

# Testing the Requirements Availability for Disclosure and Transparency in Financial Reporting for Corporate Governance in Emerging Market Economies: The Case of Iraqi Listed Firms

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## ABSTRACT

This study aimed to test the disclosure and transparency within the international principles of corporate governance and its accounting reflections in the financial reporting of firms in an emerging market economy. We have tried to test this topic in the environment of Iraqi firms through the study and analysis of published financial reports and the availability of material information to the principle of disclosure and transparency, in addition to indicate the effect of firms type of activities and size on the availability of this information.

By using financial reports for 34 listed firms for the periods from 2008 - 2011, and have constructed an index consisting of 20 components to measure the level of disclosure and transparency in financial reports for these firms. These components are distributed on 3 main parts, which are: information about the firm, information about board of directors and executives, financial and accounting information. The results reveal that the availability of material requirements of disclosure and transparency in financial reporting of Iraqi listed firms is low, and also there was a significant impact of the firm's types of activities on the availability of material requirements of disclosure and transparency.

**Keywords:** Corporate Governance, Disclosure and Transparency Index, Firms' Information, Board of Director's Information, Financial and Accounting Information.

## 1. INTRODUCTION

The disclosure and transparency in the financial reports of the firms was one of the most important topics which took and still take a lot of attention of researchers, academics and specialists in the field of financial and accounting and supervisory on both theoretical and applied sides, where most of the world countries - especially the developed ones impose more stricter control procedures on corporate work, in order to prevent the abuse of power for private purposes and the protection of the rights of all parties involved firms, especially shareholders, so developed countries have developed special systems to corporate control and, particularly in the area of disclosure and transparency, followed by a lot of steps from other countries in the world in order to control and check the corporate work .

In Iraq, the subject of the control of the listed firms and securities market at the present time is one of the important topics, where the government has been moving to the economic and administrative reform to eliminate administrative and financial corruption, which eats into the body of the Iraqi economy, in addition to the importance of listed shareholding firms activity in securities market and its role in the movement and development of the Iraqi economy. So an urgent need has become the subject of control of these firms of all kinds and from all financial and administrative aspects to ensure proper use of the authorities and prevent cases of corruption and waste in the spending of public resources.

Here we are studying the topic of disclosure and transparency within the international principles of corporate governance, where we are trying to study and test the availability of the material requirements of the principle of disclosure and transparency in the financial reports of the firms in Iraq through the study and analysis of the published reports for a group of listed firms in the Iraqi securities market. Then we have stated the extent of availability of the material requirements to the principle

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of disclosure and transparency; this is included within the international principles of corporate governance, which is the main criterion that guided most of the world countries to issue local standards for governance and control firms. In addition, we have tried to indicate the effect of firm's types of activities and firms size on the availability of disclosure and transparency in financial reporting.

We have used the testing approach through a review of disclosure and transparency in the thoughts of theory of accounting and international principles of corporate governance within the theoretical framework for the study, and then a review of the efforts and studies carried out by researchers and scholars in the subject, followed by the methodology for this study. Then the results of the analysis and test the financial reports of the study sample were taken. After that a discussion of the results that have been done and some proposals that can contribute to laying the initial groundwork of the application of the concepts of corporate governance in Iraqi environment in the area of disclosure and transparency are given. Finally we have submitted the final conclusion to the study.

## **2. The Conceptual Framework and the Problem of the Study**

The global financial markets have been exposed in the period the nineties and the beginning of this century to many crises and shocks that led to the collapse of many of them, as bankrupt several major international firms in many countries of the world, particularly in the United States, such as Enron in 2001 which was followed by the collapse of Arthur Andersen for auditing, and other global firms such as Global Crossing and Livent. These crises and collapses have revealed the presence of so many distractions and deception in the financial reports of firms and non-compliance with the rules and principles and ethics of accounting, as these markets and companies tumbled abnormally and share prices fell sharply in the financial markets which led to a crisis of confidence and showed the urgent need for the application of the principles and procedures governing the operation and control of firms.

The need to apply the rules and procedures of corporate governance assist in building confidence and facing the crisis of ethics that have emerged as a result of giving priority to the control of private benefit upon the public interest. This contributes to raise the efficiency of corporate performance and stability of financial markets and raise the level of disclosure and transparency and

decrease the risks to investors and protect their rights from abuse corporate boards of powers and authorities granted to them.

