

DOI: [10.55643/fcaptop.5.58.2024.4487](https://doi.org/10.55643/fcaptop.5.58.2024.4487)

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Received: 16/07/2024

Accepted: 01/10/2024

Published: 31/10/2024

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# THE MEDIATING ROLE OF EARNINGS MANAGEMENT IN THE RELATIONSHIP BETWEEN THE FIRM LIFE CYCLE AND THE COST OF EQUITY: EVIDENCE FROM BANKS IN IRAQ

## ABSTRACT

The present study seeks to examine the interaction among three separate variables. The initial variable relates to the organization's life cycle and financial attributes. The second variable pertains to the procedures of firm management that influence performance and financial condition, as demonstrated by earnings management. Investors manage the impact of the previous two factors by weighing the risks and potential gains, which the corporation terms as "the cost of equity." We utilized these variables to analyze 15 Iraqi commercial banks that have been listed on the Iraq Stock Exchange for 10 years, equivalent to 150 observations.

Our quantitative assessment of the study variables, conducted using models from the relevant literature, has yielded significant findings. We have uncovered a direct correlation between the life cycle and earnings management, indicating a beneficial association. Moreover, we have revealed that each factor exerts a unique and favourable influence on the cost of equity. The correlation between the life cycle and earnings management has led to an increase in the favourable influence of earnings management on the cost of equity. Conversely, the life cycle now has an inverse impact on the cost of equity, with the cost of equity being mainly influenced by the maturity stage. These findings have important implications for stock market traders, as they guide them to direct their investments towards banks that offer higher returns relative to the level of risk, considering the age group and the administration's approach to managing announced profits. This study's implications for stock market traders are significant, as it provides them with valuable insights for making informed investment decisions. It also serves as a guide for future studies in this field.

**Keywords:** life cycle, earnings management, cost of equity, capital asset pricing, profit fluctuation

**JEL Classification:** E32, G39, D23

## INTRODUCTION

This article investigates the impact of a company's earnings management on its life cycle and cost of equity. The notion of "the corporate life cycle" expands the "product life cycle" concept, first formulated by marketing and economic intellectuals. The product life cycle is a marketing concept that outlines the various stages a product undergoes, starting from its debut in the market and ending with its withdrawal. Within the corporate life cycle framework, a firm depends solely on a single product, whether it is involved in its manufacturing or trading, and its life cycle aligns with that of the product. The corporation in question has a life cycle that closely mirrors that of its product in terms of attributes and stage distribution (Omeke et al., 2019). It either increases or decreases the amount of cash flowing in and out of operations (Mulchandani et al., 2023). Furthermore, a corporation's financial and economic aspects are influenced by its location and life cycle duration. At different stages of its life cycle, a company possesses diverse capacities to acquire financial resources from the market, thereby establishing a competitive advantage (Can, 2020) (Habib et al., 2019). On the other hand,

however, earnings management is essential in business since it is a widespread occurrence in organizations that, by adhering to specific policies, seek to preserve the trust of certain stakeholders in their financial performance by manipulating the reported profits (Hastuti et al., 2017). Consequently, numerous study studies have elucidated the reasons behind corporations' decisions to distribute or retain dividends. Studies have extensively tested many ideas proposing that corporations generally allocate dividends to their shareholders. Therefore, it is necessary to analyze the life cycle of the organization in order to understand the mechanism via which alterations in dividend distribution take place. Similarly, numerous studies have demonstrated that nascent companies tend to reinvest their gains, whereas established companies tend to distribute them. The company's life cycle strategy involves sacrificing the expenses of sustaining profits or disbursing dividends. The corporation must make a strategic decision that maximizes its value and achieves a harmonious alignment between the company's objectives and the interests of its shareholders (Ryu & Won, 2022). The notion of a company's life cycle offers a valuable structure for categorizing organizations according to several stages that reflect the different circumstances they experience. Organizations' quality of financial reporting and utilization of various earnings management approaches are greatly influenced by specific situations within these stages (Krishnan et al., 2020).

