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The Moderating Role of International Financial Reporting Standards Adoption in the Effect of Tax Pressure on Financial Earnings Management: Evidence from Companies Listed on the Iraq Stock Exchange

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ABSTRACT

This study aimed to examine the effect of tax pressure on financial earnings management and determine whether the adoption of International Financial Reporting Standards moderates this relationship among companies operating within the Iraq Stock Exchange environment. An explanatory sequential mixed-methods design was employed. The quantitative phase included 200 accounting, auditing, taxation, and financial-management professionals drawn from 150 Iraqi companies representing different ownership structures, organizational sizes, industries, levels of experience, and geographical locations. Data were collected using a structured questionnaire measuring tax pressure, IFRS adoption, and financial earnings management. Instrument validity was evaluated through expert review, exploratory factor analysis, and confirmatory factor analysis, while reliability was assessed using Cronbach's alpha and composite reliability. Quantitative data were analyzed through Pearson correlation, hierarchical multiple regression, interaction analysis, simple-slope testing, and the Johnson–Neyman procedure. The qualitative phase involved semi-structured interviews with a purposively selected subsample, and interview data were analyzed using thematic analysis to explain the statistical findings. Tax pressure had a positive and statistically significant effect on financial earnings management, $\beta = 0.51$, $p < 0.001$, whereas IFRS adoption had a negative and statistically significant direct effect, $\beta = -0.29$, $p < 0.001$. The interaction between tax pressure and IFRS adoption was also negative and significant, $\beta = -0.19$, $p < 0.001$, and increased the explained variance by 3.4%. Simple-slope analysis showed that the effect of tax pressure on earnings management was strongest at low IFRS adoption, $B = 0.62$, $p < 0.001$, lower at the mean level, $B = 0.49$, $p < 0.001$, and weakest at high IFRS adoption, $B = 0.36$, $p < 0.001$. Qualitative findings indicated that disclosure requirements, documentation, audit scrutiny, and standardized recognition rules explained this moderating effect. Tax pressure increases financial earnings management, but substantive IFRS adoption weakens this effect by restricting accounting discretion and strengthening transparency, documentation, comparability, and professional oversight.

Keywords: Tax pressure; financial earnings management; International Financial Reporting Standards; IFRS adoption; moderating effect; Iraq Stock Exchange; financial reporting quality.

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Introduction

Financial reporting occupies a central position in the relationship between corporations, investors, creditors, tax authorities, regulators, and other stakeholders because it provides the primary formal mechanism through which organizational performance, financial position, and future prospects are communicated. The usefulness of financial statements, however, depends not only on the technical accuracy of accounting records but also on the extent to which reported figures faithfully represent the underlying economic substance of corporate activities. When managers exercise accounting discretion to modify revenues, expenses, provisions, estimates, or recognition timing in pursuit of organizational or personal objectives, the informational quality of financial reports may decline (1, 2). This practice, commonly described as financial or accrual-based earnings management, can impair comparability, reduce transparency, distort assessments of corporate performance, and weaken confidence in capital markets. The issue becomes particularly significant in emerging economies, where institutional enforcement, regulatory consistency, professional capacity, ownership concentration, and political-economic instability may affect the incentives and opportunities available for discretionary financial reporting.

Earnings management does not necessarily involve direct violation of accounting rules. In many cases, it occurs through choices that remain within the formal boundaries of accepted accounting principles but are selected opportunistically to achieve a preferred reporting outcome. Managers may alter the timing of revenue recognition, modify provisions for doubtful debts, revise depreciation estimates, delay impairment recognition, adjust inventory valuation methods, or classify expenditures in ways that influence reported profit. These actions may be motivated by the desire to meet performance targets, avoid covenant violations, support share prices, satisfy investors, obtain financing, protect managerial compensation, or reduce tax liabilities. The distinction between legitimate professional judgment and opportunistic reporting is therefore often difficult to establish, particularly where accounting standards permit estimation and where regulatory oversight is uneven. Evidence from Iraqi listed companies has already shown that financial decision-making may be influenced by behavioral and cognitive considerations, reinforcing the importance of examining how managerial judgment operates within the local reporting environment (3).

Among the various forces that may encourage earnings management, tax pressure is especially important. Taxation directly affects corporate cash flows, retained earnings, investment capacity, liquidity, and the distribution of economic resources between firms and the state. When companies perceive tax liabilities as excessive, unpredictable, administratively burdensome, or inconsistently enforced, managers may face strong incentives to reduce reported taxable income. Tax pressure may arise from high effective tax rates, complex compliance procedures, frequent inspections, ambiguous tax regulations, penalties, disputes with tax authorities, or discrepancies between tax accounting and financial accounting. Under such circumstances, financial managers may attempt to influence accounting estimates and recognition decisions in ways that lower current tax obligations or defer tax payments. The relationship between tax pressure and earnings management is therefore not merely technical; it reflects the broader interaction between corporate incentives, fiscal institutions, enforcement mechanisms, and financial-reporting systems.

Tax revenue remains a fundamental source of public finance and is closely associated with the state's ability to provide infrastructure, social services, administrative capacity, and development programs. Research has demonstrated that tax revenue can contribute to economic growth and national development when tax systems are effectively designed and administered (4, 5). Nevertheless, the objective of maximizing public revenue may conflict with corporate efforts to preserve cash flow and profitability. This conflict becomes more pronounced when firms operate in volatile environments, face limited access to external finance, or experience uncertainty in tax assessment. Governance mechanisms within tax authorities may improve collection procedures and reduce administrative weaknesses, but their effectiveness depends on transparency, institutional accountability, and consistent implementation (6). Accordingly, tax pressure may have different financial-reporting consequences depending on the quality of the surrounding regulatory and governance environment.

The effects of tax policy on corporate behavior extend beyond immediate compliance decisions. Fiscal incentives, tax relief, subsidies, and targeted public support can influence investment, technological change, organizational strategy, and digital transformation. Recent evidence indicates that tax incentives and fiscal subsidies may operate jointly to encourage corporate digital transformation, demonstrating that tax policy can shape long-term organizational capabilities as well as short-term financial decisions (7). International taxation arrangements may also influence the geographical distribution of investment and the attractiveness of different jurisdictions. Tax sparing agreements, territorial tax reforms, and cross-border fiscal policies have been linked to changes in foreign direct investment, showing that taxation affects not only reported income but also broader capital-allocation decisions (8). These findings underline the strategic importance of tax policy and suggest that managerial responses to taxation should be analyzed within a wider framework of financial reporting, investment, and institutional incentives.

The relationship between taxation and accounting becomes particularly complex when financial-reporting standards and tax regulations pursue different objectives. Financial reporting generally aims to provide decision-useful information to investors and other stakeholders, whereas tax accounting is primarily concerned with determining taxable income and ensuring compliance with fiscal law. Differences between these objectives may create book–tax gaps and provide managers with opportunities to select accounting treatments that influence reported profit or taxable income. The application of specific accounting standards can itself have direct tax consequences. For example, the application of the revenue standard governing contracts with customers may alter the timing and amount of recognized revenue and consequently affect the determination of taxable income (9). Such interactions are especially important in countries where tax authorities rely heavily on financial statements as the basis for taxation or where reconciliation between accounting income and taxable income is not clearly regulated.

International Financial Reporting Standards were developed to enhance the transparency, comparability, consistency, and usefulness of corporate financial information across jurisdictions. By providing common principles for recognition, measurement, presentation, and disclosure, IFRS are expected to reduce information asymmetry and improve the ability of investors and creditors to evaluate corporate performance. In emerging capital markets, IFRS adoption may also contribute to institutional modernization by strengthening professional accounting practices, encouraging auditor scrutiny, and aligning domestic reporting with international expectations. In Iraq, the adoption of international standards has been associated with improvements in financial-reporting quality, suggesting that IFRS can contribute to more reliable and decision-useful accounting information when effectively implemented (10). Evidence from Iraqi private banks similarly indicates that mandatory IFRS adoption may improve accounting quality, although the strength of this effect depends on implementation conditions and institutional support (11).

The potential benefits of IFRS are not limited to domestic financial reporting. Improved comparability and transparency may reduce information barriers for international investors and make firms more attractive to foreign capital. Studies have linked IFRS adoption to foreign direct investment, cross-border investment, and the integration of domestic companies into international financial markets. Evidence from Nigeria suggests that IFRS adoption may positively affect foreign direct investment in the banking sector (12), while broader research has connected IFRS implementation with cross-border investment by reducing information asymmetry and improving confidence in reported figures (13). Similar arguments have been advanced regarding the role of international accounting and financial-reporting standards in facilitating foreign investment by improving the credibility and comparability of corporate disclosures (14). These relationships are particularly relevant for developing economies seeking to attract external capital and strengthen confidence in their securities markets.