Therefore, we can say that the issue of corporate governance is largely a moral issue which can resolve ethical problems arising from malpractice by managements and boards of directors of firms. As some believe, the main problem in the collapse of these firms were not in a weakness or a lack of accounting standards used and applied but was problem of low professional ethics and the use of power to the personal benefit rather than the public interest (AlQashi and AlKhatib, 2006). So, this has developed a set of financial mechanisms and regulations which aim to regulate monitoring and control companies to protect the owners of capital and investors in firms from incorrect behaviors by managers.

Therefore, several governments in the world issued legislations and laws that regulate and control companies with the aim of reducing this crisis and building confidence in financial reporting and the managements of firms. Hence, the concept of corporate governance has emerged clearly, where a set of organizational and financial mechanisms and regulations which aims to monitor and control over the work of firms in order to protect the owners and investors in firms from incorrect behavior by managers.

The control and corporate governance means a set of principles, rules, and procedures applicable by firms that assist in the managing, directing, and controlling of firms correctly in order to protect the rights of the related parties with the firm, especially the owners of capital and shareholders, and reduce conflict between the interests of these parties.

Monks and Minow, 2004 sees that corporate governance is a set of laws that define the relationship between the firm's management and other parties with interests of the firm, which determine the general direction of the firm and its performance, which, in the opinion of (Yousif, 2009), is set of rules and behaviors by which firms are managed to achieve a balance between ownership and management, as well as between performance and commitment; while (Hindi, 2009) believes that corporate governance is a mean of ensuring the community that the management of firm is concerned with the interests of related parties.

Noorddin, 2005, describes corporate governance as a set of mechanisms and procedures that ensure discipline, transparency, and fairness in order to achieve quality and

excellence in the performance to achieve the highest potential benefits for all related parties with the firm. As (Mohammed, 2006) argues, governance means subordination of firms to the rules and regulations governing the relationship between the basic parties to determine the responsibility of each party, and he believes that this concept is old and it appeared with the emergence of shareholding firms and the separation of ownership from management. But it was re-activated after the spread of shareholding firms and estrangement of shareholders from firm's managements, and that the corporate governance means filling all the gaps that might leak corruption to economic entities.

The emergence of the corporate governance concept came as a natural result after several ideas and theories such as agency theory, enterprise theory, stakeholders theory (Dewing and Russell, 2000), and other theories, all of which aimed to mitigate conflicts between the interests of the management as entrusted to the interests of the owners of capital (principal), and investors in firms as agents, and a continuation of the continued search for improving the economic efficiency of enterprises, to enhance corporate performance, as well as to increase problems with the management use of financial information to its own benefit, which is reflected negatively on the interests of the owners of capital.

Hammad, 2005 sees that the large size of firms and the complexity of their operations and the separation of ownership from management have led to the emergence of multiple agency relations in the companies; as a result each party seeks to maximize its own benefits and achieve its interests even if it is against the interests of the other parties. So the agency's problems were the ethics of dealing, as governments sought to ensure behavioral discipline and balance to achieve interests of all parties and to establish an effective control.

The financial crises that have occurred in most countries of the world came as natural results of the crisis of confidence and low ethics of accounting and auditing professions, hiding information and showing incorrect information and manipulation of the results and processing of phantom financial markets, in addition to complicity of auditors in these operations which affect negatively their professional work. So the problem of low professional ethics for accountants and auditors appeared, and then it undermined the confidence in the accounting information contained in the financial statements and reports.

The application of control and corporate governance procedures should not be imposed on these firms and therefore should not be applied until the last minute, and it aims to serve the other parties in the firm - not the management. However, the procedures and rules of governance serve firms managements, where these procedures assist the firm's managements in the application of controlled methods that assist in achieving good and true evaluation of performance.

Also, the application of corporate governance procedures and rules is not only be in developed and industrial countries which have the elements of the efficiency of financial markets, but who in emerging and new financial markets, including Arab markets which are in dire need to these procedures to develop procedures and basis governing listed companies to begin properly and continue in the right direction with balanced and constructive steps.

The OECD and the WB have made great efforts in the field of corporate governance since 1999. The IMF also has sought to establish scientific training programs to identify and assess corporate governance practices .The developed countries, the United States, United Kingdom and Canada were the first to establish the concept of corporate governance and the application of concepts on the ground and follow up its implementation; these issued a number of laws on this subject such Sarbanes - Oxley, 2002, followed by several countries in Europe and South America and Asia in issuing laws and regulations for the purpose of corporate governance and control.