The length of time a company has existed affects its strategy for managing earnings. Startups typically necessitate substantial funding to support their growth. As a result, the company's profits, long-term viability, cash flow, and investment requirements fluctuate at different stages of its development (Hussain et al., 2020). Hence, the process of selecting investment companies necessitated the discovery of indicators capable of forecasting the profitability of enterprises, regardless of their management and distribution of earnings. Consequently, corporations comprehensively examine the costs linked to managing cash flow compared to the charges related to distributing it and their influence on financing expenses (Hartam & Kresnawat, 2021).

Over the last two decades, the finance industry has experienced substantial advancements due to the influence of external factors and internal indicators of enterprises on the cost of obtaining funding. The indicators encompassed in this study are firm size, leverage, and level of disclosure (Wadood et al., 2020). Therefore, commercial organizations must confront the growing obstacles they encounter, including heightened competitiveness, escalating inflation, government interference in economic operations, rapid technical progress, and the broadening of social obligations. This study aims to provide insight into the precise profit management strategies employed by Iraqi banks and analyze their direct influence on the growth of their operations and expenses related to ownership. The unique aspect of this study will captivate the reader and pique their interest in the financial dynamics of Iraqi banks. In addition, we will examine previous pertinent studies and then outline our study's methodology and sample selection to obtain our findings, which we will subsequently analyze and discuss to formulate our conclusions.

## LITERATURE REVIEW

### *Evolution of the Company Life Cycle*

A company's life cycle resembles a live creature, progressing through distinct stages of inception, expansion, maturation, and eventual decline. The analyzed studies demonstrate that organizations exhibit distinct operating settings and financial situations that differ over various life cycle stages. Companies in the growth stage encounter heightened competitive challenges in the market, and their primary objective during this phase is to enhance profitability. When they reach maturity, they are well-established in the market and possess the willingness and capacity to participate in environmental and social initiatives beyond mere profit-seeking. When companies enter the decline stage, they possess organizational flexibility because owners become more concerned with safeguarding their interests (Gao et al., 2023). The term "life cycle" describes a company's growth and development stages. Each stage has distinct characteristics, organizational structure, and marketing techniques (Choi et al., 2016). The company's life cycle variable accurately represents the several stages it undergoes. The corporation undergoes a series of stages that parallel the stages of human life, starting from its establishment and entry into the market, progressing through growth and development, expanding its operations, and ultimately reaching maturity and excellence.

Furthermore, the precision of the company's predictions for the near future or far future assists in attaining growth and profitability for companies. Companies in the start-up or introduction stage and the decline stage are particularly affected by this, as a firm's financial structure is highly influenced by its life cycle (Vorst et al., 2018). The organism's properties change depending on its life cycle (Amin et al., 2023). Cash management and financial hazards influence the company's life cycle (Ngo et al., 2023). Every phase of a company's existence necessitates distinct priorities. It compels companies to consider their life stages when making strategic decisions and addressing earnings management constructively, as it impacts equity, which is connected to the financial vulnerability of companies experiencing growth or decline at various

levels. Furthermore, borrowing amplifies organizations' financial susceptibility at every stage of their life cycle, particularly during periods of expansion and recession (Gültekin & Sayilgan, 2024).

The influence of assets on basic earnings per share, return on assets, and company value diminishes from the introduction stage to the decline stage. Additionally, the effect of fixed assets on firm value increases from the introduction stage to the decline stage (Muhammad & Lau, 2023). Various elements, including the environment, society, and governance, can influence the life cycle of companies. These aspects have a substantial positive impact on corporate success. The correlation between the environment, society, governance, and firm performance is particularly apparent for companies in the growth and maturity stages (Qu & Junrui, 2023). Ehsani and Osiyevskyy's study suggests that enterprises' long-term success and survival rely on their capacity to adjust to the conditions and changes in their surroundings consistently. This can be achieved by implementing a suitable combination of exploration and exploitation techniques. Exploration substantially affects the likelihood of company failure during the growth, maturity, and transition phases. However, it dramatically augments the likelihood of the company's failure during progress and decline. Simultaneously, exploitation has a substantial adverse effect on the likelihood of the company's collapse during the progress and maturity phases. Nevertheless, it increases the likelihood of failure during the transition phase (Ehsani & Osiyevskyy, 2023).

