	0.000
EFC_{t-1}	1.271**	2.327	0.012
EFC	1.456***	4.893	0.000
LQ_{t-1}	2.378**	3.101	0.005
LQ	0.476***	4.912	0.000
ROA_{t-1}	0.447***	5.903	0.000
ROA	1.278**	2.109	0.021
Cons	3.784***	4.675	0.000

R square = 60.938 Stimulation = 5000

5. DISCUSSIONS

The results indicated a positive relationship between EM and the CE. These findings are corroborated by Gao et al. prior .'s research (2020). The study emphasizes that if individuals participating in EM can identify profitable sources of earnings and increase revenues for the period, they can obtain and keep equity by paying a higher price and preserving goodwill. Hence, proper EM increases the CE. These findings are also consistent with Kim et al.'s (2020) article, which asserts that successfully working earning managers optimize earnings from direct and indirect sources while minimizing the associated risks. The increased profits allow the companies to incur more costs on equity.

The results revealed a favorable relationship between EFC and CE. Previous research by Hu et al. (2020) examining the effects of EFC on the CE supports these findings. The research indicates the effectiveness of the organization's administrators in converting inventory into sales. It boosts the organization's financial resources and enables it to earn more significant revenues. Hence, the CE will grow. These findings are also consistent with Vitolla et al.'s (2020) finding that the EFC of financial managers in generating capital and associated profits from the sale of company stock boosts corporate finance for expansion. And increased earnings growth raises the CAE.

The results demonstrated that LQ is positively correlated with the CE. These findings are corroborated by a recent study by Opare et al. (2021), which suggests that a company's increased LQ enables it to take advantage of business success possibilities whenever they come, as LQ guarantees the availability of funds for rapid spending. This helps the firm expand and create more revenue. Thus, the CE rises with increasing LQ . These findings concur with the article by William M Cheung et al. (2021), which asserts that the larger the LQ of assets in corporate ownership, the better organizational

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management's ability to make prompt judgments and allocate resources for best results. Managers can boost the CE in this manner, which may attract investors.

The results indicated that the ROA positively correlates with the CE. These results are corroborated by prior research on Saputra (2022). According to this piece of literature, business organizations have greater asset returns when they utilize high-quality assets and integrate them to maximize their value. This ensures reduced total costs, increased EFC, and increased profitability. Hence, organizations can raise the CE. These results are also consistent with the research conducted by Bui et al. (2020), which suggests that if a company achieves a greater ROA, the increased money resulting from higher earnings enables the company to pay more for capital. Hence, increased asset returns raise the CE.

6. IMPLICATIONS

This study's literary contribution may provide scholars with guidelines for future endeavors. The study examines the effects of EM, EFC, and LQ on CE, with return on equity as the controlled variable. The study contributes to the body of knowledge due to the simultaneous investigation of components' associations. This study aims to investigate the influence of EM, EFC, LQ , and return on equity in the capital structure of the top 10 companies listed on the ISE. The study has enormous significance for publicly traded corporations that rely on shareholder ownership. This paper shows how to boost the CE to compensate investors for equity risk more adequately. The research suggests that there should be company regulations to improve the effectiveness of EM so that CE can increase. The study advises that firms must improve their equity marketing EFC to raise the CE and attract investors. The article directs policymakers in formulating high CE-related policies utilizing effective EM and stock EFC. It is suggested to business management that asset LQ must be enhanced, and consequently, the CE should be raised. Moreover, the current study indicates that a rise in returns on equity is required to enhance the CE.

7. CONCLUSION

This study aimed to investigate the significance of EM, EFC, and LQ in the CE. Also, the role of return on equity in the CE was to be analyzed. Using the statistics of the top 10 companies listed on the ISE, we learned about EM, EFC, LQ , return on equity, and corporate ethics (CE). The findings revealed a positive correlation between EM, EFC, LQ , return on equity, and capitalization. The results demonstrated that if EM is good, it generates substantial profits from various sources, and enterprises may withstand rising equity costs. In addition, the results demonstrated that the firm's EFC in generating capital and profits from selling company shares boosts corporate funds. Hence, a business may expand, which increases the CE. The study revealed that businesses with highly liquid assets are better able to make timely decisions and maximize resource use.

That leads to a rise in equity expenses. The results demonstrated that higher returns on equities result in more considerable funds and, thus, a rise in CE.

8. LIMITATIONS

This study addresses only three aspects of the CE: EM, EFC, and LQ . It does not discuss business effectiveness, brand image, firm size, etc., all relevant to the CE. It is recommended that these criteria be considered when examining the CE for a better piece of writing. In addition, only companies listed on the ISE were surveyed for this study. Hence, the results may not be generalizable, and authors should collect pertinent data from multiple economies.

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