
The Moderating Role of Impression Management in the Relationship between Voluntary Environmental Disclosure and Investor Sentiment: An Applied Study on a Sample of Iraqi Banks

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Abstract

The research aimed to examine the moderating role of impression management in the relationship between environmental disclosure and investor sentiment. It analyzed the annual financial reports of a sample of ten banks listed on the Iraq Stock Exchange for the period 2014–2023. The findings indicate that environmental disclosure has a significant impact on investor sentiment, and that impression management practices moderate and partially diminish this effect.

Keywords: Environmental Disclosure, Impression Management, Investor Sentiment.

1. Introduction

In recent years, interest has increasingly shifted toward examining how qualitative forms of disclosure influence investor reactions and market dynamics, particularly through the linguistic features of voluntary corporate reporting and the use of impression management techniques. The incorporation of insights from research in accounting, finance, and psychology into the management literature has further enhanced our comprehension of how impression management shapes investor perceptions Röttger, (2024. P178).

Investor Sentiment is a central concept in behavioral finance, as it refers to the psychological and emotional tendencies that govern investors' behavior in making investment decisions. These tendencies often outweigh rational financial analysis

Hameedi, et.al, (2025, p 124).

Investor sentiment represents the positive or negative feelings directed toward investing in the shares of a particular company. This sentiment affects share prices and returns, and consequently, the overall value of the company. This has prompted researchers to conduct further studies on the factors that influence and are influenced by investor sentiment Alshahed, et.al, (2022, p 20). Investor sentiment is defined as investors' beliefs about future cash flows and the risks of an investment decision that are not grounded in accurate information. This stands in contrast to classical financial theory, which assumes that rational investors determine stock prices, and it aligns with behavioural finance theories, which suggest that investor sentiment may influence the magnitude of demand for stocks Cornell, et.al, (2017, p 4).

Investor sentiment refers to the level of optimism or pessimism that investors hold, which is not justified by a firm's fundamental economic factors. This sentiment is often influenced by the company's environmental and social responsibility, as reflected in its environmental and social disclosures Naughton, et.al, (2019, p 407).

The growing interest in corporate social responsibility among consumers, investors, employees, creditors, legislators, and regulators has coincided with the increasing frequency and complexity of corporate environmental reporting Brammer & Pavelin, (2008. P 122).

Management's engagement in environmental sustainability initiatives is often driven by incentives that align with its own strategic or personal interests. In many situations, such initiatives are adopted less out of genuine environmental commitment and more as instruments to cultivate a favorable corporate image, obtain economic or reputational gains, or obscure opportunistic managerial conduct. The corporate collapses and accounting scandals that brought down several multinational firms once portrayed as champions of environmental responsibility illustrate this phenomenon. These incidents reveal the extent to which such companies relied on deceptive and manipulative reporting practices Khalaf, (2025. P1).

Environmental disclosure is defined as providing information related to the impact of an organization's activities on the environment, as well as its commitment to environmental policies and practices aimed at reducing pollution, managing waste, and achieving sustainability goals. Such disclosure increases the transparency of reports and enhances trust in them, thereby helping stakeholders assess environmental risks Clarkson, et.al, (2013. P413). Although Environmental disclosure can be regarded as a tool for enhancing trust in the firm, as investors view environmental reports as an indicator of the company's long-term planning. Such reports are also used to assess the quality and efficiency of management, strengthen the firm's credibility with relevant stakeholders, and demonstrate its commitment to environmental regulations and laws Gaber, et.al, (2024. P 2586).

A company's engagement in environmental disclosure initiatives is often driven by management's pursuit of its own interests and objectives. In these cases, management may undertake these activities primarily as a means to improve the company's image and achieve economic gains, or to conceal opportunistic behavior. The financial scandals that led to the bankruptcy and collapse of numerous multinational corporations serve as stark evidence of this trend, as these companies were previously considered leaders in environmental sustainability. This situation highlights fraudulent accounting practices and impression-management tactics Egsaim, et.al, (2023. P20).