### ***The methods of earnings management and their potential future consequences***

The focus on management and its techniques has recently led to numerous financial crises and financial and administrative malfeasance in various firms. Managerial manipulation refers to managers' deliberate use of authority and financial reporting practices to produce financial outcomes that deviate from accurate economic and financial indicators. The objective of this is either to deceive stakeholders or to exert influence on decisions by leveraging the financial reports and the information they encompass (Roma et al., 2021), and we can assess the impacts of these activities, whether they are advantageous or detrimental. The term "white earnings management" refers to positively manipulating financial reports (Ronen & Yaari, 2008). Black earnings management refers to deliberately manipulating financial reporting to negatively portray the company's financial performance. The third category is grey earnings management, which encompasses opportunistic and media perspectives. The references (Widuri & Sutanto, 2019) are mentioned. Furthermore, management deliberately alters the company's financial performance to fulfil personal objectives and deceives stakeholders, whether through manipulation of benefits or earnings, negatively impacting the company's future performance. Therefore, the reported earnings indicate how accounting is measured within the company. The phenomenon of bias in personal judgments and manipulating the selection of accounting procedures is examined within the context of earnings management carried out by management (Chhillar & Lellapalli, 2022). Furthermore, earnings management negatively impacts accounting conservatism (Hartam & Kresnawat, 2021). Moreover, start-ups and struggling enterprises may employ various earnings management techniques to deceive and secure additional financing (Durana et al., 2021). Earnings management processes and behaviour vary depending on the specific stage of the company's life cycle. Nevertheless, there is optimism for favourable transformation via operational innovation, which has the potential to significantly enhance the company's profitability at every phase of its existence. Companies aiming to optimize their value at various life cycle stages should prioritize operational innovation, particularly technological innovation, to maximize market value (Khuong et al., 2022).

### ***Cost equity in the banks***

It is imperative to comprehend the expense of equity. The equity cost is the return investors must receive to own a company's shares. It is a critical component of capital analysis and is indispensable for calculating the total cost of capital. The cost of equity is most frequently determined using the capital asset pricing model. The cost of equity, the company's beta (a measure of its systematic risk), and market risk are all determined by the risk-free rate of return (Bhattacharya et al., 2023). The cost of equity is the required rate of return on shareholders' equity about their investment in the company. Estimating the required rate of return may be influenced by various internal determinants, including the company's size, age, level of unsystematic risk, liquidity of the shares, degree of leverage, and quality of disclosure. Furthermore, the estimation of the required rate of return may be influenced by other external determinants, with the efficacy of financial markets and the general state of the economy being the most significant (Zaro, 2022). The cost of equity is also the return that an investor expects from an investment, which is determined by the level of risk. (Chouaibi & Zouari, 2024), and certain studies suggest that the financial ratio of non-performing loans and equity to total assets has a detrimental effect on the return on assets and return on equity (Khalifaturafi'ah, 2023). Additionally, companies with a higher cost of capital generate higher returns on invested capital, suggesting that the perceived cost influences capital allocation in the long term. The perceived cost of capital is partially correlated with the actual cost, which is determined by risk premiums and interest rates (Gormsen & Huber, 2024).

One of the mechanisms by which capital markets can motivate companies to implement practical initiatives that are designed to mitigate the environmental and social consequences of their operations (Becchetti et al., 2023) is the cost of

equity. This emphasizes the inspiring role of social responsibility in reducing the cost of equity. Studies indicate that the cost of capital for companies in emerging countries is higher than that of developed countries. Consequently, investments in emerging countries must generate higher returns to offset this additional financial expense (Sánchez Ana et al., 2023). A company's commitment to social responsibility can reduce the equity cost, resulting in increased transparency. This is a critical strategy for effective governance, as it reduces information asymmetry and agency costs. Additionally, the level of risk management is negatively correlated with social responsibility, meaning that as a company's social responsibility increases, its risk management decreases while the cost of equity increases. The company may be exposed to such risks due to information asymmetry, conflict of interest, and financial report manipulation (Chouaibi & Zouari, 2024).

