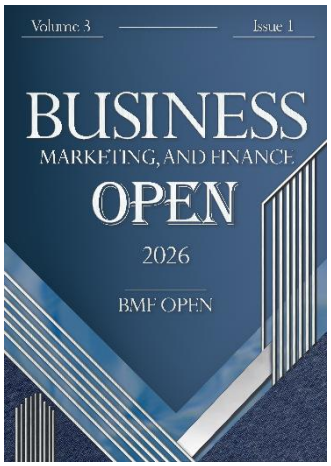
Investigating the Impact of Corporate Governance mechanisms on Financial Performance in Financial Reports in Iraq

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



[1] Department of Accounting, Isf.C., Islamic Azad University, Isfahan, Iran;
[2] Department of Accounting, Isf.C., Islamic Azad University, Isfahan, Iran;
[3] Assistant Professor, Accounting Department, Najaf Branch (Iraq), University of Kufa, Najaf, Iraq;
[4] Department of Accounting, Isf.C., Islamic Azad University, Isfahan, Iran;

* Correspondence: mohsen.dastgir@iau.ac.ir

Abstract: The aim of this study was to investigate the effect of corporate governance mechanisms on financial performance in companies listed on the Iraqi Stock Exchange. In the present study, data related to testing the research hypotheses were collected by referring to the Central Bank of Iraq and the audited financial statements of companies listed on the Baghdad Stock Exchange and referring to the website www.isx-iq.net. The statistical population of this study was all companies listed on the Baghdad Stock Exchange in the period 2016-2021. The systematic elimination method was used for sampling. The statistical analysis was carried out to estimate the research model using multiple regression, which used Excell and Eviews software in this regard, and the models were estimated using random and fixed effects of panel data and ordinary least squares methods. Using data from listed companies for the country of Iraq, the first to sixth hypotheses are confirmed. The results showed that, in accordance with the theoretical foundations, the percentage of institutional shareholders, board independence and internal audit effectiveness have a positive and significant effect on performance. However, CEO ambivalence reduces performance.

Citation: Naser Jasim Alghaith, H., Dastgir, M., Hamza Habeeb Almagtome, A., & Ali Ahmadi, S. (2026). Investigating the Impact of Corporate Governance mechanisms on Financial Performance in Financial Reports in Iraq . *Business, Marketing, and Finance Open*, 3(1), 1-13.

Received: 01 May 2025
Revised: 19 August 2025
Accepted: 25 August 2025
Published: 01 January 2026

Keywords: Corporate governance mechanisms, financial performance, listed companies on the Iraqi Stock Exchange

1. Introduction

Corporate governance has emerged as one of the most vital mechanisms for ensuring accountability, transparency, and sustainable financial performance within modern corporations. The global business environment has increasingly recognized that governance structures are not merely compliance-driven frameworks but strategic enablers that enhance firm value, stakeholder trust, and long-term competitiveness [1]. In developing and emerging economies, where institutional voids and regulatory inefficiencies often pose challenges, the importance of effective corporate governance becomes even more pronounced [2]. Over the past two decades, a growing body of literature has sought to explain the relationship between governance mechanisms and financial performance, yet the findings remain mixed due to variations in ownership structures, cultural contexts, and institutional development across regions [3].

Two dominant theories shape much of the scholarly discourse on corporate governance: agency theory and stakeholder theory. Agency theory emphasizes the conflicts of interest between managers (agents) and shareholders (principals), highlighting governance mechanisms such as board monitoring, institutional ownership, and executive compensation as tools to mitigate opportunism [4]. Stakeholder theory, on the other hand, broadens the scope by considering the firm's responsibility toward a wider range of stakeholders, including employees, creditors, customers, and society at large [5]. Both perspectives underscore that effective governance frameworks can reduce opportunistic behavior, minimize agency costs, and align managerial actions with long-term value creation [6].

Governance research also reflects the increasing emphasis on non-financial performance measures, particularly in relation to corporate social responsibility (CSR) and environmental, social, and governance (ESG) disclosures. These elements highlight the evolving role of governance beyond financial metrics and its implications for sustainable development [1, 7].

The adoption and effectiveness of corporate governance practices vary widely across developed and emerging markets. In mature economies, regulatory frameworks and enforcement mechanisms provide robust foundations for governance. However, in developing contexts such as Iraq, Nigeria, and Vietnam, corporate governance still faces structural and institutional challenges [8, 9]. For example, weak investor protection, concentrated ownership structures, and underdeveloped regulatory regimes limit the ability of governance reforms to fully translate into improved performance [10].