However, the benefits of IFRS adoption are not automatic. The effect of international standards depends on legal enforcement, audit quality, managerial incentives, professional competence, corporate governance, investor protection, and the degree to which standards are substantively rather than symbolically applied. Mandatory adoption may produce only limited improvements when firms formally claim compliance but continue to rely on weak accounting systems, insufficiently trained personnel, or selective implementation. Research on private firms has shown that reporting incentives interact with IFRS adoption in determining financial-reporting quality, indicating that standards alone cannot fully overcome opportunistic managerial behavior (15). The same standards may therefore produce different outcomes across firms depending on ownership structure, regulatory pressure, audit intensity, and organizational capacity.

Business-environment conditions are especially relevant in Iraq, where firms operate within a context shaped by economic volatility, institutional transition, political uncertainty, uneven infrastructure, and differences in organizational capabilities. Research in the Iraqi small-business sector has demonstrated that the business environment can moderate relationships between managerial capabilities and organizational performance (16). This insight is applicable to financial reporting because the effectiveness of IFRS adoption may similarly depend on contextual factors such as regulatory stability, enforcement consistency, professional expertise, and access to accounting technology. Small and medium-sized firms may experience greater difficulty implementing complex international standards because of limited resources, while larger listed companies may have stronger internal controls, more sophisticated information systems, and greater access to external audit expertise.

The quality of the broader financial and investment environment is also influenced by political and macroeconomic stability. Evidence from emerging markets indicates that political stability and macroeconomic variables significantly affect foreign direct investment decisions (17). For Iraq, the implications are substantial because investor confidence depends not only on corporate performance but also on the credibility of financial reporting and the predictability of legal and fiscal institutions. Where political and regulatory uncertainty is high, managers may face greater incentives to present favorable financial results or to minimize taxable income in anticipation of future instability. In such conditions, IFRS adoption may function as an institutional safeguard by limiting discretionary reporting, but only when enforcement mechanisms and corporate governance systems support substantive compliance.

Corporate access to finance may further shape incentives for earnings management. Firms seeking bank loans, equity investment, or external funding may attempt to report stronger profitability and lower risk, whereas firms facing substantial tax obligations may have incentives to report lower earnings. These competing objectives can create complex reporting strategies. The development and growth of financial institutions, including microfinance organizations, are influenced by regulatory, institutional, and organizational factors that determine their ability to expand and serve economic actors (18). Although microfinance institutions differ from listed corporations, the underlying principle is relevant: the structure of the financial environment affects organizational incentives, reporting behavior, and access to capital. For listed Iraqi companies, financial statements may simultaneously serve taxation, financing, governance, and investor-relations purposes, thereby exposing managers to multiple and potentially conflicting pressures.

IFRS adoption may reduce earnings management by narrowing the range of permissible accounting alternatives, requiring more extensive disclosure, improving the traceability of estimates, and increasing the comparability of financial statements across periods and firms. When standards require managers to justify assumptions related to impairment, fair value, provisions, revenue recognition, and financial instruments, opportunistic adjustments may become more visible to auditors and regulators. Digital reporting technologies may further reinforce these effects. The use of IFRS-based electronic financial reporting and XBRL can enhance the usefulness, accessibility, and comparability of financial information by enabling more standardized and machine-readable disclosures (1). For financial-sector organizations in particular, technological integration may strengthen monitoring and reduce the ability to conceal unusual accounting adjustments within aggregated reports.

Nevertheless, IFRS can also interact with tax avoidance and earnings-management strategies in complex ways. Principles-based standards often require professional judgment, and this flexibility may create opportunities for strategic interpretation where enforcement is weak. Recent evidence indicates that IFRS adoption may affect corporate tax avoidance, while ownership structure can moderate this relationship (19). Family ownership, concentrated control, state participation, and public shareholding may alter managerial incentives and the level of external monitoring. In the Iraqi context, ownership heterogeneity is therefore likely to influence whether IFRS functions primarily as a transparency mechanism or whether its discretionary elements are used to support tax-oriented reporting strategies.

The relationship between IFRS adoption and investment outcomes is also contingent on regulatory institutions. Research has shown that mandatory IFRS adoption may encourage foreign direct investment, but the magnitude of this effect is influenced by conflict-of-interest regulation (2). This finding suggests that financial-reporting standards generate stronger economic benefits when accompanied by rules that limit managerial self-interest and protect stakeholders. In the absence of effective governance, IFRS adoption may remain largely formal and may not substantially improve reporting quality. The same reasoning applies to earnings management: international standards are more likely to constrain tax-motivated accounting discretion when managers are accountable to auditors, boards, regulators, investors, and enforcement authorities.

The growing importance of environmental and sustainability taxation adds another dimension to the relationship between tax policy and financial reporting. Research examining European countries has found that environmental taxation and IFRS adoption jointly affect consumption-based carbon outcomes, illustrating that accounting standards and tax policies may interact in shaping corporate and national behavior beyond conventional financial performance (20). Although environmental taxation is not the direct focus of the present study, this evidence demonstrates that the institutional effects of IFRS can extend into policy domains in which taxation creates new reporting obligations and managerial incentives. As Iraq gradually develops its financial, environmental, and investment institutions, understanding the interaction between taxation and financial-reporting standards becomes increasingly important.

The implementation of IFRS may also support international investment by improving the credibility of corporate disclosures, but its success depends on whether firms have the resources and expertise necessary for effective adoption. Professional training, audit competence, information-system quality, and managerial commitment are essential for translating formal standards into high-quality reporting. These requirements may be particularly challenging for firms operating in sectors with limited technical capacity or underdeveloped reporting infrastructure. Differences in company size, industry, organizational age, and geographical location may therefore create substantial variation in IFRS implementation across Iraqi companies. Such variation is important because a company that merely announces IFRS compliance may not receive the same constraining effect on earnings management as a company that embeds the standards within its accounting systems, internal controls, and audit procedures.

From a theoretical perspective, the expected moderating role of IFRS adoption can be explained through agency theory, institutional theory, and the political-cost perspective. Agency theory suggests that managers possess informational advantages over shareholders and may use accounting discretion to pursue personal or organizational objectives. Tax pressure creates an incentive to reduce reported income, while IFRS-based disclosure and recognition requirements may reduce information asymmetry and increase monitoring. Institutional theory emphasizes that firms adopt internationally recognized practices in response to regulatory, professional, and market pressures. However, adoption may be substantive or symbolic, depending on enforcement and organizational capacity. The political-cost perspective further suggests that companies may reduce reported profits when they anticipate greater taxation, regulatory intervention, or public scrutiny. IFRS adoption may moderate this behavior by increasing transparency and limiting the range of acceptable accounting choices.

Despite the growing literature on IFRS adoption, financial-reporting quality, taxation, and investment, several gaps remain. First, much of the existing research examines the direct effect of IFRS adoption on reporting quality, foreign investment, or tax avoidance without explicitly testing whether IFRS changes the strength of the relationship between tax pressure and financial earnings management. Second, evidence from Iraq remains comparatively limited, even though the country presents a distinctive institutional setting characterized by an emerging securities market, diverse ownership structures, ongoing accounting reform, and significant fiscal pressures. Third, prior studies often treat IFRS adoption as a binary regulatory event, whereas the actual degree of implementation may vary substantially across organizations. Fourth, the mechanisms through which standards adoption constrains or fails to constrain tax-motivated earnings management require further contextual explanation. Finally, the interaction between corporate taxation and reporting standards has practical implications for regulators, tax authorities, auditors, investors, and managers seeking to improve transparency while preserving an effective tax system.

The Iraqi capital market provides an appropriate context for addressing these gaps because listed companies operate under simultaneous pressures to demonstrate profitability, attract investment, comply with taxation requirements, and improve financial-reporting quality. The coexistence of state-owned, private, and public shareholding companies creates additional variation in governance, managerial incentives, and oversight. Differences across financial services, manufacturing, trade, and other industries may further influence tax exposure and the complexity of IFRS implementation. Examining these differences can clarify whether international standards function as an effective institutional constraint or whether tax pressure continues to dominate managerial reporting choices.

Accordingly, the aim of this study was to investigate the effect of tax pressure on financial earnings management and to determine whether the adoption of International Financial Reporting Standards moderates this relationship among companies listed on the Iraq Stock Exchange.

Methods and Materials

This study employed a mixed-methods research design to investigate whether the adoption of International Financial Reporting Standards moderates the effect of tax pressures on financial earnings management among companies listed on the Iraq Stock Exchange. An explanatory sequential mixed-methods approach was adopted, in which the quantitative phase constituted the principal component of the investigation and was followed by a qualitative phase designed to clarify, interpret, and contextualize the statistical findings. The quantitative component was cross-sectional and correlational in nature and examined the relationships among perceived tax pressure, the degree of International Financial Reporting Standards adoption, and financial earnings management. The qualitative component was used to obtain a deeper understanding of how managers, accountants, auditors, and financial specialists perceived the influence of taxation requirements and international reporting standards on corporate reporting decisions. The integration of quantitative and qualitative evidence made it possible to assess both the statistical strength of the proposed relationships and the organizational, regulatory, and professional mechanisms through which those relationships operated in the Iraqi corporate environment.

