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Research Article

The Effect of Managerial Ability on the Relationship Between the Optimistic Tone of Disclosure and the Timeliness for Issuing the Auditor's Report

Youssef Fadhil Shlash[1], [2]Bushra Abdul Wahhab Al-Jawahry
Faculty of Economics and Administration, University of Kufa, Najaf, Iraq. Email: yousseff.shalash@uokufa.edu.iq
Faculty of Economics and Administration, University of Kufa, Najaf, Iraq. Email: bushraa.jawaheri@uokufa.edu.iq

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ABSTRACT

This study aimed to evaluate the impact of the CEO's administrative efficiency on the relationship between the optimistic tone of disclosure, as determined through manual content analysis, and the speed of issuing the auditor's report. This impact was measured by analyzing the time frame for submitting financial reports to the auditor. The practical aspect of the study included analyzing a sample of 100 companies in the industrial sector listed on the Iraq Stock Exchange between 2011 and 2020. The study used statistical testing of its hypotheses using the SPSS tool, version 28. The researchers reached multiple results, the most prominent of which was establishing a statistically significant relationship between the optimistic tone of disclosure and the speed of issuing the auditor's report, which was facilitated by the interactive participation of administrative efficiency. The results show that disclosing the tone of audit results will make the auditor interested in verifying the company. Companies' obligations related to publishing financial statements are required to comply with the principles of the financial accounting standards. The obligation of this report is to facilitate the collection of information by regulators and public investors so that it has an impact on the transparency of the company. Companies usually disclose only neutral news. A company with good financial position will report good news, while companies will not disclose bad news in the report. On the other hand, in order to improve the investment value of the company's stock, management can use good future news to be disclosed early while future bad news is hidden.

Keywords: Managerial ability, optimistic tone of disclosure, timeliness, annual reports, Auditor's Report

INTRODUCTION

In the modern business environment, the interest of researchers in the concept of managerial ability has increased because it is one of the most important factors affecting the company's value (Demerjian et al., 2013). Over time, several researchers support the advantages offered by managers with high ability in terms of experience, competence, and skill in their work (Yung & Chen, 2018). Based on the resource-based theory, resources are the basis for the company's competitive advantage. Resources encompass a company's assets, competencies, data, information, and technology that facilitate its long-term survival and continuity (Amagtome & Alnajjar, 2020). The company's success hinges on attaining a durable competitive advantage, which can be accomplished by implementing a novel strategy that has not been adopted by rival companies. Based on this, companies that manage their resources effectively can achieve sustainable competitive advantage and financial performance (Shaker et al., 2024). The upper echelons theory posits that variations in managers' behavior and distinct cognitive frameworks contribute to the determination of their competitive edge (Hambrick & Mason, 1984). Although the company's activities depend on senior top management decisions regarding operating, investment, and financing activities, top management is critical in determining the company's performance. Similarly, the proficiency of senior executives plays a crucial role in the

