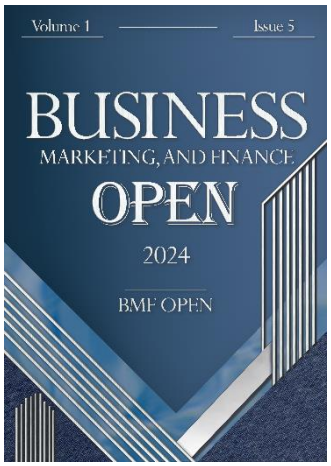
Examining the Impact of Corporate Governance Mechanisms on Financial Performance Considering the Moderating Role of Earnings Quality in Companies Listed on the Iraq Stock Exchange



Haitham Naser Al Ghaith[1] and Mohsen Dastgir[2,*] Akeel Hamza Habeeb Almagtome[3], Saeid Ali Ahmadi[4]

[1] Ph.D. Student, Department of Accounting, Isfahan (Khorasgan) Branch, Islamic Azad University, Isfahan, Iran;
[2] Professor, Department of Accounting, Isfahan (Khorasgan) Branch, Islamic Azad University, Isfahan, Iran;
* Correspondence: dastmw@yahoo.com
[3] Assistant Professor of Accounting, Najaf (Iraq) Branch, University of Kufa, Najaf, Iraq;
[2] Assistant Professor of Accounting, Isfahan (Khorasgan) Branch, Islamic Azad University, Isfahan, Iran;

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Abstract: This study examines the impact of corporate governance mechanisms on financial performance in the context of companies listed on the Iraq Stock Exchange (ISX) while considering the moderating effect of earnings quality. Corporate governance mechanisms play a crucial role in shaping firms' financial performance, and their effectiveness may vary depending on the quality of earnings. By investigating this relationship, the objective of this research is to provide insights into the interaction between corporate governance, financial performance, and earnings quality in the Iraqi market. Data from 33 listed companies on the Iraq Stock Exchange for the years 2016 to 2021 were utilized in a panel data model with fixed and random effects. The findings of this study contribute to understanding how corporate governance practices influence financial outcomes and highlight the importance of earnings quality as a moderating factor in this relationship. This research has implications for policymakers, investors, and corporate managers seeking to enhance corporate governance practices and improve financial performance in the Iraq Stock Exchange. Given the low performance levels in Iraq, the obtained results can be employed to enhance corporate performance and improve firms' efficiency.

Keywords: Corporate governance mechanisms, financial performance, earnings quality, Iraq Stock Exchange companies.

1. Introduction

Legitimate corporate governance encompasses accountability and competence in policymaking and service delivery while simultaneously adhering to legal regulations and human rights [1]. This concept is best understood through the Cadbury Report, which highlights how corporate governance oversees and controls corporate activities [2]. In recent years, the corporate world has witnessed a growing inclination toward corporate governance, and accountability has become a global trend for modern businesses. Corporate governance has transitioned from a conventional process into a necessity in strategic

business management in the 21st century. The following section presents definitions of corporate governance, the reasons for its significance, and related aspects [3, 4].

Due to their access to internal and confidential company information, senior managers are expected to possess a greater understanding of their businesses, enabling them to make better estimates and judgments. In accounting theories, managerial ability is considered a dimension of a company's human capital and is classified as an intangible asset. Managerial ability is defined as a manager's efficiency in converting company resources into revenue relative to competitors. These revenue-generating resources include inventory costs, administrative and distribution expenses, fixed assets, operating leases, research and development expenditures, and intangible assets. Higher managerial ability can lead to more efficient daily operations and improved financial reporting, particularly during periods of operational crises when managerial decision-making significantly impacts corporate performance. Additionally, during financial crises, more capable managers are better equipped to secure the necessary resources. Effective investment in high-value projects and efficient employee management are also characteristics of competent managers [5-7].