In Arab states, there are visible efforts by some Arab countries, especially in Egypt which issued the principles of Egyptian corporate governance by EFSA in 2005. These principles are complementary procedures to the rules that govern the Egyptian firms, and they have been emulated by OECD international principles of corporate governance as a reference when developing these principles (Mohiddin, 2008). Also, efforts were made by the Kingdom of Saudi Arabia in this area as SMA issued a list of principles of corporate governance for the listed firms in KSA. The United Arab Emirates created an institute for corporate governance in Dubai; it is a specialized institute to issue regulations and laws governing the firms in UAE. In Jordan, the JSC issued a guide for the rules of corporate governance in Amman stock market, which is based on the OECD principles. In addition, there have been similar attempts in Morocco, Tunisia and some Gulf Cooperation Council- GCC to

establish fixed rules for corporate governance.

In Iraq, the establishment of ISC in 2004 has given signals of hope for interesting this topic and going in the footsteps of countries that have preceded us in this area, which is an independent government body concentrating on the follow-up of trading in the Iraqi financial market and the dealers commitment in the market - the market management, listed firms, brokers and investors by the rules and regulations issued by the this commission, in order to ensure compliance of listed firms by the rules of and follow-up activity of brokerage firms to make sure of their obligations towards investors. The structure of this commission included a department specialized in listing firms disclosure.

### **3. International Principles of Corporate Governance**

The organization for economic co-operation and development (OECD, 2004) has developed six international principles of corporate governance in order to develop legal, institutional, and regulatory frameworks of the application of corporate governance at the global level. They represent guidance which can guide the various countries to apply the ideas and concepts of corporate governance; these principles are:

1. Ensuring the basis for an effective corporate governance framework.
2. The rights of shareholders and key ownership functions.
3. The equitable treatment of shareholders.
4. The role of stakeholders in corporate governance.
5. Disclosure and transparency.
6. The responsibilities of the board.

From the accounting point of view, the principle of disclosure and transparency is the most important, where it aims to ensure sufficient level of disclosure and transparency in the information published by the firms, and can be reached by all users. This principle has been noted that the corporate governance framework should ensure that timely and accurate disclosure is made on all material regarding the corporation, including the financial situation, performance, ownership, and governance of the company, through 6 points, which are:

- 1- Disclosure should include, but not limited to, material information on
  - The financial and reporting results of the company.
  - Company objectives.
  - Major share ownership and voting rights.

- Remuneration policy for members of board and key executives, and information about board members, including their qualifications, the selection process, other company directorship and whether they are regarded as independent by the board.
- Related party transactions.
- Foreseeable risk factors.
- Issues regarding employees and other stakeholders.
- Governance structure and policies, in particular, the content of any corporate governance code or policy and the process by which it is implemented.

2-Information should be prepared and disclosed in accordance with high quality standards of accounting and financial and non-financial disclosure.

3- An annual audit should be conducted by an independent, competent and qualified, auditor in order to provide an external and objective assurance to the board and shareholders that the financial statements fairly represent the financial position and performance of the company in all material respects.

4- External auditors should be accountable to the shareholders and owe a duty to the company to exercise due professional care in the conduct of the audit.

5- Channels for disseminating information should provide equal, timely and cost-efficient access to relevant information by users.

6-The corporate governance framework should be complemented by an effective approach that addresses and promotes the provision of analysis or advice by analyst, brokers, rating agencies and other that is relevant to decisions by investors, free from material conflicts of interest that might compromise the integrity of their analysis or advice.

### **4. Disclosure and Transparency in Accounting Thought**

The disclosure is one of the most important accounting principles, which is included in the conceptual framework for accounting issued by FASB, where the disclosure was accompanied by the information and financial statements. Belkaoui, 2000 sees that there is a general consensus in accounting that there should be full, fair, and adequate disclosure; whereas Shirazi, 1990 sees that the full disclosure means showing all appropriate information, even if redundant information, not needed by user is included. The fair disclose are means equal treatment for all potential users of the financial

statements, while, the appropriate disclosure means the disclosure which makes the financial statements not misleading to all current and potential users; this reflects the trend of traditional disclosure of accounting, the so-called protective disclosure, which aims to protect users of information, especially the normal investor with limited ability to use financial information.

Many accounting studies have been addressed to the concept of comprehensive and adequate accounting disclosure in terms of comprehensiveness, adequacy or mandatory or optional disclosure and other various concepts relating to disclosure in the financial reporting, in order to ensure the performance of the accounting systems of the function of accounting and financial disclosure to all users by fair manner. All reached the importance of providing adequate and timely information and without any bias to a particular user. These studies have dealt with the level of disclosure and informational content of the financial statements and their role in serving the decision makers relevant firms, especially owners and shareholders.