[1] Corresponding Author. yousseff.shalash@uokufa.edu.iq

company's capacity to utilize its resources efficiently. A successful manager may effectively address the degrees of organizational performance efficiency inside the corporation. In recent years, many studies have focused their attention on the managerial ability possessed by companies (Wang et al., 2021). Furthermore, the findings of the studies revealed that the most crucial components of intangible assets, namely education, experience, and skill, are embodied in management capacity within firms. Therefore, measuring managerial ability was difficult before knowing the most important factors affecting managers, which contribute to highlighting the company's levels and separating them from organizational performance (Valizadeh Oghani et al., 2020). Furthermore, the significance of pertinent information in the financial report is a pivotal concern, therefore leading to an augmented interest in the financial sentiments of managers as conveyed in the report (Khaghaany et al., 2024). Several studies in the field of accounting have focused on the function of the semantic tone in the disclosure of corporations, and the research on this topic has been increased in particular. In recent times, the significant advancement of fresh information and innovations has profoundly impacted managers' capacity to convey the tone of transparency in financial reports (Guthrie & Parker, 2016). The utilization of an optimistic tone serves as a significant mechanism for enhancing transparency and minimizing information asymmetry between managers and shareholders (Merkl-Davies & Brennan, 2011). In general, biased forecasting does not lead to a reputation for reliable financial reporting, and disclosure of negative news can increase information asymmetry (Baginski* et al., 2000). Disclosure has the tendency to decrease the level of information asymmetry between informed and uninformed investors in the firm, as well as between investors and management. Consequently, disclosures pertaining to the company are expected to enhance the liquidity of securities (Kothari et al., 2009). The disclosures of the financial statements provided by the managers may be seen gradually as reflecting a significant improvement to the data provided in the financial reports. From this standpoint, the scientific question arises: How can the analysis of the content of companies' accounting information determine the optimistic tone of disclosure? Several studies indicate that it can affect the tone of news reporting (Yung & Chen, 2018). In changing the desires of analysts and investors about the companies they want to invest in (Yang et al., 2018). Impression management in the context of financial reporting refers to the deliberate actions taken to shape how stakeholders perceive the company's performance. Impression management remains feasible despite the regulatory constraints dictating the content of financial reporting (Kadhim et al., 2024) . However, the disclosure tone is still arbitrary, giving managers additional latitude (Hamza & Jarboui, 2022). Impression management is a method of presenting oneself to seduce the target audience and controlling the impressions of others, as impression management in the corporate context is managing disclosures in a way that modifies or distorts investors' impressions of the company's financial performance or other organizational results. The timeliness of annual reports is considered crucial by the International Accounting Standards Board for Financial Reporting (IASB) as it serves as a mediator between the significance and quality of these reports, due to the prevalent issue of delays in many global companies. The auditor's report serves as a vital intermediary that enables auditors to assess the effectiveness of an audit (Habib & Bhuiyan, 2011). According to the theory of timeframes, the timeliness for issuing the auditor's report refers to the duration between the date the company's books are closed on 12/31 and the submission of the auditor's report to the capital market. Relevant information will enhance decision-making on the period between the submission of financial data and the disclosure of financial information pertaining to the quality of reported financial information. Failure to deliver information in a timely manner renders it irrelevant. In other words, the knowledge must retain its capacity to impact the choice until it no longer possesses that capacity. Several studies have sought markers to determine the timeliness of the auditor's report issuance. The legislation of a particular country plays a crucial role in assessing the accuracy of the auditor's report about the timeliness of their findings. According to Article No. 74 of the Iraqi Securities Law of 2004 and its revisions, companies in Iraq are required to present their annual financial statements, which have been reviewed by an auditor, within 150 days after the end of the fiscal year. If the company is late in submitting financial statements, fines will be imposed, and trading will be stopped. We note that the Iraqi Securities Law specifies six months for companies to submit financial statements. This period can vary from country to country based on the laws in force. Companies and shareholders may give importance to the tone of disclosure of financial information asymmetry, as less timely information reduces the asymmetry of information, and information reported at timeliness is necessary for the capital market. For this reason, economic units display more recent information because they are useful in organizing information symmetry (Bartov & Konchitchki, 2017). The disclosure of optimistic news in the financial report can be attributed to the managers' skill, experience, and independence in their work. Additionally, the timely issuance of the auditor's report facilitated the attraction of investors. Hence, the present study aims to fill the research void by examining the impact of managerial competence on the correlation between the positive tone of disclosure and the promptness of providing the auditor's report. The analysis is structured in a manner that corresponds to its organization.

LITERATURE REVIEW

According to Spence (1973), the Signal theory encompasses two perspectives. More precisely, the individual responsible for transmitting the signal, particularly the management team, and the individual who presents a proposal, specifically an external entity such as investors, since the information provided by the board of directors serves as a form of signal to investors and other parties (Twedt & Rees, 2012). One of these data points represents the degree of openness in the company's financial reports, and the information provided by the managers acts as an indication that offers insights to investors regarding the company's abilities (A. Almagtome et al., 2020). Immediately, but they want to obtain it first, whether the obtained data has an optimistic or negative tone. This will prompt the market to respond to this tone, which prompts the investor's activities to be visible to develop the stock exchange volume and reduce the cost of transactions to exchange shares at delivery. These data encourage the disclosure of more news with an optimistic tone (Fanani & Merbaka, 2020).

According to Demerjian et al. (2012), managerial capacity is a measure of how well a management team can utilize the company's assets to generate additional revenue, relative to other companies in the same industry. They assert that the most capable managers outperform the less capable managers in understanding modern patterns, anticipating interest in resources, and putting resources into higher-value activities (Demerjian et al., 2012). Given the aforementioned, expectations indicate that an administrative group represents an integral part of the tone of the earnings advertisements (AL-Jawahry et al., 2022). Specifically, managerial ability can ultimately affect the tone used in the disclosure tone through two categories. As a minimum, information management and the confidence of executives differ; the management department is more educated about its business and unrivaled (for example, the company, the business, the customer base, and the complete financial condition), and it is the most prepared to achieve a superior functional result (A. H. Almagtome et al., 2020). Hence, the existence of the best management department makes sense rather than making assumptions. A more confident presentation of his job in the company should lead to more sense of elevation in the earnings advertisements. Moreover, managerial ability is associated with CEO confidence and goodwill, leading to more optimistic record numbers and tones in financial reports (Davis et al., 2015).

