

# The impact of corporate governance on the quality of accounting information and its reflection on the share prices of companies listed on the Iraqi stock exchange

Waseem Abdullah Saleh, Houda BenMabrouk

<sup>1</sup> Faculty of Economic Sciences and Management in Sfax, University of Sfax, Tunisia

<sup>2</sup> Professor in Finance at IHEC of Sousse, University of Sousse, Tunisia, GFC Laboratory, University of Sfax, Tunisia

## ABSTRACT

The study's overarching goal is to provide light on the connections between corporate governance processes and the financial information provided by company executives. Highlighting the impact of these mechanisms on the reliability of financial reporting and how this influences stock price movements is one of the secondary goals. In order to achieve our goals and address our questions, we relied on the descriptive analytical technique. Additionally, the researcher drafted and sent surveys to the study's participants, who were well-informed individuals with extensive backgrounds in either working for or investing in major companies traded on the Iraqi Stock Exchange. The study's sample size was determined using the random sampling procedure; a total of 168 questionnaires were included in the final count after 180 were sent out and returned. The research concluded, among other things, that "there is a statistically significant effect of corporate governance on corporate prices" after examining the data and evaluating the hypotheses. Stocks, even after accounting data quality is considered as a mediator variable. Corporate governance has an indirect impact on stock prices via its effect on accounting information quality, according to the path analysis. Our research shows that both corporate governance and accounting information quality significantly affect stock prices, with accounting information quality mediating the relationship between the two. Accounting information quality has a statistically noteworthy effect on stock prices. With a big (t) value (6.35), the influence factor (beta) for relative importance is statistically significant with a value of 0.000. Meaning that both relative importance and corporate governance have a direct and statistically significant impact on stock prices and accounting information quality, respectively. A positive and statistically noteworthy effect on accounting information quality is shown by internal governance mechanisms, which have an effect size (beta) of 0.318, a t-value of 5.64, and a p-value of 0.000. There is a positive and statistically substantial outcome of external governance systems, as shown by their impact factor (beta) of 0.397, t value of 6.31, and significance level of 0.000. The beta impact factor (beta) for internal governance procedures is 0.198, the t-value is 2.49, and the significance level is 0.014, all of which point to a positive and statistically significant effect on stock prices. This study is useful in the account systems of many companies, including industrial engineering companies.

**Keywords:** Internal mechanisms, external mechanisms, corporate governance, quality of accounting information, stock prices, banking engineering.

## Corresponding Author:

Waseem Abdullah Saleh  
Faculty of Economic Sciences and Management in Sfax,  
University of Sfax, Tunisia  
Email: wsalih103@gmail.com

## 1. Introduction

The primary goal of implementing corporate governance is to create greater confidence in a quality and transparency of accounting material and data, and achieving this quality is done according to a set of standards

that can be accessed through governance tools, as governance is the tool that ensures the reliability and suitability of accounting data [1], [2].

Also, with the development of the world of finance and business, interest in accounting information and the need for it has increased. It has become like a precious and rare economic commodity, as accounting information represents the link between its preparers (accountants) and its users (decision makers), in addition to the dual role that accounting plays. The first is a predictive role with the ability of company committed to investing in the opportunities available to it, while the second is a confirmatory role, which is represented by verifying the company's financial position represented by its holdings of assets and liabilities [4], [5].