The target population consisted of companies operating within the institutional and regulatory environment of the Iraq Stock Exchange and professionals directly involved in financial reporting, taxation, auditing, accounting, and corporate financial decision-making. At the organizational level, 150 companies were included in the study. The organizational sample was selected using a stratified sampling approach to ensure representation across ownership structure, company size, industry, organizational experience, and geographical location. Of the participating companies, 45 were state-owned, representing 30% of the organizational sample, whereas 105 were privately owned, representing 70%. Regarding organizational size, 35 companies, or 23%, were classified as small enterprises employing fewer than 50 individuals; 60 companies, or 40%, were classified as medium-sized enterprises employing between 51 and 200 individuals; and 55 companies, or 37%, were classified as large enterprises employing more than 200 individuals. The participating companies represented several major sectors of the Iraqi economy. Fifty companies, accounting for 33% of the sample, operated in financial services, 45 companies, or 30%, were engaged in manufacturing, 35 companies, or 23%, operated in trade and commercial activities, and 20 companies, or 14%, belonged to other sectors.

The sample also reflected variation in organizational age and geographical distribution. Twenty companies, representing 13% of the organizational sample, had been operating for fewer than five years, 60 companies, representing 40%, had between five and ten years of organizational experience, and 70 companies, representing 47%, had been active for more than ten years. In terms of location, 75 companies, or 50%, were located in Baghdad, while the remaining 75 companies, or 50%, were located in other Iraqi provinces. This balanced geographical distribution was intended to reduce the possibility that the results would reflect only the economic, administrative, and regulatory conditions prevailing in the capital.

At the individual level, the quantitative sample consisted of 200 respondents selected from the participating companies. Eligible respondents included financial managers, chief accountants, internal auditors, external audit personnel, tax specialists, accounting officers, and other employees who possessed direct knowledge of corporate financial reporting and taxation practices. Participants were selected through a combination of purposive and stratified sampling. Purposive sampling ensured that respondents had sufficient professional familiarity with financial statements, tax obligations, International Financial Reporting Standards, and managerial accounting decisions, while stratification helped preserve diversity in gender, age, educational attainment, professional experience, and organizational type. Participation was limited to individuals who had worked in their current organization for a sufficient period to understand its accounting and financial reporting practices and who were directly or indirectly involved in the preparation, review, auditing, interpretation, or use of financial reports.

Among the 200 individual respondents, 120 were men, representing 60% of the sample, and 80 were women, representing 40%. Fifty respondents, or 25%, were younger than 30 years of age, 80 respondents, or 40%, were between 31 and 40 years old, 50 respondents, or 25%, were between 41 and 50 years old, and 20 respondents, or 10%, were older than 50 years. In terms of educational attainment, 100 participants, representing 50% of the sample, held bachelor’s degrees, 90 participants, representing 45%, held master’s degrees, and 10 participants, representing 5%, held doctoral degrees. Sixty respondents, or 30%, had fewer than five years of professional experience, 80 respondents, or 40%, had between five and ten years of experience, and 60 respondents, or 30%, had more than ten years of professional experience. With respect to organizational affiliation, 100 respondents, representing 50% of the individual sample, worked in private companies, 60 respondents, representing 30%, worked in state-owned companies, and 40 respondents, representing 20%, worked in public shareholding companies.

For the qualitative phase, a purposive subsample of participants was selected from those who had completed the quantitative questionnaire and expressed willingness to participate in a follow-up interview. Selection was based on maximum variation in professional role, years of experience, type of company, industry, and level of familiarity with International Financial Reporting Standards. Particular attention was given to individuals whose organizations demonstrated differing levels of standards adoption and exposure to tax pressure, because such variation was expected to provide contrasting explanations of the quantitative results. Qualitative recruitment continued until thematic saturation was reached, meaning that additional interviews no longer produced substantively new concepts concerning tax pressure, reporting discretion, standards implementation, or earnings-management behavior.

The principal unit of quantitative analysis was the individual professional respondent, while organizational information was used to describe the corporate context and to control for differences in ownership, size, sector, age, and location. The study was conducted in accordance with established ethical principles governing research involving human participants. Respondents received an explanation of the purpose of the study, the voluntary nature of participation, the confidentiality of their responses, and their right to withdraw without consequence. No personally identifying information was included in the analytical dataset. Participants provided informed consent before completing the questionnaire or participating in an interview, and the collected information was used exclusively for scientific purposes.

Quantitative data were collected using a structured questionnaire developed to measure tax pressures, International Financial Reporting Standards adoption, financial earnings management, and relevant organizational and demographic characteristics. The questionnaire was prepared after reviewing the theoretical and empirical literature on taxation, financial reporting quality, standards compliance, managerial discretion, and earnings-management practices. The instrument was designed to reflect the legal, accounting, and institutional characteristics of companies operating in Iraq. To enhance conceptual and linguistic accuracy, the original items were prepared in English and translated into Arabic using a translation and back-translation procedure. The translated version was reviewed by specialists in accounting, auditing, taxation, financial management, and research methodology to ensure that the wording was understandable, culturally appropriate, and consistent with the intended meaning of each construct.

The questionnaire consisted of several integrated sections. The first section collected demographic and professional information about respondents, including gender, age, educational level, years of professional experience, position, and type of employing organization. It also gathered organizational information concerning ownership structure, company size, industry, years of operation, geographical location, and listing status. These variables were included to describe the sample and to examine whether organizational and professional characteristics influenced the study variables.

The tax-pressure scale assessed the extent to which companies experienced financial, regulatory, administrative, and compliance-related pressures arising from taxation. The items measured perceptions of high effective tax burdens, frequent or complex tax obligations, uncertainty in the interpretation of tax regulations, the likelihood of tax inspection, penalties for noncompliance, disputes with tax authorities, pressure to reduce taxable income, and the financial consequences of meeting tax liabilities. Respondents indicated the degree to which each statement reflected the conditions of their organization. Higher scores represented stronger perceived tax pressure. The construct was treated as multidimensional because tax pressure may arise not only from the nominal tax burden but also from administrative complexity, regulatory uncertainty, enforcement intensity, and the perceived financial consequences of tax compliance.

The International Financial Reporting Standards adoption scale measured the extent to which companies applied international standards in preparing, presenting, recognizing, measuring, and disclosing financial information. The scale included items relating to formal adoption, consistency of implementation, staff familiarity with the standards, adequacy of professional training, alignment of internal accounting policies with international requirements, quality of financial statement disclosures, use of fair-value and impairment principles where applicable, support from external auditors, and management commitment to transparent reporting. The measurement distinguished between merely declaring compliance with International Financial Reporting Standards and implementing them substantively in routine accounting and disclosure practices. Higher scores indicated a more advanced and effective level of standards adoption.

Financial earnings management was measured through items assessing the extent to which managerial discretion was used to influence reported accounting outcomes. The scale addressed practices such as accelerating or delaying the recognition of revenues and expenses, modifying provisions and accounting estimates, adjusting depreciation assumptions, changing the timing of asset write-downs, influencing inventory valuation, using discretionary accruals, selecting accounting methods that affect reported profit, and altering financial reporting decisions to achieve tax, financing, contractual, or performance objectives. The items focused on financial or accrual-based earnings management rather than purely operational forms of real earnings management. Higher scores indicated a greater perceived use of accounting discretion to modify reported earnings.

All substantive questionnaire items were measured using a five-point Likert-type response format ranging from strongly disagree to strongly agree. Composite scores were calculated by averaging the responses to the items associated with each construct. Before the main data collection, the questionnaire was pilot-tested with a group of accounting and finance professionals who were not included in the final sample. The pilot study was used to evaluate clarity, completion time, item relevance, and potential ambiguity. Items identified as unclear, repetitive, or contextually unsuitable were revised before the questionnaire was distributed to the main sample.

Content validity was assessed through expert evaluation. A panel of academics and practitioners with expertise in accounting, taxation, auditing, financial reporting, and quantitative research reviewed the instrument. They evaluated the relevance, clarity, representativeness, and comprehensiveness of the items. Their comments were used to refine the wording and ensure adequate coverage of the conceptual domains. Construct validity was evaluated statistically through exploratory and confirmatory factor analyses. Factor loadings, convergent validity, and discriminant validity were examined to determine whether the items adequately represented their intended latent variables. Convergent validity was assessed using standardized factor loadings and average variance extracted, while discriminant validity was evaluated by comparing the relationships among constructs and their respective extracted variances.

Reliability was examined using internal consistency coefficients. Cronbach's alpha and composite reliability were calculated for the tax-pressure, International Financial Reporting Standards adoption, and earnings-management scales. Coefficients of 0.70 or higher were considered evidence of acceptable reliability. Corrected item-total correlations were also examined, and items that weakened the internal consistency or conceptual coherence of a scale were reconsidered. Because the primary variables were collected from the same respondents, procedural remedies were applied to reduce common-method bias. The questionnaire assured anonymity, separated predictor and outcome sections, used clear and neutral wording, and emphasized that there were no correct or incorrect answers. Statistical tests were also used to assess whether a single factor accounted for an excessive proportion of covariance among the measured variables.