One of the most critical issues for investors, creditors, and decision-makers—both internal and external to corporations—is evaluating corporate performance. Assessing a company's performance aids in determining its current position and success in achieving objectives, influencing its future direction, planning, and improvement initiatives [8]. Today, management scholars emphasize performance evaluation models as one of the most reliable indicators of corporate development. Consequently, a major concern for modern corporations is attaining an efficient and flexible performance evaluation method that comprehensively examines all functional aspects of the company. Addressing corporate challenges requires managers to adopt appropriate performance measurement frameworks that enable continuous improvement across all domains. Performance measurement facilitates steady progress toward predefined goals while identifying stagnation and growth areas. Among the key performance indicators, financial metrics hold particular significance and can be assessed using various methods. Measuring business performance through financial ratios remains a compelling and challenging subject for researchers. In general, corporate performance evaluation and forecasting methods can significantly influence the decisions of both potential and existing investors [9].

Earnings quality has recently become a focal point in assessing corporate financial performance. While investors seek profitable activities and strive to maximize earnings, inherent limitations prevent them from confidently relying solely on profit trends for decision-making. Therefore, to avoid misguided decisions, investors should not base their judgments exclusively on earnings growth. One of the primary criteria for evaluating earnings is earnings quality. Since earnings quality depends on various factors such as liquidity, management strategies, operational activities, conservatism, and more, defining and establishing definitive metrics for its measurement is considered challenging by most researchers [10].

The reliability of financial information has gained increasing importance in decision-making, particularly in light of environmental uncertainties that affect business operations. Recent literature [11] considers earnings quality as a crucial indicator of financial information reliability, which is utilized by stakeholders such as investors, lenders, creditors, and others. This aspect significantly benefits decision-makers [11, 12]. Additionally, Cheng et al. (2019) indicated that earnings quality could be used to predict firms' future returns [13]. According to probability theory, corporate performance is influenced by managerial behavior and internal environmental conditions [14]. Dempster and Oliver (2019) argue that earnings quality reflects an essential and costly aspect of managerial behavior, raising ethical concerns within companies. In fact, managerial behavior, influenced by accounting methods, estimations,

judgments, and standard-setting decisions, directly impacts earnings quality [15]. Moreover, Healy and Wahlen (1999) asserted that earnings quality is shaped by managerial behavior and can affect corporate performance. Huynh (2020) also pointed out that companies engaging in earnings management signal an implicit acceptance of bending the truth as an acceptable practice. In other words, earnings management fosters an ethical environment where questionable activities may occur [9].

Despite the increasing importance of corporate governance and its impact on financial performance, limited research has examined the influence of these mechanisms in emerging and developing markets. Furthermore, earnings quality, as a moderating factor, can play a crucial role in either strengthening or weakening the effects of corporate governance mechanisms on financial performance. However, previous studies have rarely conducted a comprehensive and simultaneous analysis of these two dimensions within the Iraq Stock Exchange. Specifically, the effects of corporate governance mechanisms—such as the percentage of institutional shareholders, board independence, and CEO duality—within Iraq's unique cultural and economic context and the moderating role of earnings quality in these relationships have not been systematically and comprehensively investigated. This research gap highlights the need for further empirical studies that analyze the concurrent influence of these variables on the financial performance of Iraqi firms, providing more precise insights for improving corporate governance policies and enhancing financial performance.

Therefore, the present study, using empirical evidence from the Jordanian market as an emerging market, examines the impact of earnings quality on corporate performance. The research hypotheses are formulated as follows:

- **Hypothesis 1**: The percentage of institutional shareholders has a positive and significant impact on corporate performance.
- **Hypothesis 2**: Board independence has a positive and significant impact on corporate performance.
- **Hypothesis 3**: CEO duality has a negative and significant impact on corporate performance.
- **Hypothesis 4**: The effectiveness of internal auditing has a positive and significant impact on corporate performance.
- **Hypothesis 5**: Earnings quality weakens the relationship between CEO duality and corporate performance.
- **Hypothesis 6**: Earnings quality strengthens the relationship between the effectiveness of internal auditing and corporate performance.
- **Hypothesis 7**: Earnings quality strengthens the relationship between institutional shareholders and corporate performance.
- **Hypothesis 8**: Earnings quality strengthens the relationship between board independence and corporate performance.

2. Methodology

This study is applied research in terms of its objective and quasi-experimental in terms of its methodology. The reasoning approach used in this research is both deductive and inductive. From a theoretical perspective, the research falls within the positive research paradigm, and from a statistical standpoint, it is descriptive and correlational. The study employs multivariate linear regression to test the hypotheses. Financial data of companies were extracted from the Iraq Stock Exchange website to conduct hypothesis testing.