The concept refers to the efforts made by individuals or organizations to shape and manage the way they are perceived by others. This influence can manifest through several practices, including biased reporting, self-justifying interpretations, symbolic actions, retrospective reasoning, and the use of specific accounting narratives. Such behaviors are driven by deeper motivations and assumptions underlying the actors' conduct Brennan & Merkl-Davies, (2011, p. 420).

Impression management has been defined as managers' attempts to influence shareholders' perceptions of organizations, particularly with respect to financial performance. This involves highlighting desirable aspects of the organization or

concealing less favorable ones, thereby seeking to manipulate how organizational audiences interpret its actions Hao, (2020, p. 7).

It represents management's effort to shape both the interpretation of financial reports and the opinions of stakeholders and users, through various techniques such as the use of graphs, charts, wording, phrasing, tables, and images Kalaf, (2025. P 31).

Recent studies indicate that impression management is pervasive in corporate social and environmental reporting and constitutes an integral component of the broader social influence process. It is viewed as an attempt to shape, influence, and sometimes manipulate investors' perceptions and attitudes, thereby reinforcing environmental and social positions that demand accountability from the reporting entity. Moreover, the inherent flexibility of financial reporting enables organizations to selectively disclose information in ways that enhance their public image and strengthen their perceived legitimacy Martins, et.al, (2021. P2).

This study investigates the relationship between environmental disclosure and investor sentiment from an impression management perspective. While numerous studies suggest that environmental disclosure enhances the quality of financial reporting, strengthens investor confidence, reduces information asymmetry between management and other stakeholders, and helps explain market reactions and investor sentiment (Suttipun et al., 2025; Angir & Weli, 2024; Ge & Zhang, 2024), other research indicates that firms may employ environmental disclosure strategically to shape investor sentiment through impression management. In doing so, companies aim to achieve managerial objectives such as improving corporate reputation and increasing demand for their shares (Jones & Slack, 2009; Martins et al., 2021; Cao et al., 2022; Zhou, 2024).

Based on the foregoing, the research problem of the current study can be formulated as the following question:

“Does the impact of environmental disclosure on investor sentiment increase when moderated by impression management?”

This main question is further divided into several sub-questions:

1. Is there a significant effect of environmental disclosure on investor sentiment?
2. Is there a significant effect of environmental disclosure on impression management?
3. Is there a significant effect of impression management on investor sentiment?

The main purpose of this research is to investigate how impression management influences the relationship between environmental disclosure and investor sentiment. The study aims to explore whether impression management techniques weaken, shape, or redirect the effect of environmental disclosure on investors' perceptions, judgments, and decision-making within a sample of banks listed on the Iraq Stock Exchange.

The importance of this study lies in its contribution to the literature that connects environmental reporting with impression management practices, providing a more nuanced understanding of the ways in which firms may attempt to guide or influence investor sentiment. It also fills an evident gap in prior research related to the Iraqi context, where environmental disclosure has frequently been treated as transparent and value-enhancing, with limited attention given to possible managerial selectivity or bias in reporting. Additionally, this study offers valuable insights for regulators, investors, and policymakers by underscoring the need to distinguish between credible environmental information and disclosure shaped by impression management, thereby enhancing the usefulness and reliability of sustainability-related information in investment decisions.

The study employed a deductive approach to develop the theoretical framework and to infer the relationships among the research variables (Creswell & Creswell, 2018). This was accomplished through an extensive review of accounting literature, encompassing theses, dissertations, scholarly journals, seminar papers, books, research articles in both Arabic and foreign languages, conference proceedings, websites, and other relevant sources. Furthermore, the research utilized a manual content analysis method to examine the annual financial reports of the companies included in the study sample

(Krippendorff, 2018). This approach facilitated the measurement of the study variables and enabled a quantitative description appropriate for statistical analysis, thereby supporting hypothesis testing and subsequent discussion.

The remaining sections present an extensive review of the relevant literature alongside the development of the study's hypotheses, followed by a description of the research methodology, the analysis of the collected data, and the final conclusions.

