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The Impact of Unconditional Accounting Conservatism on Investor Sentiment: The Mediating Role of Impression Management – An Applied Study in A Sample of Iraqi Commercial Banks

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Abstract: This research aimed to examine the impact of accounting conservatism on investor sentiment when mediated by impression management. The study analyzed the financial reports of a sample of (10) Iraqi commercial banks listed on the Iraq Stock Exchange for the period (2014-2023). Regression analysis was used to identify the relationship between accounting conservatism and investor sentiment when impression management was mediated. Structural equations were employed to analyze the path and determine the direct and indirect effects of accounting conservatism on investor sentiment when impression management was mediated. The study concluded that impression management does not affect the relationship between accounting conservatism and investor sentiment.

Keywords: Accounting Conservatism, Impression Management, Investor Sentiment.

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1. Introduction

The global economic environment has witnessed several financial crises in recent years, followed by the collapse of a number of international companies, such as Enron and WorldCom. Accountants were blamed, and some attributed these collapses to a lack of transparency in financial reporting, which led investors to make negative choices. Recent financial scandals worldwide have further highlighted the issue of financial reporting, making financial statements, particularly profit and loss statements, a focus of investor attention.

Several years ago, on October 31, 2018, Conduent Inc. announced its acquisition of Health Solutions Plus, a leading healthcare payments company, which boosted its stock price by 107%. However, the very next day, the parent company announced its intention to lay off more than 200 employees in Houston by the end of the year. This falls under the umbrella of organizational impression management, through which companies seek to control the reactions of information users, particularly investors Jin et al., and influence their attitudes [1].

Scott argues that although companies prepare their financial reports according to Generally Accepted Accounting Principles (GAAP), this did not prevent the mortgage crisis and the bankruptcy of some companies. He attributes the problem to the flexibility

inherent in applying accounting principles and the ability to choose the method that best achieves management's objectives Scott et al., regarding measurement and disclosure.

With opportunistic motives, management seeks to exploit the flexibility in accounting principles to influence investor sentiment and perceptions by manipulating the measurement and disclosure process and presenting misleading reports through what is known as impression management.

Investor sentiment is considered a fundamental concept in the field of behavioral finance studies, which attempts to identify and explain the factors that influence this sentiment, such as confidence, fear, excessive optimism, and others Hamidi [2].

Investor sentiment has also been defined as their beliefs about future cash flows and the risks that may surround their investment portfolio. These beliefs are not supported by available information; they represent conflicting or conflicting investor expectations Miranda et al Return compared to average actual earnings [3]

Impression management is defined as a field of study in social psychology that examines how individuals present themselves to others in order to be perceived positively. In the context of corporate reporting, impression management refers to attempts to control and manipulate the impression conveyed to users of accounting information [4]. Impression management techniques used in corporate reporting may involve subjective manipulation using positive or negative words and phrases, or grammatical manipulation using language that does not reflect the company's performance Quick & Sayer [5].

According to impression management theory, managers present reports that influence investor judgment and decision-making, as well as corporate finance. Managers consistently focus on describing factors beneficial to themselves, employing more positive descriptions and language in their presentation of information to stimulate a positive perception among investors Wang et al and influence their attitudes [6].

The relationship between investor attitudes and impression management is determined by the presentation of optimistic reports. This underscores the importance of accounting conservatism in limiting impression management practices [7].

Accounting conservatism is defined as the application of strict practices when disclosing good news compared to reporting bad news Zedan et al. [8]. Donald Kieso et al. explained that accounting conservatism is the exercise of caution when preparing financial statements, especially in cases of uncertainty, by avoiding overestimation of revenues and assets, and conversely, avoiding underestimation of assets and liabilities Kieso et al [9][10]. Buse interpreted it as accountants recognizing losses when they are expected and not recognizing profits until they are realized. It is related to both good and bad news concerning earnings Ali [11]. The Financial Accounting Standards Board (FASB) defines conservatism in paragraph 95 as follows: If there are two estimates of the same future receivables or payables, and the probability of both occurring is identical, conservatism requires using the less optimistic estimate.