The qualitative data-collection instrument was a semi-structured interview guide. The interview questions were designed to explore participants' experiences with tax obligations, tax inspections, accounting choices, financial reporting pressures, and the implementation of International Financial Reporting Standards. Participants were asked to explain how tax pressures affected managerial decisions regarding revenue recognition, expense reporting, provisions, estimates, and other accounting treatments. They were also asked whether the adoption of international standards restricted managerial discretion, improved transparency, increased the quality of auditing and disclosure, or merely created formal compliance requirements without substantially changing reporting behavior. Additional questions examined barriers to effective standards adoption, including limited professional training, weak enforcement, inconsistent regulation, inadequate accounting systems, shortages of qualified personnel, managerial resistance, and the costs of implementation.

The interviews also explored whether the effect of International Financial Reporting Standards differed according to ownership type, company size, sector, organizational experience, and geographical location. Follow-up questions were used to clarify responses and obtain concrete examples of accounting and tax-related decisions. Interviews were conducted in a setting that ensured privacy and were audio-recorded with participants' permission. When recording was not permitted, detailed written notes were taken. The interviews were transcribed verbatim and anonymized before analysis. The questionnaire responses, organizational information, and qualitative interviews were subsequently integrated to provide a comprehensive account of the moderating role of International Financial Reporting Standards adoption.

Quantitative data were analyzed using statistical software appropriate for descriptive, inferential, and multivariate analysis. Before hypothesis testing, the dataset was screened for incomplete responses, coding errors, duplicate records, univariate and multivariate outliers, and violations of statistical assumptions. Questionnaires with substantial missing information were excluded, while limited missing values were treated using an appropriate imputation procedure after examining the pattern and extent of missingness. The normality of the principal variables was assessed using skewness, kurtosis, histograms, and probability plots. Linearity and homoscedasticity were evaluated through scatterplots and residual diagnostics. Multicollinearity was examined using tolerance values, variance inflation factors, and correlations among the independent variables. Potential influential observations were assessed through standardized residuals, leverage values, and Cook’s distance.

Descriptive statistics were calculated to summarize the characteristics of the companies and respondents. Frequencies and percentages were used for categorical variables such as ownership type, company size, industry, geographical location, gender, age category, educational attainment, professional experience, and organizational affiliation. Means, standard deviations, minimum values, maximum values, skewness, and kurtosis were calculated for tax pressure, International Financial Reporting Standards adoption, and financial earnings management. Pearson correlation coefficients were used to examine the direction and magnitude of the bivariate relationships among the principal study variables.

The measurement model was assessed before testing the structural relationships. Exploratory factor analysis was first used, where necessary, to examine the dimensionality of the scales. Sampling adequacy and factorability were evaluated through the Kaiser–Meyer–Olkin measure and Bartlett’s test of sphericity. Confirmatory factor analysis was subsequently conducted to assess the fit of the proposed measurement model. Standardized factor loadings, composite reliability, average variance extracted, and correlations among latent constructs were examined. Model fit was evaluated using multiple indices, including the chi-square statistic relative to degrees of freedom, the comparative fit index, the Tucker–Lewis index, the root mean square error of approximation, and the standardized root mean square residual. The combined use of several fit indices reduced dependence on any single criterion.

The principal hypothesis concerned the moderating role of International Financial Reporting Standards adoption in the relationship between tax pressure and financial earnings management. This hypothesis was tested using hierarchical multiple regression and interaction analysis. Financial earnings management was entered as the dependent variable. Control variables reflecting respondent and organizational characteristics were entered in the initial step. These controls included ownership type, company size, industry, organizational age, geographical location, respondent education, and professional experience, because these factors could independently affect financial reporting behavior. Tax pressure and International Financial Reporting Standards adoption were entered as the main predictors in the subsequent step. An interaction term was then created by multiplying the centered tax-pressure score by the centered standards-adoption score and was entered in the final step of the regression model.

The predictor variables were mean-centered before constructing the interaction term to reduce nonessential multicollinearity and facilitate interpretation of the regression coefficients. A statistically significant coefficient for the interaction term was interpreted as evidence that International Financial Reporting Standards adoption moderated the relationship between tax pressure and financial earnings management. The change in the coefficient of determination after adding the interaction term was examined to assess the additional explanatory contribution of the moderating effect. The statistical significance of the regression coefficients was evaluated at the 0.05 level, and 95% confidence intervals were reported where appropriate.

When the interaction effect was significant, simple-slope analysis was conducted to interpret its direction and magnitude. The relationship between tax pressure and earnings management was estimated at low, moderate, and high levels of International Financial Reporting Standards adoption, conventionally represented by one standard deviation below the mean, the mean, and one standard deviation above the mean. The interaction was also plotted to show whether stronger adoption weakened or intensified the relationship between tax pressure and earnings management. The Johnson–Neyman procedure was used where appropriate to identify the specific range of standards-adoption scores at which the effect of tax pressure on earnings management became statistically significant.

As a robustness check, the hypothesized relationships were also examined using structural equation modeling. In this analysis, tax pressure, International Financial Reporting Standards adoption, and financial earnings management were modeled as latent constructs represented by their respective measurement items. The moderating effect was estimated through a latent interaction procedure or by using composite indicators after confirming the quality of the measurement model. Direct, interaction, and total effects were evaluated using standardized coefficients. Bootstrapping with a sufficiently large number of resamples was applied to generate bias-corrected confidence intervals and reduce reliance on distributional assumptions.

Additional analyses were conducted to determine whether the principal relationships differed across organizational categories. Multigroup comparisons were considered for state-owned and private companies, small and large organizations, financial and nonfinancial sectors, and companies located in Baghdad and other provinces. Differences in means across demographic and organizational groups were assessed using independent-samples t tests or analysis of variance, depending on the number of groups being compared. Where analysis of variance produced a significant result, appropriate post hoc comparisons were conducted. These supplementary analyses were interpreted cautiously and were used primarily to identify contextual variations rather than to replace the main moderation model.

Qualitative interview data were analyzed using thematic analysis. The analysis began with repeated reading of the interview transcripts to achieve familiarity with the data. Meaningful statements concerning tax pressure, managerial reporting incentives, International Financial Reporting Standards implementation, disclosure practices, auditing, regulatory enforcement, and earnings-management decisions were identified and assigned initial codes. Related codes were then grouped into broader categories reflecting recurring mechanisms and contextual conditions. Through iterative comparison, the categories were developed into higher-order themes that explained how tax pressure influenced financial reporting decisions and how international standards either constrained, redirected, or failed to prevent earnings-management practices.

To enhance the credibility of the qualitative analysis, the coding process involved continuous comparison across participants and organizational groups. Negative and contradictory cases were examined rather than excluded, particularly when participants reported that formal standards adoption did not necessarily produce substantive compliance. An audit trail was maintained to document coding decisions, category development, and theme refinement. Selected transcripts and coded extracts were reviewed independently to evaluate the consistency of interpretation. Where disagreements occurred, the coding framework was revised through discussion until a coherent interpretation was reached.

The quantitative and qualitative findings were integrated during the interpretation stage. The qualitative themes were used to explain the statistical direction and strength of the interaction between tax pressure and International Financial Reporting Standards adoption. Convergent findings were identified when interview evidence supported the quantitative relationships, while divergent findings were examined to identify conditions under which formal standards adoption did not operate as an effective constraint on earnings management. The final interpretation therefore considered not only whether International Financial Reporting Standards adoption moderated the effect of tax pressure statistically, but also how implementation quality, regulatory enforcement, organizational capacity, managerial incentives, and professional competence shaped this moderating role within companies operating on the Iraq Stock Exchange.

Findings and Results

The findings are presented in accordance with the sequential mixed-methods design of the study. The quantitative results are reported first, beginning with the demographic and organizational characteristics of the participants, followed by the descriptive statistics, measurement-model assessment, correlation analysis, hierarchical regression results, moderation analysis, and conditional-effects analysis. The qualitative findings are then presented to explain the mechanisms through which the adoption of International Financial Reporting Standards influenced the relationship between tax pressure and financial earnings management.

The final quantitative sample consisted of 200 professionals employed in accounting, auditing, taxation, financial management, and related positions within companies operating in the institutional environment of the Iraq Stock Exchange. Of the respondents, 120 were men, representing 60% of the sample, and 80 were women, representing 40%. The age distribution indicated that 50 respondents, or 25%, were younger than 30 years, 80 respondents, or 40%, were between 31 and 40 years of age, 50 respondents, or 25%, were between 41 and 50 years of age, and 20 respondents, or 10%, were older than 50 years. Thus, the largest age group consisted of participants between 31 and 40 years old, suggesting that a substantial proportion of the respondents were at an intermediate stage of their professional careers and were likely to possess both current technical knowledge and practical familiarity with organizational financial-reporting processes.

Regarding educational attainment, 100 respondents, representing 50% of the sample, held bachelor’s degrees, 90 respondents, representing 45%, held master’s degrees, and 10 respondents, representing 5%, held doctoral degrees. Accordingly, 95% of the participants possessed either undergraduate or postgraduate academic qualifications directly relevant to professional accounting and financial decision-making. In terms of professional experience, 60 respondents, or 30%, had fewer than five years of work experience, 80 respondents, or 40%, had between five and ten years of experience, and 60 respondents, or 30%, had more than ten years of experience. The relatively balanced distribution of professional experience enhanced the capacity of the sample to reflect both the perspectives of recently trained professionals and the accumulated organizational knowledge of more experienced respondents.