Board approvals can influence many companies' choices and practices (Bertrand & Schoar, 2003). In this way, the directors' foundations and experience can influence the companies' disclosure arrangements. In addition, the manager can influence the process of recognition and measurement, and in this way, studies discussed the relationship between managers' ability and timeliness (Baik et al., 2018). The objective was to analyze the attributes of the company and the auditors in order to ascertain their influence on the promptness of the auditor's report release. Nevertheless, there remains a dearth of study regarding the correlation between managerial competence and the auditor's report. Given the importance of management in preparing financial reports, this link is vital as it prepares a report. The auditor is an important indicator that can determine the financial market's reaction to the company's performance (Hameedi et al., 2022). It provides a transparent and objective assessment of the company's speed in issuing its audited financial reports. It considers, among other things, the management's ability to simplify the process of auditing and preparing financial reports and that the presence of managers with higher capabilities with their ability to understand and apply complex criteria is likely to motivate companies to report earnings early.

According on the information provided, the research hypothesis might be stated as follows:

H1: There is no statistically significant correlation between the hopeful tone of disclosure and the promptness of providing the auditor's report.

H2: There is no statistically significant relationship between the positive tone of disclosure and the promptness of providing the auditor's report when considering the interactive influence of Managerial competence.

METHODOLOGY

The Research Method

First, in order to test the research hypotheses, the managerial skill will be assessed using the Demerjian et al., 2012 model, which employs the two-stage data envelope analysis (DEA) method:

The initial phase involves the implementation of efficient parameters by the management to assess the productivity of the economic entity. This is done by quantifying the quantity and composition of resources (inputs) utilized in generating income (outputs). The Drug Enforcement Administration (DEA) The decision-making units that are the most efficient are assigned a value of one, while the less efficient units are assigned values that are less than one (Fanani & Merbaka, 2020).

It is calculated through the following equation (Demerjian et al., 2012):

$$Fe=S/COGS+\square SG\&A+PPE+LS+RD+GW+OINTA\square\square\square$$

FE: the actual efficiency of an economic unit in year t

S: Year t's sales volume of economic units

COGS: The expenditure associated with the production of goods per individual economic unit in a specific year, denoted as "t".

SG&A: Marketing and administrative expenses incurred by the economic entity during year t

PPE: Net fixed assets per entity in year t

LS: The rental cost for a business entity in year t

RD: R&D expenditures per economic entity in year t

GW: Goodwill of the store per economic unit in year t

OINTA: Additional intangible assets held by the economic entity in year t

Stage two: The overall efficiency of the economic unit assessed in the initial phase is determined by the attributes of the economic unit and the management proficiency of the managers (Curi & Lozano-Vivas, 2020).

The managerial aptitude can be distinguished from the estimated effectiveness of the economic entity by employing the (Tobit) regression equation to eliminate the influences of the primary attributes of the economic unit that might impact the administrative endeavor (Wang et al., 2017).

It is done according to the following equation: [12]

$$Fe=\square\beta 0+\beta 1\,TA+\square\beta 2MS+\square\beta 3FCF+\square\beta 4AGE+\square\beta 5BSC+\square\beta 6FCI+\square\varepsilon\square\square\square$$

FE: Projected efficacy of the economic entity

TA: The logarithm of the total assets using the natural base

MS: Market share is calculated by dividing the revenues of a specific economic unit by the total revenues of all economic units in the same industry.

FCF: Free Cash Flow is a binary variable that equals 1 when positive and 0 when negative. It may be calculated using the following equation:

Free cash flow is calculated by subtracting capital expenditures and cash dividends from net cash generated from operational activities.

AGE: The logarithm base e of the age of an economic unit.

BSE: operating sectors of the economic unit.

FCI: The Foreign Currency Index is a hypothetical index that assigns a value of 1 when there are transactions conducted in foreign currencies and a value of 0 when there are no such transactions.

E: The remaining portion of the equation provides an estimation and is ascribed to administrative capacity.

Second, The degree of optimism conveyed in the disclosure is assessed through manual content analysis of the data and information contained in the financial reports and reports of the Board of Directors. The manual content analysis begins by tallying the frequency of occurrences of optimistic words within a given collection of terms [21].

$$POS\text{-}DTONEi,t = optimistic\ Wordsi,t\ /\ Total\ Words\ optimistic\ i,t \qquad \square\square\square$$

Third: The timeliness of issuing the auditor's report is determined by measuring the time it takes for the auditor to issue the report. This time period starts at the end of the fiscal year and ends when the auditor submits their report. The predominant metric examined in the studies focused on the promptness of releasing the auditor's report (Basuony et al., 2016).