Nevertheless, the diffusion of global governance standards, including recommendations from the OECD and international capital markets, has exerted pressure on firms in emerging economies to align with best practices [11]. The convergence of governance mechanisms across different institutional settings has been noted, though significant contextual variations remain [12]. This highlights the importance of country-specific studies, particularly in regions like Iraq, where governance codes are relatively new and still evolving [13].

A wide array of governance mechanisms has been studied in relation to financial performance. Board structure and composition remain among the most widely examined dimensions. Evidence suggests that independent directors enhance oversight, reduce information asymmetry, and strengthen accountability [14, 15]. However, excessive board independence without sufficient contextual knowledge can sometimes limit strategic effectiveness, particularly in developing economies [16]. Board committees, especially audit committees, play a complementary role by reinforcing financial transparency and curbing earnings management [17].

Institutional ownership is another critical governance dimension. Large institutional investors have both the incentives and resources to monitor management more effectively than dispersed shareholders, thus reducing agency costs and enhancing performance [18]. Similarly, concentrated ownership structures, while potentially risky in terms of expropriation of minority shareholders, can also create strong incentives for controlling shareholders to ensure firm success [19].

CEO duality—the simultaneous holding of the CEO and chairperson roles—has been widely debated. While proponents argue it allows for unified leadership, critics contend it weakens board oversight and increases the risk of managerial entrenchment [4, 20]. Recent studies suggest that separating these roles often strengthens accountability and improves financial outcomes [16].

Internal audit quality is another crucial governance mechanism. Strong internal audit functions enhance the reliability of financial statements, reduce the likelihood of fraud, and strengthen overall control systems [17]. Firms

with robust audit mechanisms not only achieve better financial reporting quality but also gain investor confidence, which can lead to improved access to capital markets [21].

Similarly, studies have highlighted the importance of institutional and cultural contexts in shaping governance outcomes. Comparative analyses demonstrate that while governance reforms in emerging economies often mirror global practices, their implementation and effectiveness depend heavily on local legal frameworks, enforcement capacity, and ownership structures [22, 23].

Beyond financial performance, corporate governance has been increasingly linked to social and ethical dimensions. The growing recognition of ESG factors emphasizes that governance mechanisms influence not only shareholder wealth but also corporate responsibility toward environmental sustainability, social equity, and ethical business practices [1]. This evolution reflects a shift in corporate objectives from short-term profit maximization toward long-term value creation across multiple stakeholders [5].

Moreover, governance affects transparency and disclosure quality, which are critical for maintaining investor trust and efficient market functioning [19]. Empirical evidence suggests that firms with strong governance frameworks are more likely to provide voluntary disclosures, thereby reducing information asymmetry and cost of capital [6].

In the Iraqi context, corporate governance remains a relatively new and evolving concept. The emergence of governance reforms has been driven largely by the need to attract foreign investment, enhance financial reporting standards, and rebuild institutional trust in post-conflict reconstruction efforts [13]. However, weak regulatory enforcement, concentrated ownership, and political instability pose significant challenges to governance effectiveness. These conditions underscore the importance of empirical studies that examine how specific governance mechanisms—such as institutional ownership, board independence, CEO duality, and internal audit quality—affect financial performance in Iraq's listed companies .

The Iraqi Stock Exchange (ISX), despite its relatively young history, has increasingly emphasized governance compliance as a prerequisite for attracting both domestic and international investors. Nevertheless, gaps remain between formal governance codes and actual practices, making it essential to investigate the extent to which governance structures influence firm outcomes in this market.

While extensive research has been conducted on the governance-performance nexus in developed and emerging economies, relatively little is known about this relationship in Iraq. Existing studies from countries such as Nigeria [8, 23], Vietnam [9], and India [16] reveal diverse findings, reflecting the importance of institutional environments. Iraq presents a unique case due to its transitional economy, high levels of political and economic uncertainty, and nascent corporate governance structures.

By focusing on firms listed on the Iraqi Stock Exchange, this study contributes to filling a significant gap in the literature. It empirically examines the role of institutional ownership, board independence, CEO duality, and internal audit effectiveness in shaping financial performance, measured through return on assets.

2. Methodology

This research is descriptive-correlational in nature and quasi-experimental in methodology and is in the field of post-event and affirmative accounting research. This research is conducted using real data, and since it can be used in the process of using information, it is considered a type of applied research.

In this study, the present study seeks to investigate the impact of corporate governance mechanisms on the financial performance of companies listed on the Iraqi Stock Exchange. Therefore, for this purpose, the following regression model is used to test the research hypotheses.