However, transparency means the disclosure of the financial goals and the identification of the return on the ownership and rates of economic value added for 3-5 years, as well as publishing annual reports and financial advertisements at the appropriate time and without delay, in addition to the immediate disclosure about results without any leakage before its announcement with the means of providing the information to all investors without any bias, and the use of the internet to provide and update information for users (CIPE, 2003).

So, many bodies and international financial institutions have developed indicators to measure the rate and quality of disclosure and transparency in the financial statements, such as Standards and Poor index, which consists of 83 information items with 100 points, and financial analysts est. Index, which depends mainly on the predictions of financial analysts, as suggested by some researchers; through applied studies some indices for this purpose such as Miller, 2002 index and Cheung et al, 2010 index, Also some researchers in Arab countries such as Tawfiq, (2006) and Sahli, (2010) have proposed some indices depending on global indices with some adjustments to suit with the application environment in the Arab countries.

Through our follow-up of the subject in the Iraqi environment, we have noticed the lack of interest of the organizers of the firms to follow up the availability

requirements of disclosure and transparency in published financial reporting of Iraqi shareholding listed firms with any framework of principles of corporate governance, as well as the absence of studies and researches on the creation of the financial reports of these firms to meet the requirements of disclosure and transparency within the any principles of corporate governance.

So, we can express the problem of the current study through the following points:

- What is the availability of material requirements for disclosure and transparency in financial reporting for Iraqi shareholding listed firms within the framework of the international principles of corporate governance?
- What is the impact of the type of actions of the firms and their sizes on the availability of disclosure and transparency material requirements in the financial reporting?

## **5. Literature Review**

Many studies and researches were conducted on the subject of corporate governance with various aspects, especially in the last period after the global financial crisis and the collapse of many financial markets and major firms in the world. Most of these studies have focused on evaluation procedures of control and corporate governance and its reflections on the work of accountants, auditors and financial reporting, as well as the procedures required to ensure creating the requirements of corporate governance, from the point of view that accountants and auditors are the main cause of financial crises that occurred in the world and that the availability of the requirements of disclosure and transparency will lead to solving the problem of asymmetry of information between user groups and the problem of agency between the owners and directors of firms.

For accounting studies that focused mainly on the disclosure and transparency, we have tried to review the nearby studies of our study and in countries close to or similar to Iraq according to the historical sequence. Mine and Arman, 2005, have used a database of transparency and disclosure scores in three categories for large and liquid Turkish firms by associate the T and D scores with accounting based -return on assets and return on equity, and market based -excess returns performance measures. The study tried to investigate the relationship for the overall T and D scores and the scores in the three sub-categories of T and D. And the results show significant

differences in financial performance of these firms in the two extreme T and D score quartiles, while the relationship is not strong in multivariate tests run with the addition control variables.

AlHefnawi, 2005, tried to diagnose the most important diseases that hit the thought and application of accounting and develop conceptual framework of corporate governance and identify its role as a treatment and protection from disease of thought and application of accounting that helps on financial manipulation, fraud and corruption, and abuse of power and the role of corporate governance to improve performance and economic values for the benefit of all parties related to companies where the owners are separate from the management. The study has presented several proposals to develop the intellectual framework for corporate governance to enact it as a tool to treat diseases of accounting thought and application.

Mine, 2006, has attempted to test if the transparency and disclosure level of a sample of Istanbul stock exchange firms enhanced by the promulgation of a set of local corporate governance principles by the voluntary adoption of the international financial reporting standards as an indicator of and commitment to transparency and disclosure. The result has shown that the scores and their relationship with performance are higher in early adaptors, and it is possible to attribute the improvement in the T and D scores to the CG principles.

Tawfiq, 2006, tried to provide a definition of the project of executive rules of corporate governance issued by the Egyptian financial supervisory authority and visualize a proposal to measure the commitment of the Egyptian firms to abide by these rules regarding disclosure and transparency. He has concluded that the application of these rules by the Egyptian firms must include all material and other information and conduct annual audits to the accounts of firms by qualified and independent auditors with a channel to broadcast information to all users at the appropriate time. He also has been identified eleven paragraphs representing the minimum requirements of disclosure and transparency in financial reporting for the Egyptian firms.

Almashhadani, 2007, aimed to frame the concept of corporate governance, and the proposed framework for governance for listed firms in Iraq securities exchange by evaluating the level of contribution of legal framework governing the capital market in Iraq and listed firms in order to establish general principles of corporate

governance, as well as evaluating the characteristics of corporate governance in these firms. The study has found the need to adopt the concept of corporate governance, particularly for listed firms.