## AIMS AND OBJECTIVES

The study's objective is to examine the correlation between a firm's life cycle and its techniques for managing earnings. This study is valuable for our profession as it demonstrates the methodology for analyzing a company's life cycle by examining its operating, investing, and financing cash flows as indicators. Additionally, it examines how the capital asset pricing model's calculations of the fluctuation in earnings, the fluctuation in operational cash flow, and the cost of equity relate to one another.

## METHODS

The study employed an inductive methodology to gather bank data by analyzing their financial reports. We rigorously examined the accuracy of the hypotheses by correlation analysis, linear regression analysis, and path analysis, guaranteeing the strength and reliability of the results. The study encountered various limitations, the most notable being the limited size of the study community, consisting of only 27 Iraqi private banks listed in the financial market. Additionally, there needed to be more essential financial data for all commercial banks listed in the financial market for the year 2023 at the commencement of the study. As a result, the sample size was reduced to 15 banks. Notwithstanding these difficulties, the study provided invaluable insights into key elements of the Iraqi environment. It achieved this by identifying the age stage of each bank in the sample, quantifying profit management during the study period, examining the correlation between these factors, and evaluating the influence of this correlation on the cost of equity.

The study utilized SPSS version 26 as the statistical software tool. The AMOS program and the obtained data underwent quantitative analysis for an extended period utilizing simple linear regression with the least square method. Based on this analysis, conclusions were derived and deliberated upon.

The following Table 1 shows the study variables, measurement method, and the symbol for each of them:

NO	Variable Name	Type	Abbreviation	Define
1	Earnings management	Independent	EM	The ratio of the standard deviation of earnings to the standard deviation of operating cash flows
2	Launch Phase	Independent	Int	Analysis of cash flows for operating, investing, and financing activities. In each observation, the number 1 is given for the stage in which the company is located, and the number 0 is for the remaining stages
	Growth Phase		GRO	
	Maturity Phase		Mat	
	shake-out Phase		Sha	
	Decline Phase		Dcc	
3	Cost of equity	Dependent	COE	Capital asset pricing model

### **The first independent variable: Earnings management**

The model (Menicucci, 2019) was used as in the equation below:

$$SMOOTH_{j,t} = \sigma(NIBE_{j,t})/TA_{j,t-1} \div \sigma(CFO_{j,t})/TA_{j,t-1} \quad (1)$$

where: *SMOOTH*= Company's profitability,  $\sigma$  = Standard deviation, *NIBE<sub>j,t</sub>* = Net profit, *TA<sub>j,t-1</sub>* = Operating cash flows

**The second independent variable: The life cycle of the company**

The method (Dickinson, 2011), which determines the age stage of the company life cycle based on the analysis of the cash flow signal from the three activities (operating, investing, and financing), was used in Table 2.

**Table 2. Stages of the company life cycle.**

Cash Flow Signal Indicate	Introduc-tion stage	Growth stage	Maturity stage	Shake-out stage	Shake-out stage	Shake-out stage	Decline stage	Decline stage
Indication of net cash flow from operating activities (CFO)	-	+	+	-	+	+	-	-
Indication of net cash flow from investing activities (CFI)	-	-	-	-	+	+	+	+
Indication of net cash flow from financing activities (CFF)	+	+	-	-	+	-	+	-

**Dependent variable: cost of ownership**

$$R_j = R_f + \beta_j * (R_m - R_f) \tag{2}$$

where:  $R_j$  = The rate of return on a share is equal to the cost of a common share,  $R_f$  = The risk-free rate of return (usually the return on government bonds),  $\beta_j$  = Beta coefficient, which measures the systemic risk of company stock,  $R_m$  = The rate of return on the stock market portfolio.