Model 1:

$$\boldsymbol{CP}_{it} = a_0 + a_1 \mathrm{ISO}_{it} + a_2 \mathrm{Size}_{it} + a_3 \mathrm{LEV}_{it} + a_4 M.B_{it} + a_5 \mathrm{DPS}_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Dependent variable:

Company performance (CP)

To calculate this variable, the company's return on assets ratio was used, which is calculated as follows:

$$\mathrm{ROA} = \frac{Net\ Profit}{Assets}$$

Independent variable:

Institutional shareholders (ISO)

Banks and insurance companies, -holding companies, investment companies, pension funds, investment companies and investment funds, which buy more than 5% of the company's shares, has been used as institutional ownership.

Control variables:

Company size (Size):

This variable is calculated through the natural logarithm of the company's assets.

Leverage (LEV):

Financial leverage is calculated by dividing the company's liabilities by the company's assets.

Market value to book value ratio (M.B):

This variable is calculated by dividing the market value by the book value of the shares.

Dividends (DPS):

The amount of dividends paid by companies in different years that are recorded in the financial statements.

Company age (AGE):

This variable is calculated from the difference between the year the company was founded and the year under study.

Model 2:

$$\boldsymbol{CP}_{it} = a_0 + a_1 \mathrm{BIND}_{it} + a_2 \mathrm{Size}_{it} + a_3 \mathrm{LEV}_{it} + a_4 M.B_{it} + a_5 \mathrm{DPS}_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Dependent variable:

Same as the first model

Independent variable:

Board independence (BIND)

Board independence will be obtained by dividing non-executive members by total board members

Control variables:

Same as model 1.

Model 3:

$$\boldsymbol{CP}_{it} = a_0 + a_1 \text{CEO}duality_{it} + a_2 \text{Size}_{it} + a_3 \text{LEV}_{it} + a_4 M.B_{it} + a_5 \text{DPS}_{it} + a_6 Age_{it} + \varepsilon_{it}$$

Dependent variable:

Same as model 1

Independent variable:

CEO duality

If the CEO is a member of the board of directors, the number is one, otherwise zero.

Control variables:

Same as model 1

Model 4:

$$\boldsymbol{CP}_{it} = a_0 + a_1 \text{IAFQi}_{\ it} + a_3 \text{Size}_{it} + a_4 \text{LEV}_{it} + a_5 M.B_{it} + a_6 \text{DPS}_{it} + a_7 Age_{it} + \varepsilon_{it}$$

Dependent variable:

Same as the first model

Independent variable:

Internal audit effectiveness (IAFQi)

In the present study, in order to evaluate the effectiveness of internal audit, the research of Chang et al. (2019), Jasman and Amin (2017), Abbott et al. (2016), Margaret et al. (2015), Pizzini et al. (2010), Pravit et al. (2009), and Hajiha and Rafiei (2014) was used. The value of this score can be zero to eight. A score of zero indicates the lowest effectiveness and a score of eight indicates the highest effectiveness. The following eight criteria were used to measure the effectiveness of internal audit:

- Experience
- Certification
- Training
- Size of internal audit unit
- Weaknesses in internal controls
- Resources
- Expertise
- Membership
- Internal audit manual

Each company is given a score of zero or one for each of the eight indicators above. Then, the total score obtained for each company is divided by eight to obtain the percentage of internal auditor effectiveness.

IAEn = Xit

Experience: Calculate the average number of years of experience of internal auditors working in the internal audit unit for each company and then calculate the average of the entire sample for this indicator. If the average

obtained for this indicator in each company is greater than the average of the entire sample, it takes the value of one, otherwise it takes the value of zero;

Qualification: If two-thirds of the internal audit unit employees have an accounting or auditing degree, it takes the value of one, otherwise it takes the value of zero;

Training: If companies provide in-service training for internal audit unit employees, it takes the value of one, otherwise it takes the value of zero;

Size of the internal audit unit: Calculate the ratio of the number of internal audit unit employees to the total number of employees in each company and then calculate the average of the entire sample for this indicator. If the ratio obtained for each company is greater than or equal to the average of the entire sample, it takes the value of one, otherwise it takes the value of zero.

Weakness in internal controls: If the independent auditor has not mentioned weaknesses in internal controls in his report, the number is one, otherwise the number is zero. Sources We calculate the average annual operating costs of the internal auditor for the entire sample. If the annual operating cost of each company is greater than or equal to the average of the entire sample, the number is one, otherwise the number is zero.

Expertise: If the internal auditor has at least three years of experience working in an accounting or financial institution, the number is one, otherwise the number is zero.

Membership: If the internal auditor is a member of the Society of Certified Public Accountants or the Iraqi Association of Internal Auditors, the number is one, otherwise the number is zero.

To collect information about the effectiveness of the internal auditor, the financial statements, the auditor's report, independent reports of the board of directors, and the companies' information sites were used.