The importance of accounting information lies in it being an effective tool and means in the hands of management to accomplish its tasks and achieve its goals [6]. The increasing interest in accounting information resulted from a number of data represented by technological developments that imposed an impact on accounting information that hastened to use it in various branches of accounting work (financial, costs, administrative, Auditing) in an effort to increase the ability of accounting systems to produce information and save time, effort and cost [7]. Economic changes and globalization in the economic field and the resulting risks have led to increased interest in appropriate accounting information for the purposes of investigation, control, decision-making and ensuring the survival and continuity of these companies. Legal and tax reserves imposed the importance of providing accounting information. Sufficient and appropriate to fulfill and meet these requirements [8]. The presence of large commercial companies and widespread branches has increased the need for accounting information to assist in coordination and control between geographically distributed departments and branches and their management [9]. Accounting information is considered one of the important sources that management relies on in shaping its culture and formulating its style of thinking, which is based on Collective knowledge in decision-making [10]. The need for accounting information in the administrative process has grown as a result of its connection to it, as accounting provides the information necessary for planning and feedback and thus making corrective administrative decisions, and this is what has contributed to the growing importance of accounting information [11].

### 1.1. Research problem

For covering the subject of the study and remove ambiguity about what governance provides in enhancing the accounting information quality in companies and the reflection of this role on companies' stock prices, the researcher pushed to formulate the following problem: "Does corporate governance affect stock prices under the control of information quality?" To solve this problem we must answer the following questions:

- What level of information quality do listed companies in Iraq have?
- What is the role of information quality in improving the impact of corporate governance on stock prices?"

### 1.2. Objectives

The primary goal of this paper is to assess the current status and levels of the variables under investigation within the Iraqi business landscape by:

- Introducing the values of corporate governance and accounting information.
- Understanding the significance and function of accounting information in meeting the requirements for stakeholders.
- c. Elucidating a connection between corporate governance mechanisms and the accounting information disclosed by company management.
- d. Emphasizing the influence of implementing corporate governance mechanisms on the accuracy of accounting information and its subsequent effect on stock valuations of companies.

### 1.3. Research assumes

To answer the research questions, the following theories can be put forward: The primary hypothesis about Iraqi companies traded on the Iraqi Stock Exchange is that, when tested at a significance level of  $\alpha = 0.05$ , neither internal nor external governance measures impact stock prices in a statistically significant way. According to the second main hypothesis, which is based on a statistical significance level of  $\alpha = 0.05$ , neither internal nor external governance mechanisms significantly impact the quality of accounting information in listed Iraqi companies with regard to relevance, reliability, comparability,

understanding, and relative importance. On the Iraq Stock Exchange, that is. The third major hypothesis asserts that, with a significance level of  $\alpha = 0.05$ , the quality of accounting information (relevance, reliability, comparability and understandability, relative importance) does not significantly impact stock prices in Iraqi companies listed on the Iraqi Stock Exchange. According to the fourth main hypothesis, when accounting information quality (including relevance, reliability, comparability, understanding, and relative importance) is taken into account as a mediating variable at a statistically significant level ( $\alpha = 0.05$ ), corporate governance (both internal and external mechanisms) does not significantly affect stock prices in Iraqi companies listed on the Iraq Stock Exchange.

#### 1.4. Research importance and limits

Research is essential for understanding the theoretical implications of corporate governance mechanisms in preventing accounting information manipulation and its impact on stock prices within organizations. This theoretical framework is crucial for ensuring the credibility and reliability of accounting information provided by company management, particularly for businesses listed on the Iraq Stock Exchange. The research findings serve as a foundation for further exploration in this area, contributing to intellectual enrichment and knowledge accumulation among researchers.

In the scientific community, research plays a vital role in highlighting key concepts and mechanisms of corporate governance that enhance accounting information quality and influence the share prices of Iraqi companies on the stock market. By shedding light on these critical connections, the study contributes to the existing body of knowledge in this field, offering new insights and perspectives for future research endeavors.

However, the study has certain limitations that define its scope and boundaries. These include a specific duration from 2012 to 2021, focusing solely on joint-stock businesses trading on the Iraqi Stock Exchange. The human boundaries of the study encompass executives and middle managers in Iraqi companies listed on the stock exchange. Additionally, the research is constrained by its objectivity boundaries, which limit the examination of governance mechanisms to internal (board of directors, internal audit) and external factors (external audit, laws, market competition). The study uses stock prices as a dependent variable and mediating variable, with a focus on dimensions such as relevance, reliability, comparability, understanding, and relative importance to describe the relationship between the independent variable and accounting information quality.