2. Literature Review and Hypothesis Development

Reviewing the existing literature is a crucial step in understanding how environmental disclosure influences investor sentiment, as well as in clarifying the role that impression management may play in this relationship. Recent studies indicate that the environmental information provided by companies can shape investors' perceptions of corporate credibility and commitment to sustainability. Evidence also suggests that firms may resort to impression management practices to influence investor responses and guide their judgments. Accordingly, this review synthesizes the key findings of prior research as a foundation for developing the study's hypotheses.

According to a study by Cornell, et.al, (2017), the quality of accounting information helps investors evaluate stocks and reduces the likelihood of mispricing associated with investor sentiment. This effect is not limited to individual investors but also extends to securities analysts, reinforcing the influence of disclosed information on investor sentiment. Some companies choose to disclose their social and environmental responsibilities even if such disclosure doesn't necessarily enhance the company's value. These disclosures can be used as a strategic tool to shape investor perceptions and bolster the company's reputation among stakeholders. This behavior aligns with legitimacy theory, which suggests that companies provide social and environmental reports to maintain their social legitimacy Naughton, et.al, (2018. P25).

In a study by (Sun, et.al, 2018. P1932) that sought to answer the question, "*Do managers modify the way they disclose corporate social responsibility information to*

align with investor sentiment?”, the results showed that the disclosure of social and environmental responsibility is negatively correlated with investor sentiment.

According to Bergman & Roy chowdhury, (2008) study, which examined the relationship between investor sentiment and corporate disclosure policies, managers strategically alter their disclosure policies in response to prevailing investor sentiment. The study demonstrated that managers control investor sentiment by selecting disclosure policies that align with their objectives. Conversely, a study by Marsdenia, (2016. P190) that examined the impact of corporate social responsibility disclosure on investor behavior, using the cumulative abnormal returns (CAR) index as a proxy for investor behavior, concluded that there was no statistically significant effect of such disclosure on investor behavior in a sample of Indonesian companies. In light of the foregoing discussion, the following hypothesis is proposed:

H1 *Environmental disclosure has a significant effect on investor sentiment:*

In corporate reporting, narrative disclosures complement and contextualize the quantitative accounting information presented in the financial statements. Unlike numerical data, which is subject to standardized measurement procedures and external auditing, narrative sections typically remain unaudited, granting managers greater discretion in determining their content. This discretion enables managers to shape reports in a way that influences stakeholders' perceptions and interpretations of the company's performance and its social or environmental activities Banyan & Jassim, (2024.p357). Studies examining impression management in discretionary narrative disclosures have primarily emphasized the selective presentation and selective content of information. Selectivity, in this context, involves the *inclusion* or *omission* of particular information items, functioning as a form of *concealment*. Such concealment may occur through manipulating the manner in which narrative disclosures are presented presentation selectivity or by omitting narrative disclosures altogether content selectivity Leung, et.al, (2015.P275).

The study by Cho et al. (2010.P435) aimed to examine whether firms employ linguistic

biases and tonal variations in their environmental disclosures as tools for impression management. The findings revealed that firms with poorer environmental performance tend to use more optimistic language and less certain tones in their reports, thereby highlighting positive aspects while downplaying their responsibility for weak performance. These results indicate that the linguistic tone employed in environmental and social disclosures is deliberately used to influence investor perceptions.

According to a study Seebeck, et.al, (2025) investigating the question "Do managers use XBRL extensions to manage impressions?", companies strategically use XBRL extensions to influence impressions. The results indicate that extensions carry more negative sentiment than standard extensions, which is associated with less positive earnings patterns and greater errors in analyst forecasts. This suggests that managers may be exploiting XBRL extensions to conceal unfavorable information, highlighting that while this tool is intended to enhance transparency, it can also be used to manage impressions.

The relationship between corporate social responsibility (CSR) disclosure and impression management is inherently dual. When disclosures are credible and transparent, they enhance stakeholder trust and organizational legitimacy. Conversely, CSR disclosures can be strategically used to shape stakeholder perceptions, emphasizing positive outcomes while downplaying shortcomings, thereby serving organizational interests rather than providing fully reliable information. This dual role highlights the importance of critically assessing CSR communications in understanding their effect on stakeholder attitudes and expectations Khalaf, (2025.P55).