Control variables:

Same as the first model

Hypothesis 1: The percentage of institutional shareholders has a positive and significant effect on company performance.

Hypothesis 2: The independence of the board of directors has a positive and significant effect on company performance.

Hypothesis 3: The duality of the CEO's job has a negative and significant effect on company performance.

Hypothesis 4: The effectiveness of internal audit has a positive and significant effect on company performance.

The population of this study is the companies listed on the Iraqi Stock Exchange during the years 2016 to 2021. The sample of this study, given its subject, is of the type of exclusion sampling in which the selected companies are selected from a set of companies listed on the Iraqi Stock Exchange, according to the limitations mentioned below:

In order to make the information comparable, the end of the companies' fiscal year ends at the end of December and there has been no change in the fiscal year during the research period.

In order to ensure homogeneity of information, companies should not be banks and credit institutions, insurance and other financial intermediaries.

Information on the variables selected in this study should be available.

Companies should not have a consecutive trading break of more than 6 months during this period.

Companies should have been admitted to the Baghdad Stock Exchange before 2016 and should not have left the Baghdad Stock Exchange during the research period.

Applying the above conditions, the process of determining the sample size is presented in Table 1 below:

Table 1. Determining the statistical sample size

Row	Description	Number of companies
1	Number of companies listed on the Baghdad Stock Exchange at the end of 2021	134
2	Companies in the financial intermediation, holding, and banking and insurance industries	(68)
3	Companies for which the information required for this study is not available.	(33)
4	Companies whose fiscal year does not end at the end of December or have changed their fiscal year during the study period	0
5	Companies listed on the Stock Exchange during the study period	0
Statistical sample size		33

Due to the nature of the research, two methods of document mining and library are used to collect information and data. The library method is used to conduct preliminary studies and compile theoretical foundations and research literature by referring to books, journals, theses and articles, and the document mining method is used to collect data related to testing research hypotheses by referring to the Central Bank of Iraq and the audited financial statements of companies listed on the Baghdad Stock Exchange and referring to the website www.isx-iq.net.

In the first step, in order to measure and test hypotheses, we will start with descriptive data analysis. This analysis is the mean (central index), standard deviation (dispersion index) and minimum and maximum values of variables. Before testing the hypotheses, the data were tested as pooled or panel type, which was determined by the F-limer test. Panel or mixed data are data that are a combination of time series data and cross-sectional data. The advantage of using the panel method is to increase the statistical power of the coefficients compared to using separate analysis of statistical data in the form of time series or cross-sectional. After determining the type of data, the Hausman test was used to determine the type of their effects.

3. Findings and Results

Table 2 shows the correlation between research variables at the 5% error level. The results of this table show that there is a positive and significant effect between the dependent variable (return on equity) and the independent variables of institutional shareholders, board independence and audit effectiveness, and a negative and significant effect with the independent variable of CEO ambivalence. Significant relationships in this table are presented as *.

Table 2. Correlation of research variables

Variables	ROA	ISO	BIND	CEOd	IAFQ	size	Lev	MTB	dps	Age
ROA	1									
ISO	0.80 *	1								
BIND	0.70*	0.19*	1							
CEOd	-0.58*	-0.21	0.05	1						
IAFQ	0.74*	-0.05	-0.18	0.09	1					
size	0.04	-0.02	-0.06	0.03	0.008	1				
Lev	-0.11	0.12	-0.01	0.14	-0.03	-0.01	1			

MTB	0.01	-0.02	0.23	0.004	0.09	0.11	0.09	1	
dps	0.01	-0.27	-0.20	-0.11	0.10	0.19	-0.39		1
Age	0.05								

The results of estimating the first research hypothesis are as follows in Table (3).

Table 3. Summary of statistical test results for first hypothesis

Variable	Coefficients	t-statistics	Significance level	VIF
Fixed Amount	2.15	2.13	0.0345	-
Institutional Shareholders	1.17	19.24	0.00	1.32
Institutional Shareholder*	-	-	-	-
Size	0.006	0.371	0.71	1.27
Leverage	0.04	0.59	0.55	1.54
Market-to-Book Value	-0.001	-0.01	0.98	1.96
Dividends	0.01	0.26	0.79	1.19
Firm Age	0.05	0.56	0.57	1.12
F-statistical significance level		0.000		
Adjusted coefficient of determination	0.64			
Durbin–Watson	1.89			

The results of estimating the second hypothesis of the research are as follows in Table (4).