With respect to organizational affiliation, 100 participants, representing 50% of the individual sample, were employed in private companies, 60 participants, representing 30%, worked in state-owned companies, and 40 participants, representing 20%, worked in public shareholding companies. At the organizational level, the study included information from 150 companies. Of these companies, 45, or 30%, were state-owned, whereas 105, or 70%, were privately owned. Regarding company size, 35 organizations, representing 23%, were classified as small companies with fewer than 50 employees, 60 organizations, representing 40%, were medium-sized companies with between 51 and 200 employees, and 55 organizations, representing 37%, were large companies with more than 200 employees.

The participating organizations also represented several economic sectors. Fifty companies, corresponding to 33% of the organizational sample, operated in financial services, 45 companies, or 30%, were engaged in manufacturing, 35 companies, or 23%, operated in trade and commercial activities, and 20 companies, or 14%, belonged to other industries. Regarding organizational experience, 20 companies, representing 13%, had been operating for fewer than five years, 60 companies, representing 40%, had between five and ten years of organizational experience, and 70 companies, representing 47%, had been active for more than ten years. Geographically, 75 companies, representing 50% of the organizational sample, were located in Baghdad, while 75 companies, representing the remaining 50%, were located in other Iraqi provinces. Overall, the demographic and organizational distributions demonstrated that the study sample incorporated substantial variation in professional background, ownership structure, organizational size, sector, company age, and location.

Table 1. Descriptive Statistics and Distributional Characteristics of the Main Study Variables

Variable	Number of Items	Possible Range	Mean	Standard Deviation	Minimum	Maximum	Skewness	Kurtosis
Tax pressure	10	1–5	3.74	0.66	1.80	5.00	-0.41	-0.18
IFRS adoption	11	1–5	3.42	0.71	1.55	5.00	-0.16	-0.47
Financial earnings management	9	1–5	3.29	0.68	1.44	4.89	0.12	-0.39

As shown in Table 1, the mean score for tax pressure was 3.74 with a standard deviation of 0.66, indicating that respondents generally perceived their companies as experiencing a relatively high degree of taxation-related pressure. This result suggested that taxation was not viewed merely as a routine compliance requirement but as a meaningful financial and administrative constraint affecting corporate decision-making. The mean score for International Financial Reporting Standards adoption was 3.42 with a standard deviation of 0.71, reflecting a moderate-to-high level of standards adoption across the participating companies. However, the observed standard deviation and the wide range of scores indicated considerable variation among companies in the depth and consistency of implementation. Some organizations appeared to have integrated international reporting standards into their regular accounting practices, whereas others demonstrated more limited or formalistic adoption. The mean score for financial earnings management was 3.29 with a standard deviation of 0.68, indicating a moderate level of perceived managerial discretion in the timing, recognition, measurement, and presentation of accounting outcomes. The skewness values ranged from -0.41 to 0.12, and the kurtosis values ranged from -0.47 to -0.18. Because all values remained within commonly accepted thresholds for approximate normality, the distributions of the three principal variables were considered sufficiently normal for parametric analysis. The minimum and maximum values also demonstrated that the sample included organizations with substantially different experiences of tax pressure, standards adoption, and earnings-management behavior, thereby providing adequate variability for testing the proposed direct and moderating relationships.

Table 2. Reliability, Convergent Validity, and Correlations Among the Main Study Variables

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted	1	2	3
1. Tax pressure	0.88	0.89	0.58	1.00		
2. IFRS adoption	0.91	0.92	0.61	0.18*	1.00	
3. Financial earnings management	0.86	0.87	0.56	0.56***	-0.34***	1.00

Table 2 presents the reliability, convergent validity, and correlation coefficients for the principal study constructs. Cronbach's alpha values ranged from 0.86 to 0.91, while composite reliability values ranged from 0.87 to 0.92. All reliability coefficients exceeded the minimum acceptable threshold of 0.70, demonstrating satisfactory internal consistency across the measurement scales. The average variance extracted values were 0.58 for tax pressure, 0.61 for International Financial Reporting Standards adoption, and 0.56 for financial earnings management. Because each value exceeded 0.50, the findings supported the convergent validity of the three constructs, indicating that the items assigned to each variable explained more than half of the variance in their corresponding latent construct.

The factorability of the data was also supported by a Kaiser–Meyer–Olkin value of 0.89 and a statistically significant Bartlett's test of sphericity, $\chi^2(435) = 2874.61$, $p < 0.001$. Confirmatory factor analysis further indicated that the proposed three-factor measurement model provided an acceptable fit to the observed data, $\chi^2/df = 2.14$, comparative fit index = 0.94, Tucker–Lewis index = 0.93, root mean square error of approximation = 0.076, and standardized root mean square residual = 0.052. Standardized factor loadings ranged from 0.67 to 0.86 and were statistically significant at $p < 0.001$. These results confirmed that tax pressure, International Financial Reporting Standards adoption, and financial earnings management represented empirically distinguishable constructs.

The correlation analysis demonstrated a strong and statistically significant positive relationship between tax pressure and financial earnings management, $r = 0.56$, $p < 0.001$. This finding indicated that companies experiencing greater tax pressure were also more likely to report higher levels of earnings-management behavior. International Financial Reporting Standards adoption was negatively and significantly associated with financial earnings management, $r = -0.34$, $p < 0.001$, suggesting that stronger standards adoption was related to lower managerial use of accounting discretion to alter reported financial results. The positive but comparatively weak correlation between tax pressure and International Financial Reporting Standards adoption, $r = 0.18$, $p < 0.05$, indicated that companies facing greater tax pressure may have had somewhat stronger incentives to formalize or improve their financial-reporting systems. However, the limited magnitude of this relationship suggested that tax pressure and standards adoption remained conceptually and statistically distinct. None of the correlations approached levels that would indicate problematic multicollinearity.

Table 3. Hierarchical Regression Analysis Predicting Financial Earnings Management

Predictor	Model 1 B	Model 1 SE	Model 1 β	Model 2 B	Model 2 SE	Model 2 β
Constant	2.61	0.29	—	1.57	0.27	—
Company ownership	-0.11	0.07	-0.10	-0.06	0.06	-0.05
Company size	-0.14*	0.06	-0.16	-0.08	0.05	-0.09
Industry type	0.06	0.04	0.09	0.04	0.03	0.06
Organizational age	-0.12*	0.05	-0.15	-0.07	0.04	-0.08
Geographical location	0.09	0.08	0.07	0.05	0.06	0.04
Educational level	-0.10	0.06	-0.11	-0.05	0.05	-0.06
Professional experience	-0.13*	0.06	-0.15	-0.06	0.05	-0.07
Tax pressure	—	—	—	0.53***	0.05	0.51
IFRS adoption	—	—	—	-0.28***	0.05	-0.29

R^2	0.112	0.402
Adjusted R^2	0.079	0.374
ΔR^2	0.112	0.290
F	3.43**	15.87***

The hierarchical regression results presented in Table 3 demonstrate that the control variables entered in Model 1 collectively explained 11.2% of the variance in financial earnings management, $R^2 = 0.112$, $F = 3.43$, $p < 0.01$. Company size, organizational age, and professional experience were initially associated with significantly lower levels of earnings management. Specifically, larger companies, older organizations, and respondents with greater professional experience tended to report less extensive use of discretionary accounting practices. However, the magnitudes of these effects decreased after the principal explanatory variables were entered into the model, suggesting that part of the apparent influence of organizational maturity and professional experience was attributable to differences in tax pressure and reporting-standard implementation.

When tax pressure and International Financial Reporting Standards adoption were entered in Model 2, the proportion of explained variance increased substantially from 11.2% to 40.2%. The change in explained variance was statistically significant, $\Delta R^2 = 0.290$, $p < 0.001$, demonstrating that the two principal predictors contributed considerable explanatory power beyond the demographic and organizational controls. Tax pressure had a positive and statistically significant effect on financial earnings management, $B = 0.53$, $SE = 0.05$, $\beta = 0.51$, $p < 0.001$. Holding the control variables and standards adoption constant, a one-unit increase in tax pressure was associated with a 0.53-unit increase in the financial earnings-management score. The standardized coefficient indicated that tax pressure was the strongest individual predictor in the model. This result supported the proposition that stronger financial, regulatory, and administrative tax pressures increased managerial incentives to adjust reported accounting outcomes.

International Financial Reporting Standards adoption had a negative and statistically significant direct effect on financial earnings management, $B = -0.28$, $SE = 0.05$, $\beta = -0.29$, $p < 0.001$. After controlling for tax pressure and organizational characteristics, a one-unit increase in the level of standards adoption was associated with a 0.28-unit reduction in the earnings-management score. This finding suggested that substantive implementation of international reporting requirements reduced the scope available to managers for discretionary recognition, measurement, estimation, and disclosure decisions. The variance inflation factors ranged from 1.12 to 1.84, and tolerance values ranged from 0.54 to 0.89, indicating that multicollinearity did not threaten the stability of the regression estimates. Examination of the standardized residuals, Cook’s distance, and leverage values also revealed no influential observations capable of materially distorting the results.