Generally Accepted Accounting Principles (GAAP) indicate that accounting conservatism is a crucial and defining concept that influences market and investor reactions by affecting the quality of accounting information. This, in turn, significantly impacts users' economic and investment decisions Zhu et al [12].

Examples of conservatism include the lower of cost or market, capital asset impairment tests, and others. From an efficient contracting perspective, some conservatism is desirable to avoid litigation. From a contractual perspective, it also plays a supervisory role by preventing managers from overestimating their performance and rewarding them through the recognition of unrealized gains Scott et al [13].

Conservatism is sometimes viewed as a stumbling block to the tendency to exaggerate financial statements to influence investor sentiment, a trend that emerged during the 20th century. are the focus of this research. The importance of conservatism lies in the fact that managers possess considerable discretion in measuring and presenting corporate

economic events, within the limits of accounting flexibility. Accounting conservatism restricts this discretion, which is often accompanied by opportunistic motives Felix & Recoba [14].

The significance of this research stems from the fact that, although current studies indicate that investor decisions may be influenced by their biases, existing literature on corporate accounting policies, based on classical economic theory, assumes that investors are entirely rational Ge et al. [15]. Consequently, it offers limited insights into the role of accounting conservatism in influencing investor bias by limiting impression management practices.

Therefore, The research aims to highlight the role of accounting conservatism in limiting impression management practices employed by corporate management to influence investor sentiment by presenting misleading and optimistic information that steers investors in the direction desired by management.

This aspect has not been adequately addressed in the Iraqi context, to the best of the researcher's knowledge. This is particularly relevant given the weak governance procedures implemented in companies and banks, which allows management to manipulate data and influence investor sentiment. This research is thus linked to one of the most important areas of inquiry concerning the benefits of quality accounting information and its impact on the capital market.

Research Problem

The problem can be summarized by the following main question: Can accounting conservatism contribute to rationalizing investor sentiment by limiting impression management in the banks included in the research sample? This problem branches out into:

A set of questions:

Does unconditional accounting conservatism have an impact on investor sentiment?

Does unconditional accounting conservatism have an impact on impression management?

Does impression management have an impact on investor sentiment?

Does the impact of unconditional accounting conservatism on investor sentiment differ when impression management is mediated?

Importance of the Research

The importance of this research stems from the significance of the variables it addresses. The research focuses on the factors influencing investor sentiment and attempts to examine the behavioral aspect of investors' investment decisions by highlighting the most important factors that can affect them, namely impression management. Impression management is a tool used by management to influence investor sentiment, and accounting conservatism is one of the most important accounting determinants that enhances the credibility of financial reports by limiting practices that mislead investors. The banking sector is also one of the most important sectors in the Iraq Stock Exchange.

Research Objectives

This research primarily aims to examine the impact of accounting conservatism on investor sentiment by mediating impression management and providing empirical evidence from the Iraqi banking sector, representing a developing country.

Previous Studies and Hypothesis Development

This section attempts to review the literature that addressed the theoretical and empirical relationship between research variables and the derivation of hypotheses based upon it.

The study by Ge et al. aimed to examine the relationship between accounting conservatism and investor sentiment. It indicated that companies use accounting conservatism to mitigate litigation risks and avoid presenting overly optimistic financial

reports that do not reflect true profits, thereby influencing investor sentiment. The use of conservatism necessitates the timely recognition of losses. Ge et al. [16]

According to the study by Aliahmadi, which focused on the relationship between investor sentiment and accounting conservatism, eliminating accounting conservatism from the conceptual framework increases the negative impact on investor sentiment [17]. Eliminating the principle of conservatism prevents managers from presenting conservative financial statements, thus allowing for manipulation through opportunistic motives and the submission of misleading reports.

A study by Ali & Hameedi examined the impact of comparability and accounting conservatism on investor sentiment in the Iraq Stock Exchange [18]. It concluded that accounting conservatism has a significant impact on investor decisions in the Iraqi market. Based on the above, the researcher believes a hypothesis can be formulated that aligns with the findings of [19][20][21]:

H1: There is a significant impact of unconditional accounting conservatism on investors sentiment.