## 2. Theoretical framework

### 2.1. The concept of corporate governance

There are many concepts of corporate governance, and they can be presented as follows:

- The legal concept: “The total rules and frameworks on the basis of which the interests of parties related to the company are protected” [3].
- The social concept: It focuses on corporate social responsibility in protecting the rights of the minority or small investors, achieving fair economic development, and protecting the environment. Governance is considered a path to progress for individuals, companies, bodies, and society that is sustainable for the economy and society as a whole [4].
- Economic concept: The method by which investors who provide financing to a company through the financial markets can achieve a degree of reassurance that ensures that they receive a return on their investments. Corporate governance does not aim to protect minority shareholders only, but more importantly, protect major lenders, investors and shareholders to ensure returns. Rewarding for them, because they are the group capable of actively participating in the growth of companies [3].

Corporate governance is a system consisting of a group of parts that work to activate capabilities and employ resources in an effective manner. Through this system, the company is managed and controlled and accountability and transparency are enhanced [5].

Financial market concept: Financial markets do not differ from other markets for goods and factors of production in that they are an area where supply and demand meet in order to determine the levels of price and quantity balance, as well as determining the pattern of allocating resources and the levels of profit and loss for the dealing parties. However, what distinguishes financial markets from other markets is the nature of what is going on. Dealing in it, as it is a financing market, which includes supply and demand for funds, and the

subsequent special nature of the various parties that have an impact on the equilibrium levels (Case et al., 2017, 80), and financial markets are known as: “Markets in which securities and cash are traded, whether short, medium or long-term, such as stocks and bonds of various types and forms, certificates of deposit and others, and foreign currency (exchange) markets and others” [6].

## 2.2. Quality of accounting information

The credibility of the accounting information contained in financial reports and the benefit it provides to consumers are the two components of quality accounting information. In order to accomplish this objective, it must be prepared in accordance with a set of legal, regulatory, professional, and technical standards, and it must be free of distortion and misleading information. In this context, quality is contingent upon a number of key attributes, including adequacy, credibility, accuracy, timeliness, understanding and assimilation, importance and optimal disclosure of information, and suitability [7].

The quality of accounting information is considered one of the important topics that has received great attention from investors, researchers, and accounting standard makers, especially in recent years. Perhaps the recent scandals of a number of large companies and the financial collapses of a number of financial markets were among the most important reasons that motivated many users of financial reports to inquire about honesty and fairness. These financial reports are disclosed by the company’s management, and accounting information is considered one of the concepts for which researchers have not agreed on a unified definition despite the numerous studies on this aspect, due to the multiplicity of quality standards and thus the difficulty of defining an accurate concept for it [8-10].

## 3. Results and discussion

The stability for the study tool means the extent to which the tool is stable and consistent in measuring the variables presented to it. Cronbach's alpha is used as one of the common methods to evaluate the reliability of a survey instrument. Cronbach's alpha coefficient is calculated to determine the consistency of the items in the tool with each other. It is a chance coefficient that varies between 0 and 1; the alpha values of at least 0.7 are regarded as evidence of the stability of the instrument and the reliability of the items. When Cronbach’s alpha is computed, it can be used to assess the reliability of the instrument and the nature of the relationship between the items. When alpha value is high, this gives researcher more confidence using the tool and makes the results on which the tool is based more valid. Cronbach’s alpha can therefore be used by researchers in determining internal consistency of the instrument and therefore quality of the instrument in measuring variables reliability.

Table 1. Alpha coefficient values

Reliability Statistics		
Cronbach's Alpha	N of Items	Variable
.880	12	Corporate governance
.948	24	Quality of accounting information
.811	8	Stock prices
.957	44	Questionnaire

We find that the coefficient value for all variables is greater than 0.7. These values mean that the items in the questionnaire are strongly interconnected and give consistent and reliable results when the questionnaire is repeatedly used. This is considered a positive indicator of the quality of the instrument and its ability to accurately and reliably measure the variable being studied.