Table 1. Summary Of the Measurement of The Research Variables

Variable	**Abbreviation**	**Measurement Method**
Managerial ability	MA	Demerjian et al., 2012 model, which goes through two stages
The optimistic tone of disclosure	POS – TONE	analyzing the manual content analysis
The promptness of issuing the auditor's report	Auditor's Report	The duration between the end of the year and the issuance of the auditor's report
company size	CSIZE	The Log of total assets
Company profitability	EBITTA	The rate of return on assets
leverage	F.LEV	indebtedness ratio
The age of the company	LAGE	The Log of the company's age
Liquidity ratio	LIQUIDITY	Total current assets / total liabilities

Data Collection

The research sample consists of the industrial enterprises registered on the Iraq Stock Exchange. Ten companies were chosen based on their adherence to the search criteria and the time frame from 2011 to 2020.

RESULTS

Before testing the first central hypothesis, we will test the correlation between the variables. The results of the simple linear association between the tone of disclosure of hopeful news, the timeliness of providing the auditor's report, and the controllable variables are presented in Table (2).

TABLE I. RESULTS OF THE SIMPLE LINEAR CORRELATION

Table 2. Results Of the Simple Linear Correlation

Details	Correlation coefficient	Sig.	Results
POS – TONE	0.316**	0.001	Significant
CSIZE	-0.154*	0.126	Insignificant
EBITTA	-0.246*	0.014	Significant
F.LEV	0.533**	<0.001	Significant
LAGE	0.293**	0.003	Significant
LIQUIDITY	-0.199*	0.047	Significant

Source: prepared by the authors

* at the significance level of 0.05.

** at the level of significance of 0.01.

Upon examining the aforementioned table, it becomes evident that there is a clear relationship between the manner in which positive news is communicated and the promptness with which the auditor's report is released. The correlation coefficient had a value of 0.316, indicating a positive correlation. A noteworthy association is observed between the profitability of the economic entity, its financial leverage, and its age. Furthermore, we observe no substantial association between the magnitude of the economic entity. Furthermore, it is worth mentioning that the most significant positive correlations were observed between financial leverage, with a correlation coefficient value of 0.533. Conversely, the most notable negative correlations were found to be between the profitability of the economic unit, with a correlation coefficient value of 0.246. Table (3) presents the findings of the experiment conducted to test hypothesis H1. The results indicate that there is no statistically significant impact of the positive tone of disclosure on the promptness of issuing the auditor's report. The regression analysis findings in Table (3) demonstrate the impact of the tone of disclosure of hopeful news on the timeliness of issuing the auditor's report.

Table 3. Results Of the Regression Analysis H1.

Variables	Constant	Beta	t-test	Indication	R Square	F-test	Indication
	508.309		1.910	Insignificant	0.397	10.214	Statistically significant (existence of an effect)
POS – TONE		0.340	3.951*	significant			
CSIZE		-0.188	-2.057*	significant			
EBITTA		-0.065	-0.707	Insignificant			
FLEX		0.505	4.950*	significant			
CAGE		-0.113	-1.021	Insignificant			
LIQUIDITY		-0.044	-0.517	Insignificant			

Based on the table provided, it is observed that the estimated F value is 10.214, which exceeds the tabular value at a significance level of 0.05. This indicates that the hypothesis mentioned above should be rejected. The explanatory tone of the independent variable refers to the manner in which hopeful news is communicated in the dependent variable. The auditor's report is typically issued in a timely manner, with an approximate coefficient of determination of 40%. Consequently, when the economic entity presents information excessively positively, it expedites the auditor's issue of their report. Furthermore, it is worth mentioning that the positive news results in the prompt release of the auditor's report. The private sector corporations may release their reports earlier due to the involvement of private auditors, resulting in a faster issuance of the auditor's report. Table (4) presents the experiment's findings to test hypothesis H2, which posits that the positive tone of disclosure does not have a statistically significant impact on the promptness of issuing the auditor's report when considering the interaction function of Managerial competence.

RESULTS OF THE REGRESSION ANALYSIS H2.

Table 4. Results Of the Regression Analysis H2.