**The study Problem**

Corporations and financial institutions, specifically, encounter numerous obstacles because of both internal and external influences. These difficulties can affect the company's financial success and future, impacting property rights and other stakeholders. Before 2003, Iraq had five government-owned banks: Rafidain Bank, Rashid Bank, Agricultural Bank, Industrial Bank, and Real Estate Bank. The Iraqi Trade Bank was established in 2004, and the first government Islamic bank was established in 2015. Regarding the number of private banks, there are currently 53 commercial and Islamic banks in Iraq, while the number of international banks stands at 12. By 2024, the Iraqi Stock Exchange had a total of 46 commercial and Islamic banks that were actively trading shares. Due to the country's volatile economic and political environment, certain banks capitalized on these circumstances to partake in unlawful operations, prompting the US Treasury to prevent 33 institutions from engaging in foreign transactions. The banks' administrations engaged in unethical profit management practices, which led to significant financial losses for these banks. The subsequent inquiries exemplify the problem addressed in the study:

1. Is there a relationship between the company's life cycle and management practices for earnings management?
2. Does earnings management correlate with the life cycle of a company?
3. Does earnings management correlate with the company's life cycle and the cost of equity?

**The hypotheses:**

The current study is based on the following hypotheses:

1. There is a statistically significant relationship between the company's life cycle and management practices for earnings management.
2. There is a statistically significant relationship between the life cycle of the company and earnings management.
3. The relationship between the life cycle and earnings management has a statistically significant effect on the cost of equity.

## RESULTS

### *Results and testing the study hypothesis*

A fundamental linear regression analysis was conducted utilizing the least squares method to evaluate the initial hypothesis. The obtained results are as follows in Table 3:

Table 3. Testing the correlations between life cycle and earnings management.						
		Int	GRO	Mat	sha	Dec
EM	Correlation Coefficient	.703**	.795**	.536**	.695**	.614**
	Sig. (2-tailed)	.000	.000	.000	.000	.000

From the Table 3, it can be observed that the p-values for all preceding correlations were 0.00, which is lower than the acceptable significance level of 0.05 in the field of social sciences. Consequently, the initial study hypothesis is confirmed, and all correlation coefficients have positive values (varying from moderate to vigorous), suggesting a clear association between the company's life cycle and profits management strategies. The company's age stage is influenced by the earnings management strategies used by its management. Nevertheless, the company's current development stage necessitates using earnings management methods that directly impact its ability to survive in this stage or progress to the next stage of the business life cycle. The statistics above indicate that the growth stage is the age stage that is most strongly associated with earnings management strategies. Companies strive to prolong this stage by employing earnings management techniques, as these methods enhance the appeal of their indicators to various stakeholders and users of the company's information, leading to an increase in earnings management practices throughout this stage. The small earnings management tactics have reached the mature stage, where investors and financial analysts closely monitor them. As a result, management needs to refrain from further engaging in such practices. These findings have significant ramifications for finance and accounting, offering a more profound comprehension of the correlation between a company's life cycle and its earnings management practices and stressing the urgency for management to adapt their practices considering this study.

Our study will be conducted using a rigorous and thorough methodology to examine the second hypothesis on the influence of this relationship on the cost of equity. This will entail conducting tests to determine the separate impact of each company's life cycle and earnings management on the cost of equity. Their combined influence will be examined using path analysis, and the outcomes will be juxtaposed to ascertain the disparities in the repercussions of this association. By emphasizing the rigour of our research process, we aim to instil confidence in the dependability and accuracy of our findings among our audience.