According to Liu's study, accounting conservatism limits management's manipulative and impression-management practices, which involve misleading financial statements based on agency theory. The study indicated that the weaker the application of the conservatism restriction, the more management tends to be biased and selective in preparing corporate social responsibility reports. This makes it difficult to detect their impression-management practices, and this behavior may mislead investors and other users of the information provided. [22]

Despite the criticisms leveled against accounting conservatism, primarily that it renders information irrelevant, it is beneficial in improving the credibility of information by limiting management's manipulation of data and profit maximization to manage investor impressions Ewert & Wagenhofer [23].

Conservatism acts as a mechanism to curb the opportunistic motives of managers pursuing their own interests. Simultaneously, it reduces their ability to manage impressions by limiting their capacity to expedite the dissemination of positive news and delay the dissemination of negative news. Consequently, adopting more conservative accounting procedures will reduce the effort expended Astuti to conceal negative news [24].

Based on the above, it can be said that accounting conservatism, despite its shortcomings, enhances the reliability of accounting information by limiting opportunistic impression management practices that management might employ. Therefore, the following hypothesis can be formulated: I

H2: There is a significant effect of unconditional accounting conservatism on impression management.

Another study, managers determine the frequency of emotions within the text of disclosed reports in a way that increases the likelihood of creating a positive impression on investors, with the aim of influencing their inclinations in a manner that serves management's objectives. Boudt & Thewissen [25]

Managers often attempt to use positive language to cover up company problems, leading to a lack of consistency in information Callahan et al. [26]. This, in turn, affects users' impressions and inclinations. From the above, the following hypothesis can be formulated:

H3: There is a significant impact of impression management on investors sentiment.

Investor inclinations are a fundamental characteristic in behavioral finance literature, and they are a phenomenon directly affected by reports. These reports, as Bergman & Roychowdhury, serve as the link between the company and its investors [27]. Through financial reports and by using impression management, the company can influence investor inclinations and decisions, guiding them in a way that serves management's self-interest. However, the process of preparing financial reports faces the constraint of

accounting conservatism, which... It is intended to limit managers' ability to exaggerate revenue and asset values and present them as good news to attract investors and win their favor.

This is because accounting conservatism is based on a philosophy of choosing the method that best reflects the available data. This is achieved through the postponement or slow recognition of expected gains, the rapid recognition of expected losses, and the undervaluation of assets and overvaluation of liabilities. Therefore, accounting conservatism can limit the impression management that companies use to influence investor sentiment.

Generally, applying accounting conservatism helps reduce the impact of optimistic news on investor sentiment by limiting earnings and impression management practices. It also makes the cost of engaging in earnings management higher than its benefits, thus reducing the agent's incentives to engage in it Chen et al [28]. Based on the above, the following hypothesis is proposed:

H4. The impact of unconditional accounting conservatism on investor sentiment increases when impression management is mediated.

Theoretical Framework

This section of the research focuses on providing a brief theoretical foundation for the research variables.

Accounting Conservatism

Accounting conservatism is one of the fundamental constraints in the conceptual framework of accounting theory. According to the IASB, it involves exercising caution in the subjective judgments necessary to prepare estimates included in financial statements under conditions of uncertainty. This ensures that revenues and assets are not overvalued, nor are liabilities and losses undervalued Wang [28]. Therefore, accounting conservatism serves as a criterion for choosing between accounting principles that lead to lower profits through delayed revenue recognition and immediate expense recognition, as well as avoiding undervaluing assets and overvaluing liabilities Givoly & Hayn [29]

Accounting conservatism is divided into two types: conditional conservatism, which is linked to events and represents the failure to recognize an increase in the carrying amount of assets when favorable events occur, and the early recognition of a decrease in the carrying amount of these assets when unfavorable events are expected Ball et al [29]. It is conditional upon events that affect, or are likely to affect, the value of the item in the financial statements.

Unconditional accounting conservatism, on the other hand, is management's choice of accounting methods and policies that lead to a reduction in asset values Beaver & Rayan [30]. It is independent of and precedes events.