The statistical population of this research consists of companies listed on the Iraq Stock Exchange between 2016 and 2021. Given the nature of the study, purposive sampling was applied, where selected companies had to meet the following conditions:

1. To ensure comparability, the company's fiscal year should end in December, and no fiscal year changes should have occurred during the study period.
2. To maintain homogeneity, companies from banks, financial institutions, insurance companies, and other financial intermediaries were excluded.
3. Data on selected variables should be accessible for research purposes.
4. Companies should not have had continuous trading suspensions exceeding six months during the study period.
5. Companies should have been listed on the Iraq Stock Exchange before 2016 and not delisted during the study period.

The process of determining the sample size is presented in Table 1 below:

Table 1. Determination of Sample Size

Row	Description	Number of Companies
1	Companies listed on the Iraq Stock Exchange at the end of 2021	134
2	Companies from financial intermediation, holding, banking, and insurance sectors	(68)
3	Companies for which the required data is unavailable	(33)
4	Companies whose fiscal year does not end in December or have changed fiscal years during the study period	0
5	Companies listed on the stock exchange during the study period	0
Final Sample Size	33	

As indicated in Table 1, 33 companies were selected as the final sample.

Research Models

To test the research hypotheses, the following eight regression models were utilized:

Model 1

$$CP_{it} = a_0 + a_1 ISO_{it} + a_2 Size_{it} + a_3 LEV_{it} + a_4 M/B_{it} + a_5 DPS_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Model 2

$$CP_{it} = a_0 + a_1 BIND_{it} + a_2 Size_{it} + a_3 LEV_{it} + a_4 M/B_{it} + a_5 DPS_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Model 3

$$CP_{it} = a_0 + a_1 CEOduality_{it} + a_2 Size_{it} + a_3 LEV_{it} + a_4 M/B_{it} + a_5 DPS_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Model 4

$$CP_{it} = a_0 + a_1 IAFQi_{it} + a_2 Size_{it} + a_3 LEV_{it} + a_4 M/B_{it} + a_5 DPS_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Model 5

$$CP_{it} = a_0 + a_1 ISO_{it} + a_2 ISO_{it} * EarningsQuality + a_3 Size_{it} + a_4 LEV_{it} + a_5 M/B_{it} + a_6 DPS_{it} + a_7 Age_{it} + \varepsilon_{it}$$

Model 6

$$CP_{it} = a_0 + a_1 BIND_{it} + a_2 BIND_{it} * EarningsQuality + a_3 Size_{it} + a_4 LEV_{it} + a_5 M/B_{it} + a_6 DPS_{it} + a_7 Age_{it} + \varepsilon_{it}$$

Model 7

$CP_{it} = a_0 + a_1 CEOduality_{it} + a_2 CEOduality_{it} * EarningsQuality + a_3 Size_{it} + a_4 LEV_{it} + a_5 M/B_{it} + a_6 DPS_{it} + a_7 Age_{it} + \varepsilon_{it}$

Model 8

$CP_{it} = a_0 + a_1 IAFQi_{it} + a_2 IAFQi_{it} * EarningsQuality + a_3 Size_{it} + a_4 LEV_{it} + a_5 M/B_{it} + a_6 DPS_{it} + a_7 Age_{it} + \varepsilon_{it}$

Dependent Variable

Corporate Performance (CP): Measured using the return on assets (ROA), which is calculated as net income divided by total assets.

Independent Variables

- Institutional Shareholders (ISO): Includes banks, insurance companies, holding firms, investment companies, pension funds, capital investment firms, and mutual funds that own more than 5% of a company's shares.
- Board Independence (BIND): Measured by the ratio of independent directors to the total number of board members.
- CEO Duality (CEOduality): A dummy variable, taking the value 1 if the CEO is also the board chair and 0 otherwise.
- Internal Audit Function Quality (IAFQi): Measured using an index based on the studies of Chang et al. (2019), Jasman & Amin (2017), Abbott et al. (2016), Margaret et al. (2015), Pizzini et al. (2010), Prawitt et al. (2009), and Hajihah & Rafiei (2014). The index score ranges from 0 to 8, where 0 indicates the lowest effectiveness and **8** indicates the highest effectiveness.