To test the hypotheses, we apply multiple regressions. The multiple linear regression model is one of the statistical analysis methods that aims to study the linear relationship between one dependent variable and several independent variables.

For the first main hypothesis, there There is no statistically significant effect of corporate governance (internal governance mechanisms, external governance mechanisms) on stock prices at a statistical significance level ( $\alpha = 0.05$ ) in Iraqi companies listed on the Iraqi Stock Exchange.

Table 2. Outputs of the main indicators of the multiple regression model

Transaction testing			Analysis of variance		Main indicators		Sample
Significance level	Value(T)	Impact (coefficients(beta)	Significance level	value(F)	Coefficient of determination R <sup>2</sup>	Correlation coefficient R	
000	9.47	2.57	000	20.75	0.201	0.448	Constant
0.014	2.49	0.198					Internal governance mechanisms
0.016	2.43	0.216					External governance mechanisms
<b>Dependent variable: stock prices.</b>							

Based on the data provided, the test results can be analyzed as follows:

- **Reject or accept the hypothesis:** The main hypothesis states that there is no statistically significant effect of corporate governance on stock prices. However, since the significance levels for both internal and external governance mechanisms are less than 0.05 (0.014 and 0.016, respectively), this indicates a statistically significant effect. Hence, the main hypothesis is rejected.
- **Correlation coefficient R and coefficient of determination (R<sup>2</sup>):** The correlation coefficient (R) is 0.448, which indicates a positive relationship between corporate governance and stock prices. However, the intensity of the relationship is not very strong. The coefficient of determination (R<sup>2</sup>) is 0.201, which means that about 20.1% of the variation in stock prices can be explained by the model used.

For the second main hypothesis, there is no statistically significant effect of corporate governance (internal governance mechanisms, external governance mechanisms) on the quality of accounting information (relevance, reliability, comparability and understanding, relative importance) at a statistical significance level ( $\alpha = 0.05$ ) in listed Iraqi companies. In the Iraq Stock Exchange.

Table 3. Outputs of the main indicators of the multiple regression model

Transaction testing			Analysis of variance		Main indicators		Sample
Significance level	Value(T)	Impact (coefficients(beta)	Significance level	Value(F)	Coefficient of determination R <sup>2</sup>	Correlation coefficient R	
000	6.89	1.334	000	121.8	0.596	0.772	Constant
000	5.64	0.318					Internal governance mechanisms
000	6.31	0.397					External governance mechanisms
<b>Dependent variable: quality of accounting information (relevance, reliability, comparability and understanding, relative importance).</b>							

Based on the data provided, the test results can be analyzed as follows:

- **Reject or accept the hypothesis:** The second main hypothesis states that there is no statistically significant effect of corporate governance on the quality of accounting information. However, since the significance levels for both internal and external governance mechanisms are less than 0.05 (0.000 for both), this indicates a statistically significant effect. Hence, the second main hypothesis is rejected.
- **Correlation coefficient (R) and coefficient of determination (R<sup>2</sup>):** The correlation coefficient (R) is 0.772, which indicates a strong positive relationship between corporate governance and the quality of

accounting information. The coefficient of determination R<sup>2</sup> is 0.596, which means that about 59.6% of the variation in the quality of accounting information can be explained by the model used.

For third main hypothesis, there is no statistically significant effect of the quality of accounting information (relevance, reliability, comparability and understanding, relative importance) on stock prices at a level of statistical significance ( $\alpha = 0.05$ ) in Iraqi companies listed on the Iraqi Stock Exchange.