Table 4. Summary of statistical results of the test for second hypothesis

Variable	Coefficients	t-statistics	Significance level	VIF
Fixed Amount	2.15	2.13	0.0345	-
Board Independence	1.19	14.63	0.000	1.32
Board Independence *	-	-	-	-
Size	0.005	0.371	0.71	1.27
Financial Leverage	-0.09	-1.29	0.26	2.74
Market to Book Value	0.012	1.16	0.24	1.96
Dividends	-0.03	-0.47	0.63	1.19
Firm Age	-0.01	-0.15	0.87	1.12
F-statistical significance level		0.000		
Adjusted coefficient of determination	0.51			
Durbin–Watson	1.66			

The results of estimating the third hypothesis of the research are as follows in Table (5).

Table 5. Summary of statistical results of the test for third hypothesis

Variable	Coefficients	t-statistics	Significance level	VIF
Fixed Amount	2.15	2.13	0.03	-
CEO Duality	-0.47	-10.3	0.00	1.32
CEO Duality *	-	-	-	-
Size	0.003	0.15	0.88	1.27
Leverage	-0.07	-0.75	0.45	2.74
Market-to-Book Value	0.007	0.638	0.52	1.96
Dividends	-0.04	-0.50	0.61	1.19
Firm Life	0.03	0.32	0.74	1.12

F-statistical significance level Adjusted coefficient of determination 0.34 Durbin–Watson1.51	0.000

The results of estimating the fourth hypothesis of the research are as follows in Table (6).

Table 6. Summary of statistical results of the test for four hypotheses

Variable	Coefficients	t-statistics	Significance level	VIF
Fixed Amount	2.15	2.13	0.03	-
Internal Audit Effectiveness	-0.47	-10.3	0.00	1.32
Internal Audit Effectiveness	-	-	-	-
Size	0.003	0.15	0.88	1.27
Financial Leverage	-0.07	-0.75	0.45	2.74
Market-to-Book Value	0.007	0.638	0.52	1.96
Dividends	-0.04	-0.50	0.61	1.19
Firm Life	0.03	0.32	0.74	1.12
F-statistical significance level		0.000		
Adjusted coefficient of determination 0.67				
Durbin–Watson1.73				

According to the Durbin-Watson statistic, there is no serial correlation between the errors and the VIF value for all variables is less than 5, so there is no collinearity between the research variables.

Hypothesis 1: The results of this table indicate the existence of a significant relationship between institutional shareholders and return on assets at the 5% error level and is. Because the p-value calculated for the coefficient of this independent research variable is 0.00 and is less than 0.05. Therefore, the first hypothesis for the relationship between institutional shareholders and return on assets is confirmed. Since the coefficient of the institutional shareholders variable is 1.17, the relationship obtained is a direct and significant relationship.

Hypothesis 2: The results of this table indicate the existence of a significant relationship between board independence and return on assets at the 5% error level and is. Because the p-value calculated for the coefficient of this independent research variable is 0.00 and is less than 0.05. Therefore, the second hypothesis for the relationship between board independence and return on assets is confirmed. Since the coefficient of the board independence variable is 1.19, the relationship obtained is a direct and significant relationship.

Hypothesis 3: The results of this table indicate the existence of a significant relationship between CEO duality and return on assets at the 5% error level and is. Because the p-value calculated for the coefficient of this independent variable of the research is 0.00 and is less than 0.05. Therefore, the third hypothesis for the relationship between CEO duality and return on assets is confirmed. Since the coefficient of the CEO duality variable is -0.47, the relationship obtained is an inverse and significant relationship.

Hypothesis 4: The results of this table indicate the existence of a significant relationship between internal audit effectiveness and return on assets at the 5% error level and is. Because the p-value calculated for the coefficient of this independent variable of the research is 0.00 and is less than 0.05. Therefore, the fourth hypothesis for the relationship between board independence and return on assets is confirmed. Since the coefficient of the internal audit effectiveness variable is 0.12, the relationship obtained is a direct and significant relationship.

4. Discussion and Conclusion

The present study investigated the impact of corporate governance mechanisms—including institutional ownership, board independence, CEO duality, and internal audit effectiveness—on the financial performance of firms listed on the Iraqi Stock Exchange between 2016 and 2021. The empirical results demonstrate that institutional shareholders, board independence, and internal audit quality exert positive and significant effects on firm performance, measured by return on assets, while CEO duality exerts a negative and significant effect. These findings confirm theoretical expectations derived from agency theory and stakeholder theory, which suggest that strong monitoring and oversight mechanisms enhance managerial accountability, reduce agency costs, and promote sustainable financial outcomes [4, 5].

The first hypothesis, which posited that institutional ownership positively influences firm performance, was strongly supported. The statistical results show that firms with higher levels of institutional shareholders report better financial performance. This outcome aligns with the argument that institutional investors possess both the resources and incentives to monitor managerial behavior, thereby mitigating opportunistic actions and reducing agency costs [18]. Such investors typically demand high levels of transparency and accountability, leading to improved strategic decision-making and efficient allocation of resources [8].