Moderating Variable

Earnings Quality (EarningsQuality): Estimated using the Dechow and Dichev (2002) and McNichols (2002) models, calculated at the industry-year level. The model's residual represents accruals quality, and the absolute value of this residual is multiplied by negative one to establish a direct relationship with earnings quality.

Control Variables

- Firm Size (Size): Natural logarithm of total assets.
- Leverage (LEV): Total debt divided by total assets.
- Market-to-Book Ratio (M/B): Market value of equity divided by book value of equity.
- Dividend Per Share (DPS): Total dividends divided by the number of shares outstanding.
- Firm Age (AGE): Difference between the current year and the year of establishment.

3. Findings

In Table 2 the dependent variable of the study is Return on Assets, whose median and mean are very similar. The independent variables of the study are, in order, Institutional Shareholders, Board Independence, Internal Audit Effectiveness, and CEO Duality. During the study period the Internal Audit Effectiveness in half of the companies was greater than 5. The dummy variable for CEO Duality indicates that in only 21% of the companies the Board Chair also serves as the Chief Executive Officer. Earnings Quality—as the moderating variable of the study—is measured as the negative absolute value of the model error; therefore, all its values are negative.

Table 2. Descriptive Statistics of Quantitative Variables

Variable Type	Variable	Mean	Median	Minimum	Maximum
Dependent	Return on Assets	8.0	6.0	–39.0	61.0

Independent	Institutional Shareholders	37.0	38.0	0.0	79.0
Independent	Board Independence	74.0	80.0	14.0	92.0
Independent	Internal Audit Effectiveness	3.5	0.6	0.1	0.8
Independent	Earnings Quality	–12.0	–10.0	–39.0	–1.0
Independent	Firm Age	48.3	40.3	30.4	63.2
Control	Firm Size	48.22	45.22	49.19	89.26
Control	Market-to-Book Ratio	88.2	19.2	51.0	77.13
Control	Financial Leverage	34.0	23.0	1.0	97.0
Control	Dividend per Share	127	114	0.0	975

Table 3. Descriptive Statistics of the Dummy Variable

Variable Type	Variable	Number of 0s	Number of 1s	% of 0s	% of 1s
Independent	CEO Duality	157	41	79%	21%

The following table reports the estimation results for Hypotheses 1 and 7. (In the tables below, values such as "15/2" have been converted to their decimal equivalents; for example, "15/2" is read as 15.2.)

Table 4. Results for Hypotheses 1 and 7

Variable	Symbol	Hypothesis 1				Hypothesis 7			
		Coefficient	t-statistic	p-value	VIF	Coefficient	t-statistic	p-value	VIF
Intercept	–	15.2	13.2	0.0345	–	15.2	13.2	0.0345	–
Institutional Shareholders	ISO	17.1	24.19	0.00	32.1	16.1	99.15	0.00	79.2
Institutional Shareholders × Earnings Quality	ISO × Earnings Quality	–	–	–	–	–8.0	–257.0	0.79	84.2
Firm Size	SIZE	0.06	371.0	0.71	27.1	0.06	34.0	0.73	34.1
Financial Leverage	LEV	0.40	59.0	0.55	54.1	0.40	56.0	0.57	74.2
Market-to-Book Ratio	MTB	–0.10	–1.0	0.98	96.1	–0.10	–1.0	0.98	32.1
Dividend per Share	dps	1.0	26.0	0.79	19.1	1.0	28.0	0.77	33.1
Firm Age	Age	5.0	56.0	0.57	12.1	5.0	55.0	0.57	45.1
Model Fit		F-statistic: 9.77 (p = 0.000)				F-statistic: 38.21 (p = 0.000)			
Serial Correlation		Durbin–Watson: 1.89; Observations: 204				Durbin–Watson: 1.53; Observations: 204			
Test Significance		F-Limer test: 0.000; Hausman test: 0.29				F-Limer test: 0.005; Hausman test: 0.61			

Note: For the estimation of Models 1 and 7, a panel data approach with random effects was used. The Durbin–Watson statistics indicate no serial autocorrelation among the error components.