MODEL 1							
Variables	***Constant***	***Beta***	***t-test***	***Indication***	***R Square***	***F-test***	***Indication***
	547.340		2.071*	significant	0.416	9.381	Statistically significant (existence of an effect)
POS – TONE		0.348	4.077*	significant			
MA		-0.142	-1.743*	significant			
CSIZE		-0.207	-2.277*	significant			
EBITTA		-0.059	-0.647	insignificant			
FLEX		0.480	4.706*	significant			
CAGE		-0.118	-1.074	insignificant			
LIQUIDITY		-0.052	-0.611	insignificant			
MODEL 2							
Variables	Constant	Beta	t-test	Indication	R Square	F-test	Indication
	546.737		2.057*	significant	0.417	8.121	Statistically significant (existence of an effect)
POS – TONE		0.348	4.056*	significant			
MA		-0.103	-0.221*	significant			
MA * POS – TONE		-0.039	-0.084*	significant			
CSIZE		-0.207	-2.256*	significant			
EBITTA		-0.060	-0.649	insignificant			

FLEX		0.480	4.680*	significant			
CAGE		-0.118	-1.069	insignificant			
LIQUIDITY		-0.052	-0.601	insignificant			

Table 4 indicates that the calculated value of F is 8.121, which exceeds the tabular value at a significance level of 0.05. This indicates the rejection of the hypothesis mentioned earlier. Consequently, there is a statistically significant impact of the tone of disclosure of optimistic news on the timeliness of issuing the auditor's report, facilitated by the interactive role of managerial ability. The explanatory power of the independent variable, tone of disclosure of optimistic news, along with the controlling variables, is 42% with the dependent variable, timeliness of issuing the auditor's report through the interactive role of managerial ability. The value might be either positive or negative. Upon entering the interactive variable, we observe a decrease in its value by a negative amount, resulting in an approximate reduction of 10%.

DISCUSSION

The studies revealed that the control variables of the size of the audit firm and the size of the company had a significant effect on the timeliness of submitting the audit report. Meanwhile, the size of the audit committee and the leverage that moderates did not strengthen the relationship between ownership and minority interest in subsidiary-level timeliness of submitting the audit report. Managerial ability does not strengthen the relationship between the optimistic tone of disclosure and the timeliness of the ownership level of submitting the audit report. Or it can be stated that managerial ability is not a moderating variable on the optimistic tone of disclosure and the timeliness of the ownership level of submitting the audit report. However, the variable of managerial ability moderates strengthens the relationship between the optimistic tone of the disclosure and the timeliness of the subsidiary level of submitting the auditor's report. Absent those circumstances depart from the task force on owning and incurring level companies, whereas abundant studies suggest that there are financial report writing benefits in the disclosed beneficial ownership details. The other answer manager provided was that the ability disclosure of the former purchase annually evolved over time to become simpler and more nominal; and from this with the impression that effective approach for required intensified conforming disclosure was likely to suffice in time. On that background, the task force hereby casts its bill designated as the implementing a small concern from corporate beneficial ownership in published financial report. The easier it is understood that beneficial owners have come such concern and herewith a better reprint because potential each person practices can develop from having the more informative conclusion. The task force casts an important time understatement issue in the market.

CONCLUSION

This research contributes to accounting literature by providing scientific insights. It examines financial data from the Iraq Stock Exchange to analyze how managerial ability affects the connection between optimistic disclosure tone and the promptness of issuing the auditor's report. Managerial ability is a topic of current research that has garnered attention as a crucial asset that contributes tangible value to corporate performance and bolsters their competitive advantages. Theoretical research substantiates the significance of corporate managing skill, yet empirical data remains inconclusive. Furthermore, the decisions made by the CEO constitute a fundamental pillar of the organization. Hence, managers must possess comprehensive knowledge and exceptional skills to effectively assume leadership roles in their respective businesses. Furthermore, managers employ several methods to convey information on the firm performance to its investors. Financial statements that have been audited are submitted to the SEC more often, but they are not as up-to-date as the earnings information disclosed in news releases that come before the SEC filings. Consequently, earnings press releases serve as a crucial source for analyzing the impact of accounting information on pricing. Press releases provide significant figures regarding financial performance, and the scholarly accounting literature has demonstrated their considerable value to investors. These press releases not only provide quantitative statistics but also provide qualitative commentary to assist investors in interpreting the quantitative data. The manner in which these qualitative disclosures are presented has a crucial role in shaping investors' evaluations of a company's worth. We examine the strategic utilization of an optimistic tone in financial reporting by managers, which can serve two purposes: firstly, to provide additional information that complements the quantitative data as prescribed by GAAP, and secondly, to obscure and deceive by concealing unfavorable future financial prospects. The timeliness of the auditor was considered one of the companies' most important resources and components, as the Iraqi project specified 150 days for companies to issue their financial reports. This period should not be exceeded, and non-compliant companies should be penalized so that they can issue their financial reports faster.

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