H2: Environmental disclosure has a significant effect on impression management:

The relationship between managerial biases and investor sentiment can be traced back to unintentional behavioral bias or opportunistic bias. In the case of opportunistic behavior, managers may intentionally influence investor sentiment to affect stock prices by manipulating their perceptions. For example, during periods of high investor

optimism, opportunistic managers may issue more optimistic forecasts to maintain or increase stock prices. However, the patterns of opportunistic and behavioral biases diverge during periods of low investor sentiment. Specifically, if managers act opportunistically to influence stock prices, they are more likely to issue more positive earnings forecasts to counteract pessimistic investor sentiment and support stock prices during these periods Hurwitz, (2018.P173).

According to a study by Liu, et.al, (2025) which examined the impact of impression management tone in non-financial corporate disclosures on stock mispricing, the use of optimistic or promotional language in disclosures is strongly associated with stock price deviations from their underlying values. Using textual analysis, the study found that the use of optimistic or promotional language in disclosures is strongly linked to stock price deviations from their underlying values. The findings suggest that companies' strategic use of language can influence investor perceptions and contribute to market inefficiencies, highlighting the need for transparency and oversight in corporate reporting. We hypothesize that the effectiveness of impression management strategies depends on a set of factors related to the sender, such as CEO duality; contextual factors, such as the anticipation of mergers and acquisitions; and audience-related factors, such as the type of investor. The study's findings indicate that investors' reactions to a positive portrayal of CEOs are more favorable when merger and acquisition activities are anticipated or when the investor is a transient institutional investor Callahan, et.al, (2025.P812).

Investor sentiment is often influenced by the tone of executives' statements when making investment decisions. A study based on Chinese stock market data (2005–2019) found a significant positive correlation between investor sentiment and executive tone. The findings also indicate that executives use both a sincere tone and a strategically controlled tone in a heterogeneous manner to respond to shifts in investor sentiment. This suggests that executive tone reflects the company's current and past performance, and that management decisions are influenced by investor sentiment and behavior, which may deviate from purely rational judgments Qiu & Yang, (2022).

Numerous studies have highlighted the prevalence of common behavioral biases among investors, as documented in behavioral finance and psychology research. These biases often lead to distortions in investment decision-making and are closely linked to how companies present and manage information. In this context, impression management strategies and the tone of disclosure are effective tools for influencing investor sentiment, whether to bolster confidence or to shape perceptions in line with the organization's objectives Mahmood, et.al, (2024.P2).

H3: Impression management has a significant effect on investor sentiment:

The relationship between environmental disclosure, impression management, and investor sentiment is complex and dynamic. On the one hand, environmental disclosure can enhance the transparency and credibility of company reports when management uses it to demonstrate its commitment to regulations and guidelines related to environmental protection Khalaf, (2025.P62). On the other hand, environmental disclosure can serve as a strategic impression management tool when management seeks to influence investor sentiment by concealing certain essential aspects of actual performance (Martins, 2020).

Impression management practices are a strategic tool used by managers to influence stakeholder perceptions by selectively choosing what is disclosed or by modifying the language and visual aspects of financial and non-financial reports. This can affect investor sentiment, depending on how these practices are employed and whether they are used ethically or for opportunistic gain Triche & Walden, (2018).

Companies resort to voluntary disclosure to provide information to stakeholders and to influence their perceptions; therefore, this type of disclosure functions as a tool for managing information. This extends beyond the content presented to encompass the linguistic style and managerial behavior reflected in the manner of presentation. Accordingly, the significance lies not only in **what** companies communicate but also in **how** they choose to communicate it. Understanding and anticipating how investors will interpret voluntary environmental disclosures is essential for effective information

management, a process that depends to a large extent on impression management practices Röttger, (2024. P14-15).

The literature highlights two contrasting perspectives on the function of additional voluntary disclosure in financial markets: the information-based perspective and the impression-management perspective. From the information-based view, disclosure serves as a key communication mechanism between firms and investors, where voluntary reporting enhances the flow of information and helps lower transaction costs in capital markets. In contrast, the impression-management view considers voluntary disclosure a tool through which managers attempt to shape investor sentiment and influence their decision-making Triki, et.al, (2015.p5). Based on the above, the following hypothesis can be formulated:

H4: Impression management moderates the relationship between voluntary environmental disclosure and investor sentiment, such that the strength and direction of this relationship depend on the level of impression management employed.