Table 4. Outputs of the main indicators of the multiple regression model

Transaction testing			Analysis of variance		Main indicators		Sample
Significance level	Value(T)	Impact coefficients ((beta	Significance level	value(F)	Coefficient of determination R <sup>2</sup>	Correlation coefficient R	
0.000	6.41	1.61	0.000	33.16	0.449	0.670	Constant
0.340	-0.95	-0.096					Suitability
0.201	1.28	0.113					Reliability
0.151	1.44	0.152					Comparability
0.000	6.35	0.447					Relative importance
<b>Dependent variable: stock prices.</b>							

The third main hypothesis states that there is no statistically significant effect of the quality of accounting information on stock prices. However, the impact factor (beta) of materiality shows a significant value (0.000) with a large (t) value (6.35), which indicates a statistically significant effect of materiality on stock prices. Thus, the hypothesis is rejected for relative importance, while relevance, reliability, comparability and understandability do not show a significant effect.

The correlation coefficient (R) shows the strength of the relationship between the independent and dependent variables. The value of (R) is 0.670, which indicates a moderate to strong positive relationship. The coefficient of determination (R<sup>2</sup>) shows the percentage of variance in the dependent variable that can be explained by the independent variables. The value of (R<sup>2</sup>) is 0.449, which means that about 44.9% of the variance in stock prices can be explained by the quality of accounting information.

For fourth main hypothesis, there is no statistically significant effect of corporate governance (internal governance mechanisms, external governance mechanisms) on stock prices in the presence of the quality of accounting information (relevance, reliability, comparability and understanding, relative importance) as a mediating variable at a level of statistical significance ( $\alpha = 0.05$ ). ) in Iraqi companies listed on the Iraq Stock Exchange.

Table 5. Path analysis test results

			Estimate	S.E.	C.R.	P
Quality of accounting information	<---	Corporate governance	.577	.071	8.119	***
Stock prices	<---	Corporate governance	.129	.063	2.055	.040
Stock prices	<---	Quality of accounting information	.491	.058	8.472	***

Based on the data, the test results can be analyzed as follows:

- **Reject or accept the hypothesis:** The fourth main hypothesis states that there is no statistically significant effect of corporate governance on stock prices with the quality of accounting information as an intermediary variable. However, since the P values for the relationships between corporate governance and accounting information quality, and between accounting information quality and stock prices, are

less than 0.05, this indicates a statistically significant effect. Hence, the fourth main hypothesis is rejected.

- Path analysis: Quality of accounting information → corporate governance: The relationship is strong ((Estimate) = 0.577) and significant ( $P < 0.001$ ).

Stock prices → corporate governance: The relationship is weaker ((Estimate) = 0.129) but significant ( $P = 0.040$ ).

Stock prices → Quality of accounting information: The relationship is strong ((Estimate) = 0.491) and significant ( $P < 0.001$ ).

On the other hand, cloud, fog and edge computing technologies along with cybersecurity and machine learning are important to enhance corporate governance on the quality of accounting information .

#### 4. Conclusions

The descriptive analysis showed that participants in the questionnaire tend to agree that there are effective internal and external governance mechanisms in companies listed on the Iraqi Stock Exchange. Economic theories indicate that good governance enhances operational efficiency and reduces risks, which leads to improving the company's performance and increasing its value in the market. Administratively, effective governance is considered essential for building investor and shareholder confidence, and enables companies to attract more investments and achieve sustainable growth. The results indicated strong agreement on the importance of relevance, reliability, comparability, understanding, and relative importance in accounting information. In theory, the quality of accounting information is important because it provides an accurate assessment of a company's financial performance, which helps reduce information asymmetries and enables investors to make informed decisions. Administratively, the quality of information contributes to enhancing transparency and credibility, and is considered a key factor in determining how the market evaluates the company and its shares. The results showed strong agreement that stock prices are affected by many factors, including the quality of accounting information. Stock prices are considered an indicator of the company's market value and reflect investors' expectations based on available information, including the quality of accounting information. Administratively, the strong impact of the quality of accounting information on stock prices shows the importance of companies managing financial disclosures and ensuring their accuracy and transparency to maintain the value of stocks and their attractiveness to investors.