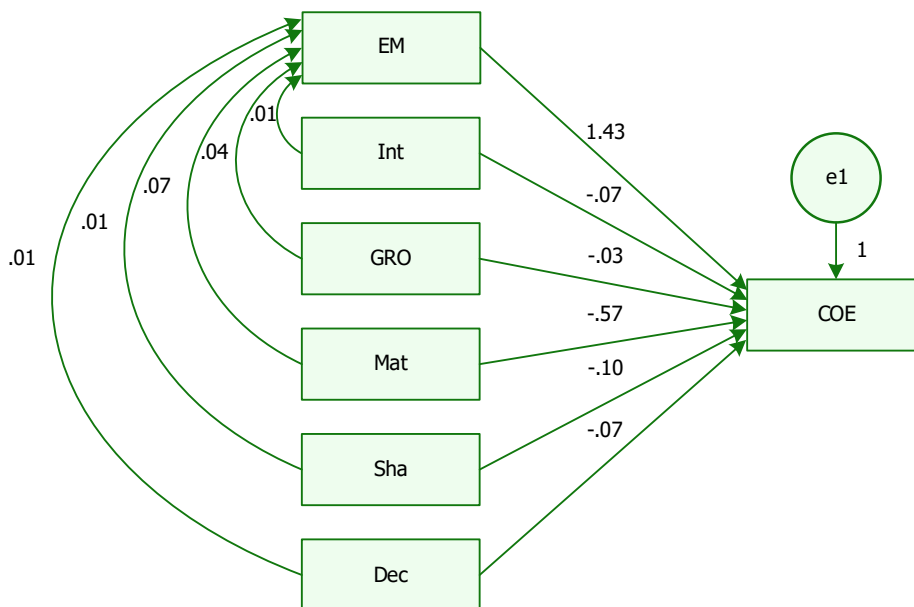
Table 4 highlights the key findings of our study, indicating that the company's life cycle and earnings management have distinct and significant direct impacts on the cost of equity.

Table 4. The individual impact of life cycle & and earnings management on the cost of equity.					
Variable	R	R-Square	B	F	F-Sig
EM	0.595	0.354	0.902	80.613	0.000
Int	0.422	0.178	.018	6.187	0.000
GRO			.260		
Mat			.487		
Sha			.020		
Dec			.071		

The significance level of F was 0.000, lower than the acceptable error level of 0.05 commonly used in social sciences, underscoring the robustness of our findings. Earnings management was found to have a substantial 90.2% influence on the cost of equity, while the mature stage exerted the most significant influence on the company's life cycle, reaching 48.7%. This is due to investors' apprehension regarding the company's viability during the maturity period and the potential transition to the decline stage, leading to a rise in the cost of equity for investors due to heightened risk during this phase.

By comparison, the initial phase had the least significant effect on the cost of equity, which is at 1.8% due to the bank's recent entry into the financial markets. Investors need to learn more about the company and display minimal interest in purchasing its shares. However, this situation is expected to change as the company attains positive outcomes and demonstrates a likelihood of sustained operations, reassuring investors and leading to increased investor interest and a more favourable cost of equity.

To test the third hypothesis, the path below was drawn to study and analyze the impact of the relationship between the company's life cycle and earnings management on the cost of equity, as shown in the following Figure 1:



**Figure 1. The path of the relationship between the variables.**

Table 5 illustrates how the company's life cycle stages have changed how profit management affects the dependent variable (cost of equity) in terms of its nature and intensity.

Table 5. A path analysis of the effect of life cycle Earning management on the cost of equity.						
	Path		Estimate	S.E.	C.R.	P
COE	<---	EM	1.428	.195	7.319	.000
COE	<---	Int	-.069	.102	-.678	.498
COE	<---	GRO	-.030	.098	-.309	.757
COE	<---	Mat	-.571	.196	-2.909	.004
COE	<---	Sha	-.100	.104	-.961	.336
COE	<---	Dec	-.067	.117	-.570	.569

The effect of earnings management on the cost of equity has risen from 90.2% to 142.8% and has consistently maintained the same trajectory. Considering the company's developmental phase, earnings management has a more significant influence on the cost of equity. Consequently, due to the close correlation between the company's life cycle and earnings management, the influence of earnings management on the cost of stock has escalated. Therefore, the second research hypothesis is confirmed, thereby supporting the research. The relationship between the two independent variables has led to a change in the impact of the company's life cycle on the cost of financing. Specifically, the impact has shifted from being direct to being inverse. The most significant effect was observed during the maturity stage, the only stage with a significant effect. This analysis of the impact introduced a fresh perspective to the examination of the variables by considering an alternative viewpoint. The company is considerably more significant than the other stages and possesses various ownership and financing options.