Despite all the criticisms leveled against accounting conservatism by the FASB and IASB during the sessions for preparing the Common Conceptual Framework, most notably its instability, volatility, concealment, and conflict with some accounting principles Ali, they ultimately agreed that accounting conservatism should be maintained in accounting practice because it is a safeguard whose application derives from the going concern assumption to ensure the preservation of capital and avoid financial failure Mohammed [30][31]

Impression Management

This is one of the most important management tools within the behavioral and social sciences. It is used by management and expresses Davies & Brennan how a company presents itself to others to be viewed positively [32]. According to impression management theory, managers may present their reports in a way that influences investors' attitudes and decisions. Managers always describe beneficial factors in a language that focuses on positivity to stimulate positive attitudes among investors Wang et al.

It is necessary to distinguish between two types of impression management: substantive management and symbolic or intrinsic management. Substantive management requires a real change in organizational processes or accounting practices, including the preparation of annual company reports, such as increasing the quantity and quality of environmental information provided at the request of stakeholders. In contrast, symbolic management involves adopting strategies that make the organization appear to respond to stakeholders' concerns or conform to societal standards and expectations. Symbolic management strategies include adopting socially acceptable goals and redefining means as ends. 3)

Narrative disclosure has become a platform for promoting management philosophies, as these reports offer biased interpretations that mislead shareholders Khazaeli.

Therefore, impression management has become a management tool linked to behavioral theories, used by management to influence investor sentiment through financial reports, which serve as the link between the company and its investors.

Investor Sentiment

The turnover rate of stocks in the financial market depends on how investors interpret information, not on the information itself. The same piece of information can affect two different people, but in different ways, depending on their understanding of the information and their individual characteristics.

Investor sentiment, generally defined as their belief about future cash flows associated with their investment decisions and risks, is not justified by available facts based on presented information Baker & Wurgler. Investor sentiment, therefore, consists of beliefs about future cash flows that are not based on clear and conclusive evidence Boido & Fasano. This tendency is explained from three approaches: the economic approach, which explains investors' tendencies as a measure of securities returns, since this tendency may result in an increase in demand for securities and raise their price, or the opposite Tsai the social approach, which explains investors' tendencies through the opinions, orientations, and views of society towards the company, which affect investors' decisions, as it considers investors' tendencies to be related to society's view of the company in question Vyas et al and the psychological approach, which sees that investors' tendencies and decisions are not always made based on rationality and foresight, but are related to psychological factors such as optimism, pessimism, fear, greed, and others Schmeling.

2. Materials and Methods

This research aims to examine the mediating role of impression management on the impact of accounting conservatism on investor sentiment. The study examined a sample of (10) commercial banks listed on the Iraq Stock Exchange for the period (2014-2023). The research employed linear regression to determine the relationship between the variables. The independent variable, accounting conservatism, was measured using the market-to-book (MTB) ratio, which compares the current market value of a company's equity to its book value as presented in the financial statements. A (MTV) value greater than 1 indicates the presence of accounting conservatism practices. The mediating variable, impression management, was measured using the LIX readability index, which assesses the linguistic complexity and readability of financial statements. This index divides readability into five levels.

Investor sentiment was measured using stock turnover, which is used to distinguish between optimistic and pessimistic investor sentiment, as well as to identify irrational trading behavior. A positive value indicates:

A positive turnover value indicates an upward market trend associated with optimistic sentiment, while a negative value reflects a downward trend and pessimistic expectations. The turnover metric consists of two components: the first is calculated by dividing the number of outstanding shares by the number of shares traded, and the second is calculated by dividing the share's return by its absolute value. The product of

these two components yields a final value, either positive or negative, reflecting prevailing investor sentiment.

Table 1. Measurement Variables

V	Symbol	Measurement Method	Operational Definition	References
(Accounting Conservatism (AC))	X	$AC = MV / BV$	The greater the value of (MTV) compared to (1), the more it indicates the presence of conservative accounting practices.	Daud (2023)
Impression Management (IM)	M	$LIX = 100 \times (B / W) + (W / S)$	A readability measure based on sentence length and word complexity; higher LIX values indicate more complex and less readable disclosures.	Randa & Jassim (2024)
Investor Sentiment (IS)	Y	Stock Turnover Rate	Two-component measure: (1) Outstanding shares ÷ Traded shares; (2) Stock return ÷ absolute value	Hameedi, et.al, 2024

3. Results and Discussion

Descriptive Statistics

Descriptive statistics are extremely important because they allow us to assess the validity of data for testing hypotheses and evaluating results.