#### 5. Recommendations

Based on the results of our analysis, we recommend that companies listed on the Iraq Stock Exchange take several key actions to enhance their governance mechanisms and financial reporting practices. Firstly, it is crucial for these companies to strengthen their internal governance mechanisms, including ensuring the independence of the Board of Directors from executive management and improving the capabilities of internal audit and audit committees. Additionally, a commitment to international accounting standards is essential for accurate financial reporting and maintaining consistency in accounting practices. Improving the quality of accounting information by recording all financial transactions in detail and enhancing communication with investors through transparent and realistic financial reporting are also important steps. Looking ahead, future research should explore the impact of governance structures on accounting information quality and stock prices, as well as the influence of corporate governance on overall company performance. Comparative analyses across different markets and industries can provide valuable insights into the effectiveness of corporate governance practices.

#### Declaration of competing interest

The authors declare that they have no known financial or non-financial competing interests in any material discussed in this paper.

#### Funding information

The authors declare that they have received no funding from any financial organization to conduct this research.

### Author contribution

Waseem Abdullah Saleh and Houda BenMabrouk both contributed equally to the conceptualization, design, and execution of the research study. Waseem Abdullah Saleh was primarily responsible for data collection, analysis, and interpretation, while Houda BenMabrouk provided expertise in the areas of corporate governance and financial reporting practices. Both authors collaborated on writing and revising the manuscript, as well as providing critical feedback and insights throughout the research process. The authors jointly approved the final version of the manuscript for submission and agree to be accountable for all aspects of the work in ensuring its accuracy and integrity.

### References

- [1] Y. Momani and F. Al-Tayeb, "The contribution of electronic auditing to improving the quality of accounting information: a field study of a sample of professionals in Algeria," *Afaq Journal for Research and Studies*, vol. 3, no. 2, pp. 307–323, 2020.
- [2] S. Al-Gharbi, "Master's thesis, Faculty of Economic Sciences," in *The impact of the qualitative characteristics of accounting information on the quality of financial reports in commercial banks: a case study*, M'sila, Algeria, 2015.
- [3] S. Mushtaq, F. Ali, and K. Khalil, "Exploring the interplay of corporate governance, family ownership, and Shariah compliance on firm efficiency," *Spring 2024*, vol. 5, no. 2, pp. 301–315, 2024.
- [4] N. Mohammadi, *The impact of corporate governance on the financial performance of joint stock companies operating in Algeria during the period 2009-2015*. Ouargla, Algeria: Kasdi Merbah University, 2018.
- [5] A. Haq, *The impact of applying governance principles on improving the performance of Algerian commercial banks: a study of a sample of commercial banks*. M'sila, Algeria, 2017.
- [6] M. Antelo, Ed., *Financial markets: A guided tour*. Hauppauge, NY: Nova Science, 2012.
- [7] A. S. Kehli and R. Krush, *The impact of applying corporate governance rules on the quality of accounting information and accounting disclosure: the case of a group of industrial enterprises*. Ouargla, Algeria: Kasdi Merbah University, 2017.
- [8] E. A. Idris, *The role of forensic accounting in achieving the quality of accounting information: A field study of a sample of public joint stock companies listed on the Khartoum Stock Exchange, the banking sector*. Khartoum, Sudan: Sudan University of Science and Technology, 2019.
- [9] K. E. Case, R. C. Fair, and S. E. Oster, *Principles of economics*, 13th ed. Upper Saddle River, NJ: Pearson, 2019.
- [10] A. Khadr, *Disclosure and Transparency as One of the Principles of Corporate Governance in Corporate Law*. Dar Al-Fikr Al-Jami'i, Alexandria, Egypt, 2012.