3. Methodology

The population of this study consisted of Iraqi banks listed on the Iraq Stock Exchange. A purposive sample of ten banks was selected based on two criteria: (a) the continuous availability of annual financial data for the entire study period (2014–2023) and (b) the presence of sufficient information to measure the study variables. Data were obtained through manual content analysis of the annual financial reports of the sampled banks.

The independent variable, voluntary environmental disclosure, was measured using an index comprising ten disclosure items. Each item was assigned a value of 1 if disclosed and 0 if not disclosed, following the approach of (Daud 2023; Themm & Rasmussen, 2021). The environmental disclosure score for each bank was calculated by dividing the number of disclosed items by the total number of items included in the index Baalouch, et.al. (2019).

The moderating variable, impression management, was assessed using the LIX readability index, which evaluates the linguistic complexity and readability of narrative disclosures (Merkl -Davies, et.al, 2005; Randa & Jassim, 2024).

The dependent variable, investor sentiment, was measured using the stock turnover rate, which serves to distinguish between optimistic and pessimistic investor sentiment as well as to identify irrational trading behavior. A positive value indicates an upward market trend associated with optimistic sentiment, whereas a negative value reflects a downward trend and pessimistic expectations. The turnover measure 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 obtained by dividing the stock's return by its absolute value. The product of these two components yields a final value that is either positive or negative, reflecting the prevailing investor sentiment (Baker & Wurgler, 2007; Hameedi, et.al, 2024; Motlaq & Fares, 2020).

The method of measuring the variables can be illustrated in the following table:

Table (1): Measurement Variables

Variable	Type	Measurement Method	Operational Definition	Source
Voluntary Environmental Disclosure (VED)	Independent Variable X	Dichotomous Content Analysis (0/1) of 10-item disclosure index	Each disclosure item is coded as 1 if disclosed and 0 if not disclosed; VED score = (Total disclosed items ÷ Total items in index)	Daud (2023)
Impression Management (IM)	Moderating Variable M	LIX Readability Index $LIX = 100 * (B/W) + (W/S)$	Readability score based on sentence length and word complexity; higher LIX values indicate more complex/less readable disclosures LIX Score Reading Difficulty Level 20 Very Easy 30 Easy 40 Moderate 50 Difficult 60 Very Difficult	Randa & Jassim, 2024
Investor Sentiment (IS)	Dependent Variable Y	Stock Turnover Rate	Two-component measure: (1) Outstanding shares ÷ Traded shares; (2) Stock return ÷ absolute value	Hameedi, et.al, 2024

Statistical Model Specification:

To examine the relationships proposed in this study, two econometric models were developed. The first model tests the direct effect of voluntary environmental disclosure on investor sentiment management. The second model incorporates the moderating role of impression management through an interaction term to capture changes in the strength or direction of the relationship.

1. Direct Effect Model:

The direct relationship between voluntary environmental disclosure (VED) and investor sentiment (IS) was estimated using the following regression model:

$$IS_{it} = \alpha_0 + \alpha_1 VED_{it} + \varepsilon_{it}$$

Where:

IS_{it} = Investor sentiment management for firm i in year t

VED_{it} = Voluntary environmental disclosure for firm i in year t

α_1 = Direct effect of VED on ISM

ε_{it} = Error term

This model assesses whether voluntary environmental disclosure independently influences investor sentiment without considering the effect of impression management.

2. Moderating Effect Model:

To test the moderating role of impression management (IM), an interaction term between VED and IM was introduced. The moderating model is specified as follows:

$$IS_{it} = \beta_0 + \beta_1 VED_{it} + \beta_2 IM_{it} + \beta_3 (VED_{it} \times IM_{it}) + \varepsilon_{it}$$

Where:

IM_{it} = Impression management for firm i in year t

IM_{it} = Impression management for firm i in year t

$VED_{it} \times IM_{it}$ = Interaction term representing the moderating effect

β_3 = Coefficient capturing whether IM strengthens or weakens the VED–ISM relationship

When the coefficient β_3 appears statistically significant, it indicates that impression management plays a moderating role in the link between voluntary environmental disclosure and investor sentiment. A positive sign for β_3 means that impression management reinforces this connection, while a negative sign suggests that it weakens the relationship instead.