Table 4. Moderation Analysis of the Effect of IFRS Adoption on the Relationship Between Tax Pressure and Financial Earnings Management

Predictor	B	Standard Error	Standardized β	t	p	95% Confidence Interval
Constant	3.27	0.04	—	81.75	<0.001	[3.19, 3.35]
Control variables	—	—	—	—	—	—
Tax pressure, centered	0.49	0.05	0.47	9.80	<0.001	[0.39, 0.59]
IFRS adoption, centered	-0.25	0.05	-0.26	-5.00	<0.001	[-0.35, -0.15]
Tax pressure × IFRS adoption	-0.18	0.04	-0.19	-4.50	<0.001	[-0.26, -0.10]
Model R^2	0.436					
Adjusted R^2	0.405					
Interaction ΔR^2	0.034				<0.001	
Overall F	14.58				<0.001	

Conditional Effect of Tax Pressure on Financial Earnings Management

Level of IFRS Adoption	Conditional Effect	Standard Error	t	p	95% Confidence Interval
Low, 1 SD below the mean	0.62	0.07	8.86	<0.001	[0.48, 0.76]
Moderate, at the mean	0.49	0.05	9.80	<0.001	[0.39, 0.59]
High, 1 SD above the mean	0.36	0.07	5.14	<0.001	[0.22, 0.50]

Table 4 presents the results of the moderation analysis. After the centered main effects and the interaction term were entered into the regression equation, the complete model explained 43.6% of the variance in financial earnings management, $R^2 = 0.436$, adjusted $R^2 = 0.405$, $F = 14.58$, $p < 0.001$. The interaction between tax pressure and International Financial Reporting Standards adoption was negative and statistically significant, $B = -0.18$, $SE = 0.04$, $\beta = -0.19$, $t = -4.50$, $p < 0.001$. The addition of the interaction term increased the explained variance by 3.4%, $\Delta R^2 = 0.034$, $p < 0.001$. Although the incremental variance attributable to the interaction was smaller than that explained by the main effects, it represented a statistically and substantively meaningful improvement in the model.

The negative interaction coefficient indicated that International Financial Reporting Standards adoption weakened the positive effect of tax pressure on financial earnings management. In other words, tax pressure continued to increase the likelihood of earnings-management behavior, but this effect became less pronounced as the level of standards adoption increased. The conditional-effects analysis supported this interpretation. At a low level of standards adoption, defined as one standard deviation below the mean, the effect of tax pressure on earnings management was comparatively strong, $B = 0.62$, $SE = 0.07$, $p < 0.001$. At the mean level of standards adoption, the effect decreased to $B = 0.49$, $SE = 0.05$, $p < 0.001$. At a high level of standards adoption, defined as one standard deviation above the mean, the effect was further reduced to $B = 0.36$, $SE = 0.07$, $p < 0.001$.

These findings showed that the adoption of International Financial Reporting Standards did not completely eliminate the influence of taxation-related incentives on reporting decisions. Even among companies with relatively high adoption scores, tax pressure remained positively associated with earnings management. Nevertheless, the magnitude of the association was approximately 42% smaller at high standards adoption than at low standards adoption. The Johnson–Neyman analysis indicated that the positive effect of tax pressure remained statistically significant throughout the observed range of standards-adoption scores, but its magnitude declined continuously as standards adoption increased. Therefore, standards adoption functioned as a constraining mechanism rather than as an absolute barrier to earnings-management behavior.

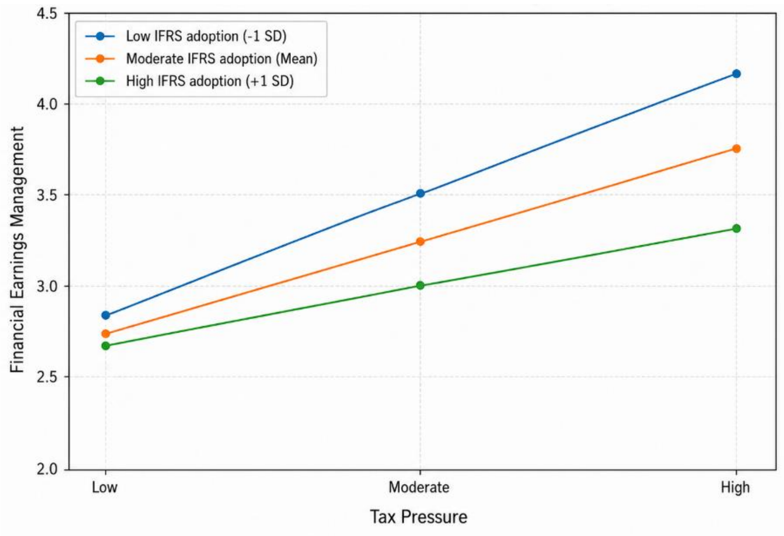

Figure 1. Moderating Effect of International Financial Reporting Standards Adoption on the Relationship Between Tax Pressure and Financial Earnings Management

The interaction pattern illustrated in Figure 1 demonstrates that the slope representing the relationship between tax pressure and financial earnings management was steepest among companies with low levels of International Financial Reporting Standards adoption. In these companies, increases in tax pressure were associated with substantial increases in reported earnings-management behavior. The slope was less steep among companies with moderate standards adoption and was weakest among companies with high standards adoption. The convergence of the three lines at lower levels of tax pressure and their increasing separation at higher levels of tax pressure indicated that the protective influence of standards adoption became particularly important when companies experienced stronger taxation-related constraints. Thus, International Financial Reporting Standards adoption appeared to have its greatest moderating value under conditions in which managers faced substantial incentives to reduce taxable income, delay tax payments, or adjust financial results in response to regulatory and financial pressures.

Table 5. Qualitative Themes Explaining the Moderating Role of IFRS Adoption

Main Theme	Subthemes	Interpretation
Tax pressure as an incentive for discretionary reporting	High effective tax burden; uncertainty in tax assessment; fear of penalties; pressure to reduce taxable income	Tax pressure increased managerial motivation to alter accounting estimates, provisions, expense recognition, and revenue timing
IFRS adoption as a constraint on accounting discretion	Standardized recognition criteria; disclosure requirements; documentation obligations; comparability of statements	Stronger adoption reduced the range of accounting treatments that managers could use opportunistically
Role of audit quality and professional oversight	External auditor scrutiny; audit documentation; internal-control review; professional accountability	IFRS was more effective when supported by competent auditors and enforceable review procedures
Difference between formal and substantive adoption	Symbolic compliance; selective implementation; insufficient training; weak enforcement	Formal declarations of compliance did not necessarily prevent earnings management when implementation remained incomplete
Organizational capacity as an implementation condition	Qualified personnel; information systems; training resources; company size; management support	Larger and more experienced companies were better able to translate IFRS requirements into consistent reporting practices
Regulatory inconsistency and institutional gaps	Differences between tax rules and financial-reporting rules; unclear guidance; inconsistent enforcement	Conflicts between taxation requirements and financial-reporting standards created opportunities for discretionary interpretation
Transparency as a protective mechanism	Expanded disclosures; traceable estimates; reconciliation of accounting choices; stakeholder monitoring	Greater transparency increased the probability that opportunistic adjustments would be identified or challenged
Persistence of managerial incentives	Profit targets; financing needs; tax minimization; contractual pressures	IFRS reduced but did not eliminate earnings management because managerial incentives remained present

The qualitative analysis generated eight interrelated themes that explained the statistical relationships identified in the quantitative phase. The first theme concerned tax pressure as a direct incentive for discretionary financial reporting. Participants repeatedly described tax obligations as a major consideration in accounting decisions, particularly when companies faced high tax liabilities, uncertainty regarding tax assessments, frequent inspections, or the risk of financial penalties. Respondents explained that managers sometimes attempted to reduce reported taxable income through adjustments to provisions, depreciation, expense recognition, inventory valuation, impairment estimates, or the timing of revenue recognition. These accounts supported the positive quantitative relationship between tax pressure and financial earnings management.

The second theme concerned the constraining influence of International Financial Reporting Standards on accounting discretion. Participants stated that clearer recognition and measurement criteria, more extensive disclosure obligations, and stronger requirements for documenting accounting judgments made it more difficult to alter reported financial results without justification. The standards were perceived as increasing consistency across reporting periods and reducing the ability of managers to change accounting treatments solely in response to immediate tax pressures. Respondents also noted that the standards improved comparability between companies and made unusual accounting changes more visible to auditors, investors, regulators, and other users of financial statements.

The third theme emphasized that the effectiveness of standards adoption depended heavily on audit quality and professional oversight. Participants indicated that the moderating role of International Financial Reporting Standards was strongest when financial statements were reviewed by qualified external auditors, internal-control systems were functioning effectively, and accounting judgments were supported by adequate documentation. In such contexts, managers were less able to use estimates or recognition choices opportunistically because they expected their decisions to be examined and challenged. Conversely, when audit procedures were weak or primarily formal, the standards had a more limited effect on earnings-management behavior.