This result is consistent with prior studies conducted in emerging markets, which highlight the disciplining role of institutional investors. For instance, research in Nigeria and South Africa found that institutional ownership significantly enhances monitoring efficiency and constrains managerial opportunism [12, 23]. Similarly, evidence from Vietnam indicates that greater institutional ownership reduces the likelihood of stock price crashes by curbing managerial rent-seeking behavior [9]. Within the Iraqi context, where ownership concentration is common and external monitoring mechanisms are weak, the active role of institutional investors may be particularly important in sustaining firm performance [13].

Theoretically, this relationship is also reinforced by agency theory, which emphasizes that concentrated institutional ownership reduces free-rider problems associated with dispersed shareholders [4]. Moreover, stakeholder theory underscores the broader responsibility of institutional investors to safeguard not only shareholder interests but also the long-term sustainability of firms [6]. The findings thus confirm that institutional shareholding is an effective governance tool for promoting financial performance in Iraq's transitional market.

The second hypothesis confirmed that board independence significantly improves firm performance. The results reveal that firms with higher proportions of independent, non-executive directors report greater returns on assets, suggesting that independent boards are better equipped to monitor management, reduce information asymmetry, and ensure accountability. This outcome resonates with earlier findings in both developed and emerging markets [14, 15].

Independent directors contribute to governance by offering objective oversight and limiting the dominance of controlling shareholders or entrenched managers [11]. Empirical evidence from India confirms that greater board independence enhances firm performance, particularly in environments with weak legal enforcement [16]. Similarly, studies across developed European economies and the UK also emphasize that independent boards improve decision-making efficiency and strengthen the strategic direction of firms [10].

Nonetheless, the literature also cautions that independence alone may not guarantee improved outcomes. Excessive independence without industry-specific expertise can limit the ability of directors to make informed decisions [3]. However, within the Iraqi context, the positive and significant association suggests that independent directors provide much-needed monitoring, especially where external institutions are less effective. This finding

corroborates the convergence thesis, which posits that governance practices across emerging and developed markets are becoming more aligned, though local institutional characteristics shape their effectiveness [12].

The third hypothesis revealed a significant negative relationship between CEO duality and firm performance. Firms in which the CEO simultaneously served as the board chair reported lower financial performance, underscoring the risks of concentrated decision-making authority. This finding is consistent with the agency theory argument that CEO duality reduces board independence and weakens the board's ability to monitor management effectively [4].

This result resonates with prior international evidence. Studies have shown that CEO duality often leads to managerial entrenchment, opportunistic behaviors, and diminished shareholder value [5, 16]. By consolidating power, CEOs with dual roles can manipulate board decisions, delay corrective actions, and reduce transparency. Conversely, separating the roles of CEO and board chair enhances accountability and ensures that strategic oversight remains independent from executive management [18].

Interestingly, some literature argues that CEO duality may, in certain contexts, provide unified leadership and facilitate quicker decision-making during crises [6]. However, in Iraq's fragile institutional environment, the risks of power concentration appear to outweigh potential benefits, leading to poorer performance outcomes. This aligns with recent studies in emerging economies, which suggest that CEO duality exacerbates governance weaknesses and undermines firm performance [22].

The fourth hypothesis confirmed that the effectiveness of internal audit functions exerts a positive and significant effect on financial performance. Firms with stronger internal audit mechanisms demonstrated higher returns on assets, highlighting the critical role of auditing in enhancing transparency and accountability. This result is consistent with studies that emphasize the importance of internal audit attributes, such as expertise, independence, and resource allocation, in strengthening internal controls [17].

Effective internal audit systems not only improve financial reporting quality but also reduce fraud risk and increase investor confidence [21]. For example, research in emerging economies shows that firms with robust audit mechanisms are better able to mitigate agency problems and improve stakeholder trust [2]. Similarly, evidence from European and Asian markets confirms that strong audit committees and internal audit units are positively associated with firm performance [15, 19].

The results also support the stakeholder perspective, which posits that internal auditing serves as a governance mechanism not only to safeguard shareholder interests but also to ensure ethical responsibility toward broader stakeholder groups [1]. In the Iraqi context, where external enforcement remains weak, internal audit effectiveness plays a particularly pivotal role in sustaining firm credibility and financial stability.

Overall, the findings of this study are consistent with a broad stream of international literature linking corporate governance mechanisms with financial performance. They align with prior research that underscores the value of independent boards [14], institutional investors [8, 23], and strong auditing systems [17], while cautioning against CEO duality [16].