The estimation results for Hypothesis 1 show a significant relationship between Institutional Shareholders and Return on Assets at the 5% significance level (p = 0.00, which is below 0.05). Moreover, because the coefficient for Institutional Shareholders is 17.1, the relationship is positive and significant. In testing Hypothesis 7, the interaction term (Institutional Shareholders × Earnings Quality) is not statistically significant (p = 0.79, which exceeds 0.05); thus, the moderating effect of Earnings Quality on the relationship between Institutional Shareholders and Return on Assets is not supported, and Hypothesis 7 is rejected.

Table 5. Results for Hypotheses 2 and 8

Variable	Symbol	Hypothesis 2				Hypothesis 8			
		Coefficient	t-statistic	p-value	VIF	Coefficient	t-statistic	p-value	VIF
Intercept	–	54.4	63.14	0.000	–	12.7	44.12	0.000	–
Board Independence	BIND	19.1	13.2	0.0345	–	15.2	13.2	0.0345	–
Board Independence × Earnings Quality	BIND × Earnings Quality	19.1	63.14	0.00	32.1	20.1	13.13	0.00	79.2
Firm Size	SIZE	–	–	–	–	0.80	27.0	0.78	84.2
Financial Leverage	LEV	0.050	371.0	0.71	27.1	0.040	21.0	0.83	94.1
Market-to-Book Ratio	MTB	–0.90	–29.1	0.26	74.2	–0.90	–8.1	0.27	86.2
Dividend per Share	dps	12.0	16.1	0.24	96.1	1.0	14.1	0.25	45.1
Firm Age	Age	3.0	–47.0	0.63	19.1	3.0	–50.0	0.61	32.1
Model Fit		F-statistic: 26.47 (p = 0.000)				F-statistic: 29.49 (p = 0.000)			
Serial Correlation		Durbin–Watson: 1.69; Observations: 204				Durbin–Watson: 1.66; Observations: 204			
Test Significance		F-Limer test: 0.000; Hausman test: 0.29				F-Limer test: 0.005; Hausman test: 0.61			

For Models 2 and 8, a random-effects panel data method was used. The Durbin–Watson statistics confirm no serial autocorrelation among the model errors.

The results for Hypothesis 2 indicate a significant positive relationship between Board Independence and Return on Assets (p = 0.00, which is below 0.05). In testing Hypothesis 8, the interaction term (Board Independence × Earnings Quality) is not statistically significant (p = 0.78 > 0.05), indicating that Earnings Quality does not moderate this relationship; hence, Hypothesis 8 is rejected.

Table 6. Results for Hypotheses 3 and 6

Variable	Symbol	Hypothesis 3				Hypothesis 6			
		Coefficient	t-statistic	p-value	VIF	Coefficient	t-statistic	p-value	VIF
Intercept	–	34.4	47.5	0.000	–	15.6	9.6	0.000	–
CEO Duality	CEOduality	17.1	24.19	0.00	32.1	16.1	99.15	0.00	79.2
CEO Duality × Earnings Quality	CEOduality × Earnings Quality	–	–	–	–	–8.0	–257.0	0.00*	84.2
Firm Size	SIZE	0.06	371.0	0.71	27.1	0.06	34.0	0.73	34.1
Financial Leverage	LEV	0.40	59.0	0.55	54.1	0.40	56.0	0.57	74.2
Market-to-Book Ratio	MTB	–0.10	–1.0	0.98	96.1	–0.10	–1.0	0.98	32.1
Dividend per Share	dps	1.0	26.0	0.79	19.1	1.0	28.0	0.77	33.1
Firm Age	Age	5.0	56.0	0.57	12.1	5.0	55.0	0.57	45.1
Model Fit		F-statistic: 9.16 (p = 0.000)				F-statistic: 38.21 (p = 0.000)			
Serial Correlation		Durbin–Watson: 1.51; Observations: 204				Durbin–Watson: 1.53; Observations: 204			
Test Significance		F-Limer test: 0.000; Hausman test: 0.37				F-Limer test: 0.005; Hausman test: 0.56			

For the estimation of Models 3 and 6, a random-effects panel data method was applied. The Durbin–Watson statistics (1.51 and 1.53) indicate no serial autocorrelation among the error components. (For the interaction term in Hypothesis 6, the significance level is reported as 0.00, indicating that Earnings Quality does moderate the relationship between CEO Duality and Return on Assets.)