Stephan, et al, 2007, examined the degree of corporate disclosure and transparency of publicly listed companies and analyzes corporate disclosure as a function of specific firm characteristics in two emerging markets - Hong Kong and Thailand. By using the OECD corporate governance principles as an implicit benchmark, they found that financial characteristics explaining some of the variation in the degree of corporate disclosure for firms in Hong Kong but not for firms in Thailand, and corporate governance characteristics such as board size and board composition that show more significant association with the degree of corporate disclosure in Thailand than in Hong Kong.

Alsehali, 2011, aimed to explore whether transparency matter among Saudi listed firms, throughout construct a comprehensive scorecard, based on the SandP disclosure index, in order to assess the transparency of 23 major Saudi listed firms. The results show that there is a positive significant relation between transparency and firm size and the type of auditor - big and non-big 4; also that industry and the ownership concentration are not affecting the level of disclosure index. Also Almaataz, 2007, aimed in his study, to identify the extent of the commitment of Saudi corporations to disclose some items of the list of corporate governance issued by the Saudi capital market authority by using the financial reports for 50 shareholding firms that trade in their shares in the market when issuing this list. The study found that there is a distinct lack of a lot of firms to meet the requirements of this regulation, particularly concerning description of board of directors and their reward, the executives, as well as the composition of audit committees and the failure to disclose the composition of the committee of nomination and remuneration.

Arijit, 2011, tried to determine the extent to which Indian listed companies disclose their corporate governance practices and also the determinants of disclosure have been looked into, and it was found that there is a substantial scope for improvement in the corporate governance disclosure practices, and the size of the company is a significant determinant of disclosures. Also Shelia, et al, 2012, tried to investigate the impact of corporate governance on social environmental information disclosure of Malaysian listed banks by using

the weighted disclosure score after considering the opinion of accountants and financial analysts, and the finding of the study shows that smaller board size, higher percentage of independent directors on the board, lower institutional and lower block ownership have higher information disclosure.

Cynthia, 2012, investigated whether the extent of company disclosure in Indonesia is affected by external factors - ownership structure and competition in addition to internal factors and by employing Boston index and Herfindahl index as a proxy for company disclosure and competition. The results show that corporate governance practice, competition and size have a position influence on company disclosure levels. Also Kun and Chung, 2012, investigated the role of corporate governance in the relationship between investment opportunities and dividend payouts by using the endogenous switching model on a sample of Taiwan publicly firms from 2000-2009, and they have concluded that the substitute model hypothesis is supported by using different governance variables, but no outcome effect is identified.

Lakshan and Wijekoon, 2012, have examined the influence of corporate governance characteristics on the corporate failure of listed companies in Sri Lanka with logistic regression. The study has found that the outside director ratio and remuneration of board members turn out to be negatively associated with the probability of corporate failure; while CEO duality is positively related with the likelihood of corporate failure and board size, auditor opinion; outside ownership do not appear to be significant determinants.

Here, we must point out that our study is similar to some extent to some of these studies in terms of the goal by proposing corporate governance index and identifying the impact of two factors belong to companies on this index , but it differs with them in terms of content , environment of application , and the testing method; where the previous studies focused on topics such as measuring compliance with the rules of governance and the effect of governance applying on the accounting information in countries that have rules of corporate governance, while our study looks at the availability of necessary requirements for the application of the rules of corporate governance in the area of disclosure and transparency, and in light of the absence of such rules in a country which witness great economic renaissance, which is giving special dimension and significance for this study, which distinguishes it from previous studies on the

subject of disclosure and transparency.

## **6. Methodology of the Study**

The importance of this study comes from the importance of control and corporate governance in the financial markets of emerging countries, including Iraq, as this topic meets a large and wide interest over the world, where several countries issued many laws and legislation to impose effective control governing firms and managements and to prevent corruption and mismanagement. In the Iraqi environment, cases of financial and administrative corruption and misuse of public funds in the last period have spread, and Iraq began to be classified within the first ranks in the spread of financial and administrative corruption, which requires the imposition of procedures to control and corporate governance and compliance with regulations and instructions, in order to protect public funds and the rights of the parties and involved firms and to prevent or reduce the incidence of misuse of resources and motivate managements of departments to adhere to the principles and ethics of the profession.

Therefore, the application of the procedures and principles of corporate governance in Iraq will represent the immune system that fights corruption in the country of all kinds and ensure fairness and integrity and good corporate managing leading to protect the rights of investors and creditors and credibility of financial information and accounting systems in Iraqi firms, which give the special significance of this study at present time, where we are researching the topic of disclosure and transparency in the financial reports of Iraqi shareholding firms as one of the most aspects of corporate control and governance.