Additionally, there is a notable reduction in information asymmetry between the company and investors. Therefore, the shareholders' risk and necessary return (equity cost) decrease. The growth stage has the most negligible impact on the cost of equity, and its influence may have been more essential but statistically insignificant.

Iraqi commercial banks experience two distinct stages of development: expansion and maturity. Therefore, it can be inferred that Iraqi banks are now in the early stages of their existence, which are defined as being relatively new and rather modern. They are well-positioned to take advantage of future development and expansion opportunities. The findings demonstrated a clear correlation between the company's life cycle and its utilization of earnings management strategies. Therefore, the company's stage of development is influenced by management's stance on earnings management procedures. Each of them independently impacts the cost of equity. The link between the life cycle and earnings management has led to an increase in the cost of equity due to the direct impact of earnings management.

The cost of equity is no longer directly influenced by the life cycle; instead, it now experiences an inverse effect. The maturity stage dramatically influences the price of equity due to a notable reduction in cognitive asymmetry between producers and users. Consequently, shareholders face reduced risk, leading to a decreased return (lower cost of equity). These findings are crucial for present and prospective investors as they emphasize the importance of considering earnings management techniques when analyzing a company's life stage and their overall impact on the necessary rate of return for investments in those organizations. From the company's standpoint, it represents the expense associated with equity. There are agricultural ranches located in the traversing area.

## DISCUSSION

Before 2003, Iraq's economic and financial conditions did not allow for expanding banking activity, as this sector was exclusively governmental. However, the change from a socialist to a market economy, which the Constitution of the Republic of Iraq ratified in 2005, prompted Iraqi and foreign investors to enter the Iraqi market. This crucial transition resulted in the expansion and correction of the banking industry, which resulted from several factors, including those outside the purview of this study, such as political and economic factors. In recent years, Iraqi academicians, professionals, and experts in this critical sector have been working diligently to develop solutions that will improve the financial performance of banks to benefit the public and stakeholders. Nevertheless, additional research is required to address current and future issues in the context of changing circumstances, and this study is a positive step in the correct direction. The financial function's efficiency is essential for the country's economic growth, investment opportunities, and financing, in addition to ensuring the company's continuity. Government intervention in economic processes, rapid technological advancements, and growing social commitments undoubtedly impact banks' cash flows (Bravo, 2019). This investigation examined the influence of cash flows on the introduction, development, and decline phases. Throughout the company's life cycle, our analysis demonstrated that the cost of financial capital fluctuates.

Furthermore, our objective is to improve the current body of knowledge regarding the life cycle of commercial banks by examining the impact of earnings management techniques on fifteen Iraqi banks listed on the Iraq Stock Exchange over ten years and for 2014-2023, with a total of 150 observations. The primary objective is to illustrate the correlation between the cost of equity and the impact on the life cycles of these institutions. The impact of the business life cycle on dividend distribution decisions, capital structure, firm size, and financial flows has been the primary focus of previous research. The life cycle and earnings management positively impacted the cost of equity in Iraqi commercial banks during the study period. This relationship led to an increase in the positive impact of earnings management on equity costs, a promising sign for potential returns.

Conversely, the life cycle's influence on the cost of equity transitioned from a direct effect to an inverse one. The maturity stage was the most significant age stage that influenced the cost of equity. Consequently, investors in the Iraqi banking sector who deal in the stock market directed their investments toward banks that achieved greater returns following the size of the banks' risk and the management behaviour towards managing the announced earnings. However, there has been a scarcity of research on the effect of earnings management on the price of shares, making the findings of this investigation particularly novel and essential. They are pertinent to the nation's most recent economic advancements. They can assist commercial banks and investors in making effective investment decisions and assessing the bank's current and prospective financial performance under the bank's life cycle.