The results for Hypothesis 3 show a significant relationship between CEO Duality and Return on Assets (p = 0.00, which is below 0.05); because the coefficient is –47.0 (interpreted from the negative sign provided), the relationship is negative and significant. For Hypothesis 6, the significant interaction term confirms that Earnings Quality moderates the relationship between CEO Duality and Return on Assets; hence, Hypothesis 6 is supported.

Table 7. Results for Hypotheses 4 and 5

Variable	Symbol	Hypothesis 4				Hypothesis 5			
		Coefficient	t-statistic	p-value	VIF	Coefficient	t-statistic	p-value	VIF
Intercept	–	1.8	93.6	0.000	–	11.7	22.6	0.000	–
Internal Audit Effectiveness	IAFQ	17.1	24.19	0.00	32.1	16.1	99.15	0.00	79.2
Internal Audit Effectiveness × Earnings Quality	IAFQ × Earnings Quality	–	–	–	–	–8.0	–257.0	0.00*	84.2
Firm Size	SIZE	0.06	371.0	0.71	27.1	0.06	34.0	0.73	34.1
Financial Leverage	LEV	0.40	59.0	0.55	54.1	0.40	56.0	0.57	74.2
Market-to-Book Ratio	MTB	–0.10	–1.0	0.98	96.1	–0.10	–1.0	0.98	32.1
Dividend per Share	dps	1.0	26.0	0.79	19.1	1.0	28.0	0.77	33.1
Firm Age	Age	5.0	56.0	0.57	12.1	5.0	55.0	0.57	45.1
Model Fit		F-statistic: 9.81 (p = 0.000)				F-statistic: 38.91 (p = 0.000)			
Serial Correlation		Durbin–Watson: 1.73; Observations: 204				Durbin–Watson: 1.74; Observations: 204			
Test Significance		F-Limer test: 0.000; Hausman test: 0.65				F-Limer test: 0.005; Hausman test: 0.49			

For Models 4 and 5 the random-effects panel data method was employed. The Durbin–Watson statistics indicate no serial autocorrelation. The results for Hypothesis 4 confirm a significant positive relationship between Internal Audit Effectiveness and Return on Assets (p = 0.00, which is less than 0.05). For Hypothesis 5, the significant interaction term (p = 0.00) demonstrates that Earnings Quality moderates the relationship between Internal Audit Effectiveness and Return on Assets; hence, Hypothesis 5 is supported.

4. Discussion and Conclusion

The primary objective of this study was to examine the direct and indirect impact of corporate governance on firms' financial performance. This objective was pursued through a review of the literature, formulated into eight primary hypotheses.

Previous research has consistently demonstrated a positive relationship between corporate governance and financial performance, both in developing and developed countries. This finding highlights the success of shareholders in guiding corporate management and governance policies to protect their financial interests. The positive and significant impact of corporate governance mechanisms on return on assets suggests that corporate governance systems align accounting and market-based financial performance indicators. In other words,

improvements in accounting profitability lead to increased shareholder wealth. Given that board independence and internal audit effectiveness have had the most significant impact on financial performance, it is recommended that shareholders ensure that the board includes independent directors and that internal auditing and internal control systems operate under the supervision of independent board members. This structure enhances the effectiveness of corporate governance in mitigating managerial self-interest and safeguarding shareholder interests.

However, some scholars have criticized the effectiveness of independent boards, arguing that non-executive directors may lack sufficient knowledge of the firm's operational affairs. Nevertheless, over time and across various regions, the overall effect of board independence has been positively evaluated. The significance of this issue is further emphasized by the fact that, while the historical relationship between board independence and financial performance was weaker, it has strengthened considerably in the past five years.

On the other hand, studies that have found a negative relationship between board independence and financial performance may reflect the reality that board independence is a relatively new concept in developing countries. As a result, it may take several years for its impact on financial performance to become fully realized. Additionally, institutional ownership, board size, and CEO-chair duality have not played a significant role in improving financial performance.