### **6.1 Objective and hypotheses**

The objective of the study was to shed light on the issue of corporate governance by focusing on the availability of material requirements for disclosure and transparency in the financial reports of listed shareholding firms, in addition to the impact that can be caused by type of activities of the firms, and also the effect of firms sizes measured by total assets on the level of availability of these requirements in financial reporting. So we try to test two main hypotheses:

There is availability of the material requirements for disclosure and transparency in the financial reporting of Iraqi listed shareholding firms within the framework of

international principles of corporate governance.

The availability of the material requirements for disclosure and transparency in the financial reporting of Iraqi shareholding firms affected by firm's types of activities and sizes.

### 6.2 Method and sample

Based on the problem of the study and its objectives, we have adopted the positive approach as a method to study and test the availability of material requirements of disclosure and transparency in the financial reports of firms. We have tried to review the sources in the field of disclosure and transparency within the international principles of corporate governance and we have focused on studies that focused on measuring disclosure and transparency according to different indexes in close or similar countries to Iraq. Then we have constructed an index through the OECD, (2004) index with amendments by Standard and Poor, (2002) index and some proposed indexes by studies in nearby countries, and consistent with the nature of the work of Iraqi shareholding firms and environment in order to provide the theoretical and practical explanations on the availability of the material requirements of the principle of disclosure and transparency in the framework of international corporate governance.

Our index has included in its final form 3 material requirements including 20 components reflecting disclosure and transparency in these reports , with equal points - 2 points, to be the total weights of the index 40 points, as follows:

1- Firm information: 7 components with 14 points

General information about the firm, economic developments affecting the firm, other information affecting the firm, the evolution of the firm activity and changes in sales volumes, the core elements of risk expected the human resources in the firm, dividend policy used.

2- Board of directors and executives information: 4 components with 8 points

General information on the board of directors and executives, majority ownership of shares and voting

rights, directors' remuneration, the volume of transactions with them, and the method of their choice, the number of meetings and attendance rates during the year.

3- Financial and accounting information: 9 components with 18 points

Preparing financial statements in accordance with accounting standards, the results of the firm action during the year, the financial position at the end of the year, annual audit of accounts by an external independent and qualified auditor, disclosure of cash flows and retained earnings, significant accounting policies and subsequent events, the use of the relative importance of the disclosure of accounting information, auditors perform professional care, providing broadcast channels and deliver accounting information to users in a fair and timeliness.

We have used the financial reports for a sample of 34 listed shareholding firms in Iraq stock exchange: 7 banking, 3 insurance, 4 investments, 5 services, 7 industrial, 4 hotels and tourism, and 4 agricultural, for period of 4 financial years (2008 - 2011), according to the following conditions:

- The firm must be listed in the stock market at from the date of re-opening the market from 2004.
- The firm financial reports must be available during the study period.
- The firm shares are continuously traded by investors in the market.

### 7- Results and Discussion

7.1- Results of the analysis of the financial reports of firms - measuring the availability of disclosure and transparency requirements

We have used a points system: zero = not available, 1= medium availability, and 2 = high availability, and thus the total weights of the index in the case of information is fully available was 40 points, then we have calculated the three index requirements by dividing total points for each year by the total points in the index, as well as the general DandT index for each period and the average index for each type of activity, as follows:

**Table 1. Banking Firms Results**

N=7

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 21.50%             | 22.50%  | 75%                                  | 39.67%        |
| 2009    | 23%                | 19.50%  | 70.50%                               | 37.67%        |



| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2010    | 19%                | 16%   | 73%                                  | 36%           |
| 2011    | 21.50%             | 18%   | 72.50%                               | 37.33%        |
| Average | 21.25%             | 19%   | 72.75%                               | 37.67%        |

**Table 2. Insurance Firms Results**

**N=3**

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 23%                | 18%   | 72.50%                               | 37.83%        |
| 2009    | 19.50%             | 20.50%  | 66.50%                               | 35.50%        |
| 2010    | 18.50%             | 22%   | 68%                                  | 36.17%        |
| 2011    | 20%                | 24.50%  | 64%                                  | 36.17%        |
| Average | 20.25%             | 21.25%  | 67.75%                               | 36.42%        |

**Table 3. Investments Firms Results**

**N= 4**

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 19.50%             | 23%   | 70%                                  | 37.50%        |
| 2009    | 20%                | 22%   | 72.50%                               | 38.17%        |
| 2010    | 18%                | 19.50%  | 69.50%                               | 35.67%        |
| 2011    | 22.50%             | 22.50%  | 67%                                  | 37.33%        |
| Average | 20%                | 21.75%  | 69.75%                               | 37.17%        |