The fourth theme distinguished between formal and substantive adoption. Several respondents reported that some companies publicly claimed compliance with International Financial Reporting Standards but applied the standards selectively or incompletely. Symbolic compliance was particularly common where professional training was insufficient, accounting information systems were outdated, or managerial commitment to transparent reporting was weak. Participants emphasized that the presence of an IFRS-related statement in annual reports did not necessarily demonstrate that all recognition, measurement, and disclosure requirements had been implemented. This theme explained why standards adoption reduced but did not completely eliminate the effect of tax pressure.

The fifth theme concerned organizational capacity. Respondents generally reported that larger, older, and more professionally developed companies were better able to implement International Financial Reporting Standards effectively. Such organizations were more likely to employ qualified accounting staff, provide continuing professional training, maintain advanced financial-information systems, and obtain specialized audit services. Small companies and organizations with limited technical resources were more likely to experience implementation difficulties and to rely on simplified or inconsistent accounting practices. Therefore, organizational capacity emerged as an important condition influencing the strength of the standards' moderating effect.

The sixth theme reflected regulatory inconsistency and institutional gaps. Participants frequently referred to differences between tax rules and financial-reporting standards, particularly where tax regulations prescribed treatments that did not fully correspond with international accounting principles. These inconsistencies created uncertainty regarding whether financial statements should primarily reflect economic substance or tax-compliance requirements. Respondents indicated that unclear regulatory guidance allowed managers greater discretion in selecting accounting treatments that could be justified differently for financial-reporting and taxation purposes. This institutional tension weakened the capacity of International Financial Reporting Standards to function as a complete safeguard against earnings management.

The seventh theme identified transparency as a principal protective mechanism. Participants explained that extensive disclosures, reconciliation of accounting estimates, explanation of policy changes, and documentation of valuation assumptions increased the traceability of managerial decisions. Greater transparency did not necessarily prevent all discretionary accounting choices, but it increased the likelihood that such choices would be identified and questioned. As a result, companies with stronger disclosure practices were perceived as less able to conceal tax-motivated adjustments within aggregated financial-statement figures.

The final theme concerned the persistence of managerial incentives. Participants emphasized that International Financial Reporting Standards primarily regulated the manner in which financial information was recognized and disclosed; they did not remove the underlying economic motivations that encouraged earnings management. Managers continued to face pressure to minimize taxes, meet profit targets, satisfy creditors, maintain dividend expectations, and present favorable performance indicators. Therefore, while stronger standards adoption narrowed the available range of opportunistic accounting choices, it did not eliminate the incentives that produced such behavior.

The integration of the quantitative and qualitative findings demonstrated a high degree of convergence. Quantitatively, tax pressure had a strong positive effect on financial earnings management, while International Financial Reporting Standards adoption had both a negative direct effect and a negative moderating effect. Qualitatively, participants explained that taxation-related pressures increased incentives to alter accounting outcomes, whereas stronger standards adoption constrained discretionary behavior through clearer recognition rules, documentation requirements, disclosure obligations, comparability, and audit scrutiny. At the same time, both phases showed that the effectiveness of standards adoption depended on substantive implementation, professional competence, organizational capacity, regulatory enforcement, and alignment between taxation rules and financial-reporting requirements.

Discussion and Conclusion

The present study examined the effect of tax pressure on financial earnings management and assessed whether the adoption of International Financial Reporting Standards moderated this relationship among companies operating in the environment of the Iraq Stock Exchange. The findings showed that tax pressure had a positive and statistically significant effect on financial earnings management. Companies experiencing greater taxation-related financial, administrative, and regulatory pressure reported higher levels of discretionary accounting behavior, including adjustments to revenues, expenses, provisions, estimates, depreciation, impairment, inventory valuation, and the timing of recognition. The results also demonstrated that IFRS adoption had a significant negative direct effect on financial earnings management. More importantly, the interaction between tax pressure and IFRS adoption was negative and significant, indicating that stronger implementation of international reporting standards weakened the positive association between tax pressure and earnings management. The qualitative findings supported these statistical results by showing that tax pressure strengthened managerial incentives to influence reported income, whereas substantive IFRS implementation constrained such behavior through clearer recognition criteria, stronger documentation requirements, broader disclosure obligations, improved comparability, and greater audit scrutiny.

The positive effect of tax pressure on financial earnings management suggests that taxation constitutes an important economic incentive in corporate reporting decisions. When firms face high tax liabilities, complex compliance procedures, uncertainty in tax assessments, frequent inspections, or the possibility of penalties and disputes, management may attempt to reduce or defer taxable income through accounting choices. This interpretation is consistent with the broader role of taxation as a major determinant of corporate financial behavior. Tax revenues are essential for economic development and the financing of public services, but the pressure to increase tax collection may also intensify the conflict between state revenue objectives and corporate efforts to preserve liquidity and profitability (4, 5). The present findings therefore indicate that tax pressure may generate unintended financial-reporting consequences when companies perceive tax obligations as excessive, unpredictable, or difficult to reconcile with their financial condition.

The qualitative evidence further clarified that tax pressure affected several dimensions of financial reporting rather than only the final calculation of taxable income. Participants described the adjustment of provisions, impairment estimates, depreciation assumptions, expense timing, inventory valuation, and revenue recognition as possible responses to taxation-related constraints. These practices are consistent with the view that the accounting–tax relationship is shaped by differences between financial-reporting rules and fiscal regulations. The application of revenue-recognition standards, for example, can alter the timing and amount of reported income and consequently influence tax liabilities (9). Where tax rules and financial-reporting principles are not fully aligned, managerial judgment may be used to select treatments that produce more favorable tax outcomes. The observed positive relationship between tax pressure and earnings management may therefore be partly explained by institutional inconsistencies that create opportunities for discretionary interpretation.

The finding is also compatible with the political-cost perspective, according to which companies may reduce reported earnings when higher profits are expected to attract greater taxation, regulatory attention, or public scrutiny. In the Iraqi context, these incentives may be strengthened by economic uncertainty, uneven enforcement, and differences in the interpretation of tax regulations. The business environment has previously been shown to influence the relationship between managerial capability and organizational outcomes in Iraq (16). The current results extend this argument to corporate reporting by suggesting that the institutional environment shapes how companies respond to financial and regulatory pressure. Where enforcement is inconsistent or organizational resources are limited, management may rely more heavily on accounting discretion to address immediate fiscal demands.

The negative direct effect of IFRS adoption on financial earnings management indicates that stronger implementation of international standards was associated with a lower level of opportunistic accounting behavior. This result is consistent with the fundamental purpose of IFRS, which is to improve the transparency, comparability, relevance, and faithful representation of financial information. The finding aligns closely with evidence from Iraq showing that the adoption of international reporting standards improves financial-reporting quality (10). It is also consistent with findings from Iraqi private banks indicating that mandatory IFRS adoption can improve accounting quality and reduce the scope for low-quality reporting practices (11). In the present study, stronger IFRS adoption appears to have reduced earnings management by clarifying recognition and measurement criteria, limiting arbitrary changes in accounting treatment, and increasing the visibility of managerial estimates.

The reliability of this interpretation was reinforced by the qualitative themes concerning documentation, disclosure, comparability, and audit review. Participants explained that IFRS-based reporting required managers to provide more detailed support for provisions, impairment decisions, valuation assumptions, policy changes, and revenue-recognition choices. These requirements made discretionary adjustments more traceable and increased the likelihood that unusual accounting decisions would be detected by auditors, regulators, investors, or other users of financial statements. The growing use of electronic IFRS reporting and XBRL may strengthen these effects by improving the accessibility, standardization, and analytical usefulness of financial information (1). Accordingly, IFRS adoption may reduce earnings management not only by restricting accounting alternatives but also by enhancing the capacity of external stakeholders to identify inconsistencies across periods and firms.

The negative association between IFRS adoption and earnings management is also compatible with research showing that international standards can improve the credibility of financial statements and support cross-border capital flows. Improved transparency and comparability have been associated with foreign direct investment and cross-border investment in emerging markets (12, 13). Similar findings suggest that adopting international accounting and reporting standards can enhance the attractiveness of domestic companies to foreign investors by reducing information asymmetry (14). Although the present study focused on tax pressure and earnings management, the reduction of discretionary reporting identified here may constitute one of the mechanisms through which IFRS adoption improves investor confidence and facilitates international investment.

The most important result of the study was the statistically significant moderating role of IFRS adoption. The positive effect of tax pressure on financial earnings management was strongest when IFRS adoption was low and became progressively weaker at moderate and high levels of adoption. This means that IFRS did not merely reduce earnings management directly; it also altered the way companies responded to taxation-related incentives. Under weak standards implementation, managers had greater flexibility to adjust accounting outcomes in response to tax pressure. Under strong implementation, the same pressure remained influential, but its effect was constrained by standardized accounting requirements, disclosure obligations, audit documentation, and professional oversight. This result supports the view that reporting standards can function as an institutional control mechanism when companies face incentives to manipulate accounting outcomes.