Interpretation of the Models:

To better understand these results, the first model focuses on the direct effect showing whether voluntary environmental disclosure on its own influences how investors react. The second model, which incorporates the moderating variable, illustrates the extent to which impression management shifts or shapes that relationship. Looking at both models together provides a clearer and more complete picture of the direct impact and the conditions under which that impact may change.

4. Descriptive Statistics

As a preliminary step in the analysis, descriptive statistics are used to provide an overview of the main features of the data. By reporting measures such as the mean, standard deviation, and the minimum and maximum values, this section helps clarify how the variables are distributed and the extent to which they vary. Gaining this general understanding of the dataset is essential, as it supports the interpretation of the subsequent analytical results and highlights any patterns that may influence the study's findings.

Table (2): Descriptive Statistics

Variables	Symbol	Mean	Standard Deviation	Min	Max	Coefficient Variation
Environmental Disclosure (ED)	X	0.40	0.15	0.04	0.72	0.375%
Impression Management (IM)	M	48.450	6.648	32	62	0.14%
Investor Sentiment (IS)	Y	1.36	2.04	-7.8	10.4	1.5%

Descriptive statistics for the study variables provided an initial overview of the data characteristics and their variability. The results indicated that the mean level of **Environmental Disclosure (VED)** was ($M = 0.40$, $SD = 0.15$), with values ranging

from (0.04) to (0.72). This suggests a moderate degree of variability in disclosure levels across companies, while the low coefficient of variation (0.375%) reflects a relatively high level of consistency around the mean. The moderate variability observed in Environmental Disclosure (VED) is consistent with Voluntary Disclosure Theory, which argues that firms differ in their incentives and capacities to disclose non-mandatory information Healy & Palepu, (2001).

The Impression Management (IM) variable exhibited a mean of ($M = 48.45$, $SD = 6.65$), with observed values between (32) and (62), indicating notable differences in impression management practices among companies. The coefficient of variation (0.14%) further demonstrates a low relative dispersion. The relatively stable pattern observed in Impression Management (IM) is consistent with behavioral perspectives on corporate reporting, which posit that firms strategically construct their disclosures to shape stakeholders' perceptions. The limited dispersion in IM scores suggests that most firms employ similar impression management practices, reflecting the extent to which these practices are embedded within organizational reporting cultures and managerial routines Brennan & Merkl-Davies, (2013).

For Investor Sentiment (IS), the mean was ($M = 1.36$, $SD = 2.04$), with a wide range from (-7.8) to (10.4), highlighting substantial volatility in market sentiment. This observation is reinforced by the coefficient of variation (1.5%), In contrast, the pronounced variability observed in Investor Sentiment (IS) can be interpreted through the lens of Signaling Theory, which maintains that external stakeholders especially investors use corporate disclosures as cues regarding a firm's performance, risk profile, and future outlook. The substantial swings in investor sentiment indicate that market participants do not respond uniformly to these signals, reflecting differences in expectations and the influence of behavioral biases. Such volatility underscores the heightened sensitivity of investor sentiment to both firm-specific disclosures and broader economic developments Tetlock, (2007).

5. Testing Hypotheses and Interpreting Findings Using Regression Analysis

In this section, the focus is on examining the study's hypotheses through regression analysis. The findings are presented alongside an interpretation that connects the statistical results to the theoretical framework of the research. By looking at both the numbers and their meaning, this discussion provides a clearer understanding of how the variables interact and offers insights into the practical and academic implications of the study.