**Table 4. Service Firms Results**

**N=5**

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 15%                | 20.50%  | 65.50%                               | 33.67%        |
| 2009    | 16.50%             | 22%   | 68%                                  | 35.50%        |
| 2010    | 14%                | 21%   | 70.50%                               | 35.17%        |
| 2011    | 17.50%             | 19.50%  | 69.50%                               | 35.50%        |
| Average | 15.75%             | 20.75%  | 68.37%                               | 34.96%        |

**Table 5. Industrial Firms Results**

**N=7**

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 26.50%             | 20%   | 69.50%                               | 38.67%        |
| 2009    | 23%                | 18%   | 72.50%                               | 37.83%        |
| 2010    | 25.50%             | 21%   | 68.50%                               | 38.33%        |
| 2011    | 24%                | 22%   | 71.50%                               | 39.17%        |
| Average | 24.75%             | 20.50%  | 70.50%                               | 38.50%        |

**Table 6. Hotels and Tourism Firms**

**N=4**

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 23.50%             | 23%   | 74%                                  | 40.17%        |
| 2009    | 25%                | 26.50%  | 73.50%                               | 41.67%        |
| 2010    | 24.50%             | 24.50%  | 75%                                  | 41.33%        |
| 2011    | 27.50%             | 25%   | 73.50%                               | 42%           |
| Average | 25.13%             | 24.75%  | 74%                                  | 41.29%        |

**Table 7. Agricultural Firms Results**

**N=4**

| Periods | Index Requirements |   |                                      | D and T Index |
|---------|--------------------|---|--------------------------------------|---------------|
|         | Firms Information  | Board of Directors and executives information | Financial and Accounting Information |               |
| 2008    | 16.50%             | 15%   | 63%                                  | 31.50%        |
| 2009    | 20%                | 18%   | 62.50%                               | 33.50%        |
| 2010    | 24.50%             | 21%   | 71%                                  | 38.83%        |
| 2011    | 18%                | 20.50%  | 68.50%                               | 35.67%        |
| Average | 19.75%             | 18.63%  | 66.25%                               | 34.88%        |

Tables 1 - 7 show that the general index of disclosure and transparency for all Iraqi listed firms was low ,between 34.88 for agricultural firms and 41.29 for hotels and tourism firms, and that the highest level for the index was in the requirements of financial and accounting information and the lowest level was in the requirements of firms general information. These results referring to inadequate of the availability of material requirements for disclosure and transparency index in financial reporting of these firms.

From these results, the first hypothesis which related to the availability of the material requirements for disclosure and transparency in the financial reporting of

Iraqi listed shareholding firms within the framework of international principles of corporate governance was rejected.

**7.2 Results of the analysis of the impact of the firms type of activities and their sizes on disclosure and transparency index**

We used the multiple linear regressions:

$$Y = a + \beta_1 \text{ type of activity} + \beta_2 \text{ size} + \varepsilon_i$$

For the purpose of identifying the impact of explanatory variables – Type of firms activity and sizes of firms on the dependent variable – Disclosure and transparency index, as follows :

**Table 8. Impact of Type of Activity and Size on D and T Index**

| Dependent Variable  | Explanatory Variables |                          |             |
|---------------------|-----------------------|--------------------------|-------------|
|                     | Constant              | Firms Type of Activities | Firms Sizes |
| Y                   |                       |                          |             |
| Coefficients Values | 87.13                 | 4.82                     | 0.18        |
| T-Value             | 3.96                  | 3.06                     | 0.269       |
| Significance        | 0.003                 | 0.02                     | 0.764       |
| P ≤ 0.05            |                       |                          |             |
| F-value = 71.12     |                       |                          |             |
| R2 deb. = 0.64      |                       |                          |             |

These results show the significant influence of explanatory variable - the type of activity of the firms in the regression model according to T-test with P ≤ 0.05, while the sizes variable - total assets was not a significant

influence in the regression model; this enhances the idea that the value of the debugger coefficient of determination is 0.64, which is acceptable and show consistency and reliability of the linear regression model

used in the study, while the remainder of the value goes to other factors outside the used regression model. Also F-value confirms the ability of the two variables in explaining differences in disclosure and transparency index among the firms sample.

In addition, from these results, the second hypothesis which related to the impact of firms types of activities and firms sizes on the availability of the material requirements for disclosure and transparency in the financial reporting of Iraqi listed shareholding firms was rejected.