Theoretically, these results reinforce both agency and stakeholder perspectives by demonstrating how effective governance mechanisms mitigate managerial opportunism, enhance transparency, and promote sustainable performance [5, 6]. They also provide empirical evidence supporting the convergence of governance practices across different institutional contexts [12]. Importantly, in Iraq, where corporate governance remains at an early stage of development, these mechanisms play a particularly crucial role in addressing institutional voids and safeguarding investor confidence.

Despite its contributions, this study is not without limitations. First, the research relies on secondary financial data from firms listed on the Iraqi Stock Exchange, which may not fully capture qualitative aspects of governance practices such as board dynamics, ethical culture, or informal monitoring mechanisms. Second, the study period (2016–2021) may not fully reflect long-term structural changes in governance, especially considering the political and economic volatility of Iraq. Third, the focus on financial performance measured by return on assets provides valuable insights but excludes other dimensions such as market-based indicators or non-financial performance outcomes (e.g., ESG performance). Fourth, the exclusion of financial institutions (banks, insurance, etc.) from the sample means that the findings may not be generalizable to all sectors of the Iraqi economy. Finally, while regression methods addressed key relationships, potential endogeneity issues such as reverse causality between governance and performance remain a challenge.

Future studies should seek to expand the scope of corporate governance research in Iraq and comparable emerging economies. First, qualitative approaches such as interviews or case studies could complement quantitative findings by exploring boardroom dynamics, decision-making processes, and informal governance practices. Second, future research could investigate governance-performance links across different sectors, including banks and insurance firms, to capture a more comprehensive view of governance in Iraq. Third, incorporating market-based indicators such as Tobin's Q or stock returns would provide additional insights into how governance mechanisms influence investor perceptions. Fourth, examining the moderating or mediating role of contextual variables—such as political instability, regulatory reforms, or cultural dimensions—would enrich understanding of governance effectiveness. Finally, comparative cross-country studies involving Iraq and other developing nations could shed light on institutional convergence or divergence in governance practices.

For policymakers and practitioners, the findings offer several practical implications. Regulators should prioritize strengthening governance frameworks by mandating higher levels of board independence and ensuring the separation of CEO and chair roles. Companies should enhance internal audit capacity through adequate resourcing, training, and independence, recognizing its vital role in sustaining performance. Institutional investors, both domestic and foreign, should be encouraged to play a more active monitoring role, which could be facilitated through shareholder protection reforms. Corporate managers should embrace governance not as a compliance requirement but as a strategic asset that enhances trust, resilience, and competitiveness. Finally, in Iraq's capital market, promoting governance best practices is critical for attracting investment, improving firm value, and building confidence among stakeholders.

Authors' Contributions

Authors equally contributed to this article.

Ethical Considerations

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

Acknowledgments

Authors thank all participants who participate in this study.

Conflict of Interest

The authors report no conflict of interest.

Funding/Financial Support

According to the authors, this article has no financial support.

References

[1] M. D. D. C. Sepulveda-Nuñez, C. Fong Reynoso, and I. Llamosas-Rosas, "Board of directors effect on environmental, social and governance performance in publicly traded non-financial firms," *Corporate Governance,* vol. ahead-of-print, no. ahead-of-print, 2024, doi: 10.1108/CG-09-2023-0409.

[2] B. Mahmudi, "Corporate Governance Mechanisms and Financial Performance: A Systematic Literature Review in Emerging Markets," *Productivity,* vol. 1, no. 3, pp. 270-285, 2024, doi: 10.62207/gqtv4c76.

[3] M. Pagano and L. Picariello, "Corporate Governance, Meritocracy, and Careers," *Review of Finance,* 2024, doi: 10.1093/rof/rfae042.

[4] H. Demsetz and B. Villalonga, "Ownership structure and corporate performance," *Journal of corporate finance,* vol. 7, pp. 209-233, 2017, doi: 10.1016/S0929-1199(01)00020-7.

[5] J. Harrison and A. Wicks, "Stakeholder theory, value, and firm performance," *Business Ethics Quarterly,* vol. 23, no. 1, pp. 97-124, 2020, doi: 10.5840/beq20132314.

[6] Q. L. Huynh, "A Triple of Corporate Governance, Social Responsibility and Earnings Management," *Journal of Asian Finance, Economics, and Business,* vol. 7, no. 3, pp. 29-40, 2020, doi: 10.13106/jafeb.2020.vol7.no3.29.

[7] P. G. Shu and S. J. Chiang, "The impact of corporate governance on corporate social performance: Cases from listed firms in Taiwan," *Pacific-Basin Finance Journal,* vol. 61, pp. 1-20, 2020, doi: 10.1016/j.pacfin.2020.101332.