The moderating effect is consistent with prior evidence that the consequences of IFRS adoption depend on the interaction between reporting standards and organizational incentives. Research on private firms has shown that IFRS adoption does not improve reporting quality independently of managerial reporting incentives (15). The present findings similarly demonstrate that standards operate within an incentive-based environment. Tax pressure increased the motivation to manage earnings, whereas stronger IFRS adoption limited the extent to which that motivation translated into actual reporting behavior. The results therefore support an integrated interpretation in which accounting outcomes are jointly determined by economic incentives and institutional constraints.

The findings also correspond with research examining IFRS adoption and tax avoidance. Evidence indicates that IFRS adoption can affect corporate tax-avoidance behavior and that this relationship may vary according to ownership structure (19). This is relevant to the present study because ownership characteristics may influence both the intensity of tax-related incentives and the effectiveness of oversight. State-owned, private, family-controlled, and publicly held companies may differ in their governance systems, political exposure, access to financial expertise, and accountability to external stakeholders. Although the principal moderation model controlled for company characteristics, the qualitative findings suggested that IFRS was more effective in organizations with stronger governance, professional accounting capacity, and audit quality.

The study found that IFRS adoption did not completely eliminate the positive relationship between tax pressure and earnings management. Even at high levels of standards adoption, tax pressure remained a significant predictor of discretionary reporting behavior. This result is important because it demonstrates that accounting standards cannot remove the underlying economic incentives that motivate managers. IFRS may narrow the available range of accounting choices and increase the cost of opportunistic reporting, but it cannot eliminate pressures related to tax minimization, liquidity preservation, debt obligations, performance targets, or financing needs. This conclusion is consistent with the view that reporting standards are most effective when supported by enforcement, corporate governance, audit quality, and conflict-of-interest regulation. Research has shown that the investment benefits of mandatory IFRS adoption are strengthened by effective conflict-of-interest regulation (2). In the same way, the capacity of IFRS to constrain tax-motivated earnings management is likely to depend on whether managers face credible monitoring and accountability.

The distinction between formal and substantive IFRS adoption emerged as a central qualitative finding. Some participants indicated that companies may officially report compliance with international standards while applying them selectively or inconsistently. Formal compliance may include reference to IFRS in annual reports without corresponding improvements in accounting systems, professional training, valuation practices, disclosures, or internal controls. This finding helps explain why the moderating effect, although significant, was not sufficient to eliminate earnings management. Standards cannot constrain opportunistic reporting when their implementation is symbolic, fragmented, or unsupported by organizational resources. The effectiveness of IFRS therefore depends on the depth of implementation rather than the mere existence of a formal adoption policy.

Organizational capacity was also identified as a significant condition of implementation. Larger and more experienced companies were described as having better access to trained accountants, advanced information systems, specialized auditors, and continuing professional education. Smaller companies were more likely to experience difficulties in interpreting complex standards and maintaining the documentation required for consistent compliance. This pattern is compatible with evidence that business-environment conditions and organizational capabilities shape performance outcomes in Iraq (16). It also reflects the broader importance of financial institutions and organizational infrastructure in supporting business growth and formal financial practices (18). Accordingly, the capacity of IFRS to moderate tax-related earnings management may vary substantially across companies even when they operate under the same formal reporting framework.

Audit quality and professional oversight were additional mechanisms explaining the moderation effect. Participants indicated that IFRS implementation was more effective when accounting estimates were reviewed by competent external auditors, internal controls were functioning adequately, and management was required to justify reporting choices. This suggests that IFRS alone does not constitute a complete monitoring system; its effectiveness is realized through institutions that interpret, enforce, and verify compliance. Governance mechanisms may similarly improve tax administration and reduce weaknesses in collection procedures when they promote transparency and accountability (6). The integration of tax governance, financial-reporting oversight, and audit quality may therefore be essential for reducing the incentives and opportunities associated with earnings management.

The broader macroeconomic and investment context also helps explain the importance of the findings. Political stability and macroeconomic conditions influence foreign direct investment and the willingness of external investors to commit capital to emerging markets (17). Reliable financial reporting is especially important in such environments because investors face elevated uncertainty regarding regulation, taxation, and institutional continuity. IFRS adoption may reduce part of this uncertainty by creating a common reporting language, while lower earnings management can strengthen confidence in reported financial results. The observed moderating effect therefore has implications beyond tax compliance; it may also contribute to the credibility and attractiveness of Iraqi listed companies within regional and international capital markets.

The interaction between fiscal policy and corporate behavior is not limited to taxation as a financial burden. Tax incentives and subsidies can encourage organizational investment and digital transformation (7), while international tax arrangements can influence foreign direct investment patterns (8). These studies demonstrate that firms respond strategically to the structure of fiscal policy. The present findings add that, when fiscal policy is experienced as pressure rather than support, strategic responses may include financial earnings management. IFRS adoption can moderate this behavior, but the result depends on the consistency of implementation and the strength of complementary institutions.

The study also contributes to the emerging literature on the interaction between IFRS and nonfinancial regulatory policies. Research has shown that IFRS adoption and environmental taxation may jointly affect consumption-based carbon outcomes (20). This evidence supports the broader proposition that accounting standards can modify corporate responses to policy pressures. The current findings provide a financial-reporting parallel: IFRS adoption changed the extent to which taxation pressure influenced earnings-management decisions. Thus, IFRS should not be viewed solely as a technical accounting framework; it can also function as a regulatory infrastructure that shapes corporate responses to fiscal, environmental, investment, and governance pressures.

Overall, the results support agency, institutional, and political-cost explanations of corporate reporting behavior. From an agency perspective, tax pressure increased managerial incentives to use informational advantages and accounting discretion, while IFRS adoption strengthened monitoring and reduced information asymmetry. From an institutional perspective, international reporting standards provided formal structures that encouraged transparency and standardized practice, but their effectiveness depended on substantive internalization rather than ceremonial compliance. From a political-cost perspective, companies facing greater fiscal exposure had stronger incentives to reduce reported income, although IFRS constrained their ability to do so. The combined quantitative and qualitative evidence therefore demonstrates that financial earnings management in Iraqi companies results from the interaction of economic pressure, managerial incentives, organizational capacity, and institutional reporting controls.

This study had several limitations. The quantitative phase relied primarily on cross-sectional questionnaire data, which limited the ability to establish definitive causal relationships among tax pressure, IFRS adoption, and financial earnings management. Self-reported measures may also have been affected by social-desirability bias, particularly because earnings management and tax-related reporting decisions are sensitive organizational issues. Although respondents were selected from professional roles with relevant knowledge, their perceptions may not have perfectly reflected actual accounting practices. The organizational sample included variation in ownership, size, sector, age, and geographical location, but the findings may not be fully generalizable to unlisted firms, informal businesses, or companies operating outside the Iraqi regulatory environment. In addition, the study concentrated on accrual-based financial earnings management and did not directly measure real earnings-management activities, tax avoidance outcomes, or discretionary accruals derived from audited financial statements.

Future studies should use longitudinal designs to examine whether changes in tax pressure and IFRS implementation are followed by corresponding changes in earnings-management behavior over time. Researchers should combine survey evidence with audited financial-statement data, effective tax rates, book–tax differences, discretionary-accrual models, and actual tax-assessment records to strengthen measurement validity. Comparative studies across Iraqi industries, ownership categories, and provinces would help determine whether the moderating effect differs according to governance and regulatory exposure. Cross-country comparisons involving other emerging markets could also clarify which institutional features strengthen or weaken the effectiveness of IFRS. Future research should separately examine formal and substantive standards adoption, incorporate audit quality and corporate governance as additional moderators, and test whether real earnings management increases when IFRS reduces opportunities for accrual-based manipulation. Qualitative studies involving tax officials, regulators, auditors, and board members could further explain how differences between tax regulations and financial-reporting standards create or reduce opportunities for discretionary reporting.

Regulators and companies should treat IFRS adoption as an ongoing organizational process rather than a one-time compliance declaration. Listed firms should invest in continuous professional training, integrated accounting information systems, documented estimation procedures, and stronger internal controls. Tax authorities and financial-reporting regulators should coordinate their guidance to reduce inconsistencies between tax rules and accounting standards, particularly in relation to revenue recognition, provisions, impairment, depreciation, and valuation. External auditors should devote greater attention to accounting areas that are especially sensitive to taxation pressure and require clear evidence for major estimates and policy changes. Boards and audit committees should monitor the relationship between tax planning and financial reporting to ensure that legitimate tax management does not develop into misleading earnings manipulation. Smaller companies may require targeted technical assistance and phased implementation support, while enforcement agencies should distinguish between nominal compliance and substantive application when evaluating the quality of IFRS reporting.

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Authors' Contributions

All authors equally contributed to this study.

Declaration of Interest

The authors of this article declared no conflict of interest.

Ethical Considerations

All ethical principles were adheried in conducting and writing this article.

Transparency of Data

In accordance with the principles of transparency and open research, we declare that all data and materials used in this study are available upon request.

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