Table (3): Environmental Disclosure (ED) \longrightarrow Investor Sentiment (IS)

X	Y	R2	Adjusted R2	F	Sig
Environmental Disclosure (ED)	Investor Sentiment (IS)	0.12	0.11	15.36	0.021
		β_0	β	T	Sig
		0.315	0.79	3.55	0.012

Table (4) shows that the coefficient of determination (0.12) indicates that environmental disclosure explains (11.5%) of the changes in investor sentiment.

The F-value (12.741) at a significance level of less than 5% indicates the validity of the regression equation model, meaning that investor sentiment can be estimated through environmental disclosure. The t-value (3.569) at a significance level of less than 5% indicates a significant effect, while the positive beta regression coefficient (B) of (0.921) indicates a positive effect, meaning that environmental disclosure positively affects investor sentiment.

In light of Agency Theory and Signaling Theory, the positive impact of environmental disclosure on investor sentiment can be explained as follows. According to Agency Theory, voluntary environmental disclosure reduces information asymmetry between management and investors. Management publishes transparent information about its environmental practices, which reduces investor concerns about hidden risks or potential opportunistic decisions and lowers agency costs associated with monitoring and oversight Al-Fadl, (2024). This disclosure serves as a governance and reporting tool to prevent the misuse of confidential information by managers. On the other hand,

Signaling Theory posits that sustainability disclosure sends a positive signal from a company to the market about its quality, commitment to environmental standards, and willingness to assume long-term responsibility. This enhances the company's reputation and allows investors to differentiate it from underperforming companies, thus improving their sentiment towards it Friske, (2023).

Table (4): Environmental Disclosure (ED) \longrightarrow Impression Management (IM)

X	M	R2	Adjusted R2	F	Sig
Environmental Disclosure (ED)	Impression Management (IM)	0.09	0.081	6.55	0.041
		β_0	β	T	Sig
		40.9	9.55	3.74	0.041

The coefficient of determination (R^2) indicates that environmental disclosure explains (9%) of the variance in impression management, implying the presence of other factors outside the model that may also influence it. Nevertheless, the model as a whole is statistically significant, with an F-value of (6.5) at a significance level of (0.04), indicating that environmental disclosure has a significant effect on impression management and confirming the validity of the regression equation. The t-value of (3.74), at a significance level below (0.05), further supports the significance of the effect. Moreover, the positive value of the regression coefficient beta ($B = 9.55$) indicates that the effect is positive, meaning that environmental disclosure positively affects impression management.

The results suggest that environmental disclosure plays a meaningful role in shaping how firms manage the impressions they leave on their stakeholders. This finding aligns with the premise of impression management theory, which argues that companies often rely on voluntary forms of disclosure to present themselves in a more favorable light to investors and other interested parties (Wang, 2016; Sheehan, 2021). When organizations choose to report their environmental activities more openly, they gain a greater ability to influence how investors interpret their environmental performance, and this tends to strengthen investors' trust in the firm's commitment to sustainability and broader social responsibilities. The statistical indicators reported in the analysis support this interpretation.

In addition to that, signaling theory offers a complementary perspective. From this viewpoint, environmental disclosure can be understood as a signal intended to communicate the quality of a firm's environmental practices and its long-term prospects. Such signals help shape investor perceptions by reducing uncertainty and reinforcing the view that the firm is relatively less risky and more attentive to environmental governance norms (Uyar et al., 2024; Caliskan & Esen, 2018). Taken together, these explanations indicate that environmental disclosure functions as more than a simple reporting tool; it serves as a deliberate means of managing perceptions and strengthening investor confidence through credible and consistent sustainability related messages an interpretation that corresponds well with the empirical results obtained in this study.

Table (5): Impression Management (IM) \longrightarrow Investor Sentiment (IS)

M	Y	R2	Adjusted R2	F	Sig
Impression Management (IM)	Investor Sentiment (IS)	0.004	0.003	0.478	0.654
		β_0	β	T	Sig
		0.77	-0.0082	-0.745	0.654

The results indicate that the coefficient of determination was very low, not exceeding 0.004, suggesting that impression management practices explain only a small portion of the variance in investor sentiment. The model also lacked statistical significance, as reflected by the F-value of 0.478 at a significance level of 0.654. This finding aligns with Talakhan and Saleh (2024), who reported that the limited impact of disclosure or impression management on investor sentiment may result from the low awareness of environmental responsibility issues among many non-specialist investors. Additionally, some investors rely on a wide range of information when making decisions, rather than focusing solely on environmental disclosures (Talakhan & Saleh, 2024).