### **7.3 Discussion and Proposals**

The results of a study and analysis of financial reports of Iraqi firms showed that reports in their current form do not meet the requirements of disclosure and transparency according to the index used in the study, as the current availability of these requirements is very low for all types of firms. This may be attributed to the commitment of Iraqi listed firms with instructions to prepare financial reports issued by the authorities of securities market and financial rules in Iraq , which indicate that there is an urgent need to develop a process of preparation and presentation of financial reporting for Iraqi firms to meet the requirements of disclosure and transparency in consistent with the process of the preparation and presentation of financial reports in nearby and kindred countries , and for the purpose of preparing for the application of the international principles of corporate governance .

Also, the results have indicated that the index of disclosure and transparency used in the study has been influenced by the type of activities of firms, and not influenced by their sizes, which means that the preparation and use of any index for disclosure and transparency in the financial reporting of Iraqi firms in the field of corporate governance in Iraqi must take into consideration the different nature of the activities of Iraqi firms and in any sector working.

So, we can provide the following proposals which aim at increasing the level of disclosure and transparency in the financial reports of listed firms in Iraqi, especially as the country in the current circumstances is in urgent need to such proposals, which are:

Preparing a guide to the rules of corporate governance

in Iraq, benefiting from the experiences of foreign, Arab and nearby countries such as Jordan and Saudi Arabia that are commensurate with the Iraqi environment and in coordination with the Iraq securities exchange authorities.

Increasing the speed of providing of financial reports to users that contain sufficient information on firms, board of directors and executives.

Increasing the interest in accounting research and studies, especially applied in the field of corporate governance and increasing the interest in the subject in the study of accounting and scientific conferences and seminars with a focus on disclosure and transparency.

### **8- Conclusion**

Because accounting disclosure is one of the important factors in corporate governance and the quality of disclosure and transparency in the financial reports of firms and because of direct reflection of activating the mechanisms of corporate governance with high efficiency, in this study we have tried to construct an index for the purpose of testing disclosure and transparency principle for the purposes of corporate governance of firms in Iraq through the study, analysis and test the availability of material requirements in the financial reporting for these firms. The proposed index of disclosure and transparency included three major components:

- Information about the firms.
- Information about the board of directors and executives.
- Financial and accounting information.

After the application and test the proposed index through a sample of financial reports of listed firms in the stock exchange market of Iraq, it has been shown that there is an urgent need for the development of the financial reporting process for these firms to become more compatible with the components of the index. Also it has been found that there was no significant effect of sizes of firms in the components of the index of disclosure and transparency used in the study. The study has provided some suggestions that could contribute to the establishment and activating the mechanisms of listed firms' corporate governance in Iraq.

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## اختبار مدى توفر متطلبات الإفصاح والشفافية في التقارير المالية لأغراض حوكمة الشركات في الاقتصادات الناشئة: العراق كدراسة حالة

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### ملخص

هدفت هذه الدراسة إلى اختبار الإفصاح والشفافية في إطار المبادئ الدولية لحوكمة الشركات، وانعكاساتها المحاسبية في التقارير المالية للشركات في اقتصاد الأسواق الناشئة، وقد حاولنا أن نختبر هذا الموضوع في بيئة الشركات العراقية من خلال دراسة وتحليل التقارير المالية المنشورة ومدى توافر متطلبات مبدأ الإفصاح والشفافية، إضافة الى بيان تأثير نوع نشاط الشركة وحجمها على توفر المعلومات الأساسية للإفصاح والشفافية. تم استخدام التقارير المالية لـ 34 شركة مدرجة في سوق الأوراق المالية العراقي للفترة من (2008-2011) ومن خلال بناء مؤشر يتكون من 20 فقرة لقياس مستوى الإفصاح والشفافية في التقارير المالية لهذه الشركات موزعة على 3 أجزاء رئيسية. وهي: معلومات عن الشركة، معلومات عن مجلس الإدارة والمديرين التنفيذيين، والمعلومات المالية والمحاسبية. وقد بينت النتائج أن توافر المتطلبات المادية من الإفصاح والشفافية في التقارير المالية للشركات المدرجة في سوق الأوراق المالية العراقي كان ضعيفاً، وان هناك تأثيراً معنوياً لنوع أنشطة الشركات في مدى توفر متطلبات الإفصاح والشفافية، ولم يكن هناك أي أثر لأحجام الشركات في مدى توفر هذه المتطلبات. الكلمات الدالة: الشفافية، حوكمة الشركات، التقارير المالية، توفر.

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