Table 2. Descriptive Statistics

المتغيرات	Symbol	mean	Stan.D	Min	Max	COV
Accounting Conservatism	X	0.682	0.184	0.295	1.227	26.9%
Impression Management	M	47.80	5.200	36	58	0.11%
Investor Sentiment	Y	1.85	0.95	0.40	3.90	0.49%

It is observed that the mean value of accounting conservatism for the entire sample was (68.02%), which is less than one. This indicates a low adoption of accounting conservatism in the banks included in the research sample during the study period. Despite the significant difference between the highest value (1.227) and the lowest value (0.295), the low standard deviation and the low coefficient of variation (less than the hypothetical value of (50%)) suggest a degree of consistency and lack of dispersion in the observations. This reinforces and supports the representativeness of the mean result for the entire sample.

The mean value for impression management practices in banks was (%47), with a standard deviation of (00184) and a coefficient of variation of (0.11%). These are low, indicating a well-dispersed sample and its readiness for parametric testing. This also suggests that banks practice a similar level of impression management in their annual reports and consider it a strategy to influence investor sentiment.

While the arithmetic mean for investor sentiment was (1085) with a standard deviation of (0094), which is relatively high, this indicates that differences in investor sentiment may be related to the investor's own characteristics, such as financial literacy, market news monitoring, and general behavioral traits. The coefficient of variation was (0.49), and although slightly high, it remains within the normal limits for parametric tests.

Hypothesis Testing and Results Interpretation

This section focuses on testing regression hypotheses, interpreting the results, and linking them to theories that explain the relationship between the research variables. Testing the Effect of unconditional Accounting Conservatism on Investor Sentiment

Table 3. shows the regression equation for accounting conservatism on investor sentiment.

X	Y	R ²	Adj- R ²	F	Sig
Accounting Conservatism	Investor Sentiment	0.004	-0.003-	0.558	0.356
		β_0	β	T	Sig
		-0.119	-0.025	-0.745	0.356

According to Table (3), the regression model shows instability, as indicated by the value (0.558) at a significance level higher than (5%). This means that investor sentiment cannot be estimated through accounting conservatism, indicating that the model is incorrect. Furthermore, the value of 0.74 indicates instability of the constant term coefficient at a significance level greater than (5), meaning that the effect of accounting conservatism on investor sentiment is not significant. The negative regression coefficient also indicates a negative effect of accounting conservatism on investor sentiment, meaning that the higher the level of accounting conservatism, the lower the level of investor sentiment. This effect explains (0.004) of the coefficient of determination, while the remaining percentage is attributed to other factors. This percentage is very small.

The model cannot be generalized based on this, as it is inherently insignificant, despite the negative direction of the effect. This supports the researcher's view that applying a policy of circumspection and caution can help reduce investor sentiment by restricting the release of positive news and expediting the release of negative news. This result is consistent with the findings of the study by Ali Hamidi (2024), whose study was conducted on a group of Iraqi commercial banks, concluded that accounting conservatism had no effect on investor sentiment.

Testing the Effect of unconditional Accounting Conservatism on Impression Management

Table 4. Effect of unconditional Accounting Conservatism on Impression Management

V		R ²	Adj R ²	F	Sig
X	M	0.125	0.116	12.24	0.000
Accounting Conservatism	Impression Management	β_0	β	T	Sig
		-0.041	-0.171	-4.77	0.000

According to Table (3), the regression model shows stability with a value of (12.24) at a significance level less than (5%). This indicates the possibility of estimating impression management through accounting conservatism, thus confirming the model's validity. The t-value of -4.77 indicates the stability of the constant term coefficient at a significance level greater than (5%), signifying the consistent significance of accounting conservatism's effect on impression management. The negative regression coefficient indicates a negative effect of accounting conservatism on impression management. This means that as the level of accounting conservatism increases, the level of impression management practices decreases by (17.1%). This effect explains (12.5%) of the coefficient of determination, while the remaining percentage is attributed to other factors. This percentage is considered good for the effect. This result is consistent with the study by Ali and Hussein (2022) and Xia et al. (2009). (a) The researcher's opinion leans towards the fact that applying accounting conservatism can reduce earnings management and perceptions, despite the barrage of criticism leveled against it for negatively impacting the relevance of information for decision-making. Nevertheless, it remains an accounting policy that limits excessive management optimism, which ultimately affects investor sentiment.