These results can be explained through the Efficient Market Hypothesis (EMH), which states that security prices reflect all available market information. Environmental information or impression management practices may have little impact on investor sentiment if they are considered marginal compared to critical financial and operational

information that drives market value (Chen et al., 2025; Li & Zhang, 2023). Less efficient markets, where investor knowledge varies, may also respond weakly to such disclosures, which can explain the observed low correlation (Wang et al., 2025).

From the signaling theory perspective, the lack of significance suggests that investors may not see impression management practices as a strong or sufficient signal of a company's environmental performance or future stability. Environmental signals may lose effectiveness if they are not backed by verifiable performance records or substantial environmental indicators, leading to weak or inconsistent investor reactions (Uyar et al., 2025; Zhang & Liu, 2024). This is supported by the literature, which notes that signal strength depends largely on reliability and verifiability—factors that may be limited in this study's context (Caliskan & Esen, 2018).

Table (6): the Moderating Role of Impression Management

Variables			Direct Path Coefficient	Indirect Path Coefficient	Total Path Coefficient
X	M	Y			
Environmental Disclosure (ED)	Impression Management (IM)	Investor Sentiment (IS)	0.79	-0.23	0.56

The direct effect of environmental disclosure on investor sentiment was 0.79, a very strong value indicating that when companies disclose their commitment to environmental standards and regulations more transparently and clearly, investors tend to respond positively. This aligns with the voluntary disclosure theory, which posits that environmental disclosure reassures investors about a company's commitment to responsible behavior and risk management. Companies disclose environmental information to reduce information asymmetry and enhance investor confidence, which naturally boosts their sentiment toward the company (Healy & Balibo, 2001). According to signaling theory, the quality of environmental disclosure is an indicator of a company's long-term sustainability commitment, which further strengthens investor sentiment (Zhang & Liu, 2024).

The indirect effect through the impression management channel came out negative (-0.23), which suggests that impression management partially counteracts the positive

influence that environmental disclosure is expected to have on investor sentiment. A possible explanation is that when investors sense that the company is polishing its image or trying to hide weaknesses in its performance, they start to question the reliability of the environmental information being disclosed. This doubt can weaken the impact of the disclosure itself. Similar observations were reported by Khalaf (2025), who found that impression management practices tend to undermine the benefits of social responsibility reporting on firm value.

Because of this, some investors approach environmental reports with caution, if not suspicion, viewing them as more symbolic than genuine. In such cases, the disclosure is interpreted less as an honest reflection of the company's environmental performance and more as an attempt to shape perceptions. This skepticism ultimately reduces the positive effect that environmental disclosure might otherwise have on investor sentiment (Talakhan & Saleh, 2024; Cho et al., 2015).

The results of the research hypothesis testing can be summarized in the following table:

Table (7): Results of the Research Hypotheses

No.	Hypothesis	Result
H1	<i>Environmental disclosure has a significant effect on investor sentiment</i>	Accepted
H2	<i>Environmental disclosure has a significant effect on impression management.</i>	Accepted
H3	<i>Impression management has a significant effect on investor sentiment.</i>	Rejected
H4	<i>Impression management moderates the relationship between voluntary environmental disclosure and investor sentiment, such that the strength and direction of this relationship depend on the level of impression management employed</i>	Accepted

6. Conclusions

This study highlights the significant role of voluntary environmental disclosure in shaping investor sentiment in the Iraqi banking sector. The findings show that such disclosure directly enhances investor confidence by reducing information asymmetry, while also interacting with impression management practices. Although impression management alone does not significantly affect investor sentiment, it moderates the relationship, slightly weakening the positive impact of disclosure when investors perceive exaggeration or selective reporting. Overall, the research concludes that the

effectiveness of environmental disclosure depends on its credibility and transparency, emphasizing that investors respond most to authentic and reliable information rather than mere presentation or image management.

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