[8] B. S. Adedeji, M. Uzir, H. U, M. M. Rahman, and I. Jerin, "Corporate governance and nonfinancial performance of medium-sized firms in Nigeria: a CB-SEM approach," *Indian Journal of Corporate Governance,* vol. 13, no. 1, pp. 1-13, 2019.

[9] V. C. Dang and Q. K. Nguyen, "Internal corporate governance and stock price crash risk: Evidence from Vietnam," *Journal of Sustainable Finance & Investment,* vol. 14, no. 1, pp. 24-41, 2024, doi: 10.1080/20430795.2021.2006128.

[10] C. Weir, D. Laing, and P. J. McKnight, "Internal and external governance mechanisms: their impact on the performance of large UK public companies," *Journal of Business Finance Accounting,* vol. 29, no. 5.6, pp. 579-611, 2021, doi: 10.1111/1468-5957.00444.

[11] D. Nordberg and R. Booth, "Evaluating the effectiveness of corporate boards," *Corporate Governance: The International Journal of Business in Society,* vol. 19, no. 2, pp. 372-387, 2019, doi: 10.1108/CG-08-2018-0275.

[12] C. Lattemann, "On the convergence of firm performance practices in emerging markets," *International Journal of Emerging Markets,* vol. 9, no. 2, pp. 316-332, 2019, doi: 10.1108/IJoEM-06-2013-0093.

[13] M. Wau, "Financial Risk, Corporate Governance, and Financial Performance: An Empirical Study on Bank Indonesia," *Jurnal Akuntansi Keuangan Dan Bisnis,* vol. 16, no. 2, pp. 179-188, 2023, doi: 10.35143/jakb.v16i2.6139.

[14] H. B. Barka and F. Legendre, "Effect of the board of directors and the audit committee on firm performance: a panel data analysis," *Journal of Management & Governance,* vol. 21, no. 3, pp. 737-755, 2016, doi: 10.1007/s10997-016-9356-2.

[15] H. Zhou, S. Owusu-Ansah, and A. Maggina, "Board of directors, audit committee, and firm performance: evidence from," 2018, doi: 10.1016/j.intaccaudtax.2018.03.002.

[16] A. Arora and C. Sharma, "Corporate governance and firm performance in developing countries: evidence from India," *Corporate Governance,* vol. 16, no. 2, pp. 420-436, 2021, doi: 10.1108/CG-01-2016-0018.

[17] Y. T. Chang, H. Chen, R. K. Cheng, and W. Chi, "The impact of internal audit attributes on the effectiveness of internal control over operations and compliance," *Journal of Contemporary Accounting & Economics,* vol. 15, no. 1, pp. 1-19, 2018, doi: 10.1016/j.jcae.2018.11.002.

[18] Y. Wang, K. Abbasi, B. Babajide, and K. C. Yekini, "Corporate governance mechanisms and firm performance: evidence from the emerging market following the revised CG code," *Corporate Governance: The International Journal of Business in Society,* vol. 20, no. 1, pp. 158-174, 2019, doi: 10.1108/CG-07-2018-0244.

[19] M. Lang and R. Lundholm, "Cross-Sectional determinants of analyst ratings of corporate disclosures," *Journal of Accounting Research,* vol. 31, no. 2, pp. 246-271, 2018, doi: 10.2307/2491273.

[20] G. Kalkan, "The Impact of Artificial Intelligence on Corporate Governance," *Journal of Corporate Finance Research / Корпоративные Финансы | Issn 2073-0438,* vol. 18, no. 2, pp. 17-25, 2024, doi: 10.17323/j.jcfr.2073-0438.18.2.2024.17-25.

[21] D. J. Lowe and P. M. J. Reckers, "The Deterrence Effects of Whistleblowing Provisions, Corporate Governance Culture, and Machiavellianism," *Behavioral Research in Accounting,* vol. 36, no. 1, pp. 45-65, 2024, doi: 10.2308/BRIA-2022-041.

[22] M. Taheri and A. Jalili, "Financial Constraints in Companies and Their Relationship with Financing Strategies, Emphasizing the Moderating Role of Corporate Governance," *Asset Management and Financing,* vol. 11IS - 2, pp. 1-18, 2023.

[23] L. O. Ojo and A. A. Umar, "Corporate Governance and Voluntary Human Capital Disclosure of Quoted Deposit Money Banks in Nigeria," *Fudma Journal of Accounting and Finance Research [Fujafr],* vol. 2, no. 1, pp. 178-190, 2024, doi: 10.33003/fujafr-2024.v2i1.83.178-190.