## CONCLUSIONS

Based on the sample data, it was found that the growth stage was the most extended period that Iraqi commercial banks experienced, while the maturity stage was the shortest. Consequently, Iraqi banks are currently positioned in the first phases of the life cycle curve, characterized as youthful and moderately contemporary financial institutions. They should capitalize on the prospects for advancement and expansion in the foreseeable future. The findings indicate a clear correlation between the company's life cycle and earnings management practices. This implies that the stage of development that the company is in has a significant influence on, and is influenced by, the management's approach to earnings management practices.

Furthermore, each of these factors directly impacts the cost of equity. Due to the correlation between the life cycle and earnings management, there was an increase in the direct effect of earnings management on the cost of equity. Additionally, the influence of the life cycle on the cost of equity changed from direct to inverse. The maturity stage has the most significant impact on the cost of equity. This stage is marked by a notable reduction in information symmetry between preparers and users, leading to decreased shareholder risk. As a result, shareholders are more willing to accept lower returns, decreasing the cost of equity. These findings are crucial for existing and potential investors as they emphasize the importance of accounting for earnings management practices when evaluating a company's life stage. It is also essential to examine how these practices impact the required rate of return for investing in these companies, which represents the cost of equity from the company's perspective.

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## ADDITIONAL INFORMATION

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### AUTHOR CONTRIBUTIONS

All authors have contributed equally.

### FUNDING

The Authors received no funding for this research.

### CONFLICT OF INTEREST

The Authors declare that there is no conflict of interest.

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## **ПОСЕРЕДНИЦЬКА РОЛЬ УПРАВЛІННЯ ПРИБУТКОМ У ВЗАЄМОЗВ'ЯЗКУ МІЖ ЖИТТЄВИМ ЦИКЛОМ ФІРМИ ТА ВАРТІСТЮ ВЛАСНОГО КАПІТАЛУ: ДОСВІД БАНКІВ ІРАКУ**

Основна мета цього дослідження полягає в тому, щоб дослідити взаємозв'язок між творчими здібностями зовнішніх аудиторів та їхньою ефективністю в пом'якшенні серйозних викривлень. Метою є підвищення кваліфікації аудиторів, які працюють і в державному, і в приватному секторах Іраку. Нинішнє дослідження спрямоване на вивчення взаємодії між трьома окремими змінними. Початкова змінна відноситься до життєвого циклу організації та фінансових атрибутів. Друга змінна відноситься до процедур управління фірмою, які впливають на результативність і фінансовий стан, як це демонструє управління прибутками. Інвестори керують впливом двох попередніх факторів, зважаючи на ризики та потенційні вигоди, які корпорація називає «затратами на капітал». Ми використали ці змінні, щоб проаналізувати 15 іракських комерційних банків, які котируються на Іракській фондовій біржі протягом 10 років, що еквівалентно 150 спостереженням.

Наша кількісна оцінка дослідницьких змінних, проведена за допомогою моделей із відповідної літератури, дала значні результати. Ми виявили пряму кореляцію між життєвим циклом і управлінням прибутками, що свідчить про корисну асоціацію. Ба більше, ми виявили, що кожний із цих факторів здійснює унікальний і сприятливий вплив на вартість капіталу. Співвідношення між життєвим циклом і управлінням прибутками призвело до збільшення сприятливого впливу управління прибутками на вартість капіталу. Навпаки, життєвий цикл нині має зворотний вплив на вартість акцій, при цьому вартість капіталу в основному залежить від стадії дозрівання. Ці висновки мають важливі наслідки для фондових трейдерів, які направляють свої інвестиції до банків, що пропонують більш високі доходи порівняно з рівнем ризику, враховуючи вікову групу та підхід адміністрації до управління оголошеними прибутками. Це дослідження не тільки приносить користь фондовому ринку трейдерів, а й дає цінні уявлення для майбутніх дослідників у цій царині.

**Ключові слова:** життєвий цикл, управління прибутками, вартість капіталу, ціноутворення капітальних активів, флуктуація прибутку

**JEL Класифікація:** E32, G39, D23