Testing the Effect of Impression Management on Investor sentiment

Table 5. Effect of Impression Management on Investor sentiment

M	Y	R2	Adj R2	F	Sig
Impression Management	Investor sentiment	0.004	0.003	0.478	0.654
		β_0	β	T	Sig
		0.77	0.0082	-0.61	0.654

According to Table (5), the regression model shows instability, with an F value of (0.478) at a significance level of (5%). This indicates that it is not possible to estimate investor sentiment through impression management in light of the research sample, thus demonstrating that the model is incorrect. Furthermore, the T-value of (0.61) indicates instability of the constant term coefficient at a significance level greater than (5), meaning that impression management does not significantly influence investor sentiment. The negative regression coefficient indicates a positive effect of impression management on investor sentiment, meaning that the higher the level of accounting conservatism, the higher the level of investor sentiment. This effect explains (0.00008) of the coefficient of determination, while the remaining percentage is attributed to other factors. This percentage is very weak and cannot be used to generalize the model, as it is inherently insignificant and consistent with the study by Phesa & Sibanda (2023). Despite this, the positive direction of the effect supports the researcher's view that impression management practices can influence investor sentiment, as management uses them through the language, graphics, and visuals create an optimistic image in the minds of investors.

Mediation of impression management

To test this hypothesis, structural equations were used to analyze the path and determine the direct and indirect influence between accounting conservatism and investor sentiment when mediated by impression management. Prior to testing the hypothesis, the researcher verified the model's quality and suitability for the test.

Table 6. Quality Indicators of the Direct and Indirect Path Analysis Model

Indicator	Standard (Criterion) Value	Calculated Value
Chi-square significance (χ^2) (P-value)	> 0.05	0.0000
Goodness of Fit Index (GFI)	< 0.90	1.0000
Root Mean Square Residual (RMR)	> 0.06	0.0000
Comparative Fit Index (CFI)	< 0.90	1.0000

The table shows that the calculated values for both the chi-square (χ^2) probability and the root mean residual (RMR) index are... and meet the required standard value. It also shows that the calculated values for the Goodness of Fit (GFI) and Comparative Fit (CFI) indices are... and thus meet the standard value, which requires a minimum of 0.90. Therefore, the quality of the adopted path analysis model and the reliability of its results are judged.

Based on verifying the model's quality, Table (7) shows the results of the hypothesis test by determining the direct and indirect path analysis coefficients resulting from the effect of accounting conservatism on investor sentiment when mediated by impression management in the banks included in the study sample.

Table 7. Mediation of impression management

Variables			Dir Path Coefficient	Ind Path Coefficient	Total Path Coefficient
X1	M	Y			
Accounting Conservatism	Impression Management	Investor sentiment	-0.025	0.000	-0.025

The table shows that the direct path coefficient for the effect of accounting conservatism on investor sentiment was (-0.025), a very weak and negative sign. This indicates that higher accounting conservatism practices reduce investor sentiment. The indirect path coefficient was (0.00), meaning there was no mediating variable in increasing the effect of accounting conservatism on investor sentiment. This result aligns with the study by Guillamon-Saorin (2017: 448), which indicated that investors are able to detect management's intentions when they present misleading information using impression management. The market's reaction to impression management suggests that creative accounting techniques used by management no longer have the same impact on investors, who have become more sophisticated and informed.

4. Conclusion

Accounting conservatism is a controversial accounting concept, and debate continues to this day. Researchers disagree on its precise definition, debating whether it is a principle or a specific characteristic. There is ongoing discussion about its potential to improve the reliability of financial reports, while some argue it weakens them. Its suitability.

1. Impression management is considered one of the behavioral influence tools used by management to influence investors' Investor sentiment is a key feature in behavioral and social finance literature, and it influences expectations of future company performance.
2. Accounting conservatism had no significant effect on investor sentiment within the sample and the research period. However, it did have a significant effect on reducing impression management practices. Furthermore, impression management did not play a mediating role between accounting conservatism and investor sentiment.

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