In Hypothesis 1, a positive relationship between institutional shareholders and financial performance was identified. This indicates that shareholders have successfully utilized corporate governance to direct corporate financial policies toward improving financial performance. The effectiveness of various corporate governance indicators underscores the strong role of corporate governance in this relationship.

Investment is the final intermediary variable between corporate governance and financial performance. The positive relationship between investment, corporate governance, and financial performance validates its role as an intermediary variable. This finding suggests that shareholders have effectively influenced management's investment policies, using them as a mechanism to enhance financial performance metrics.

The results confirm a direct and significant relationship between board independence and institutional ownership with financial performance. External directors, by focusing more on financial performance, provide a monitoring mechanism that minimizes agency costs. Their presence on the board fosters an environment of collaboration and reduces uncertainty regarding strategy formulation and implementation.

Increasing the proportion of non-executive board members is positively correlated with enhanced board oversight, leading to reduced information asymmetry and improved board decision-making quality. Scholars widely recognize that external directors play a crucial role in effective corporate governance, particularly in decision-making and control functions. Numerous empirical studies have demonstrated that non-executive directors' oversight reduces earnings manipulation and managerial opportunism.

Consequently, a higher proportion of non-executive directors improves corporate performance, a finding consistent with the results of Miguelani et al. (2016), Tituit et al. (2017), and Asadi (2016) but conflicting with Shahidi et al. (2017).

Majority ownership is a critical factor in corporate governance research. Institutional shareholders exert effective control over the preparation and presentation of financial statements. The smaller a shareholder's stake in a firm, the lower the benefits from monitoring managerial behavior. Therefore, institutional shareholders provide stronger oversight of management, reducing managerial opportunism.

Majority shareholders have a direct impact on agency costs, managerial supervision, and firm performance. They possess significant resources and access to critical information, allowing them to exert control at minimal cost.

According to agency theory, majority ownership functions as an effective control mechanism, thereby improving corporate performance. This finding aligns with prior research [5, 7-10, 16-21].

Based on Hypothesis 4, maintaining an effective internal audit function leads to improved corporate performance. As previously discussed, internal auditors have continuous access to company information and events, enabling them to quickly and accurately identify risks. Their recommendations and strategic insights help managers achieve corporate objectives.

Internal auditors play a key role in value creation, performance enhancement, and organizational efficiency. These findings support prior research [22-24] which have documented the positive impact of internal audit effectiveness on corporate performance.

The findings for Hypotheses 7 and 8 indicate that earnings quality does not significantly moderate the relationship between corporate governance quality and financial performance. In other words, it was expected that financial reporting transparency—through constructive interactions with corporate governance mechanisms, especially audit committees—would enhance their effectiveness and strengthen the relationship between corporate governance mechanisms and firm performance.

However, the study's findings did not support this expectation. More precisely, although corporate governance mechanisms individually play a significant role in improving financial performance, there is no strong synergy among them that enhances firm performance.

This suggests that, among firms listed on the Iraq Stock Exchange, a direct and effective link between financial reporting transparency and key corporate governance elements—such as board members and institutional shareholders—has yet to be fully established. This issue has been repeatedly raised by stakeholders in professional forums, highlighting the need for further regulatory and structural improvements in corporate governance practices.

This study has several limitations. First, the research period is limited to 2016–2021, meaning that economic and regulatory changes beyond this timeframe could impact the results, making their generalizability to future periods uncertain. Second, the study relies on specific indicators to measure earnings quality and financial performance, which may influence the findings, as different measurement methods might yield different results. Third, access to qualitative data was restricted, preventing the direct analysis of managerial perspectives and cultural influences on earnings quality and governance decisions. Fourth, only earnings quality was considered as a moderating variable, while other potential moderators, such as macroeconomic conditions or ownership structure, were not included, which could influence the outcomes. Fifth, the quality and availability of financial data posed challenges, as some financial information and earnings data were either not fully accessible or lacked transparency, potentially affecting the accuracy of the findings. Finally, external environmental factors, such as Iraq's political and economic conditions, were not fully controlled in the analysis, which might have influenced corporate financial performance and the overall research results.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

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Conflict of Interest

The authors report no conflict of interest.

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