CORPORATE GOVERNANCE AND ITS RELATIONSHIP WITH FINANCIAL PERFORMANCE IN IRAQ

Amanj Mohamed Ahmed – István Hágen

Abstract

It is expected that banks should operate with a recognized standard of corporate governance. The importance of excellent governance processes in banks cannot be overstated because they are essential to gain and maintain the confidence and the customers satisfaction. This paper aims to explore the relationship between corporate governance (CG) and financial performance (FP) of Iraqi listed banks. To obtain this goal, two econometric models were enhanced to measure the association between the variables by applying multiple linear regression. The secondary data was obtained from the audited annual financial statement of ten listed banks in the Iraqi stock exchange in the period 2017-2021. Four corporate governance proxies, such as (CEO Duality, board size, audit committee meetings and independent board) are tested on two indicators of financial performance (return on assets and return on equity). The finding illustrated that CEO Duality, board size, and audit committee meetings have a positive and significant influence on the financial performance of banks. On the other hand, a negative and significant association can be observed between the independent boards and banks' financial performance. Hence, the study pointed out that the financial performance of banking industry has been impacted by all of the components of corporate governance selected in this research.

Keywords: corporate governance, financial performance, Iraqi listed banks

JEL: G21, L25, G34

Introduction

Economically, the organizational success is not only determined by the quality of management and efficiency, but also it is impacted by following rules and regulations of corporate governance. This is because firms’ financial performance and internal efficiency can be enhanced by implementing corporate governance principles (Tadesse, 2004). In addition, it contains a list of international standards that help managers to have effective decisions on their financial performance and shows how the firms can be viewed by its existing and prospective stakeholders (Abebe Zelalem et al., 2022; Shivani et al., 2017). The idea of corporate governance (CG) is not new in economic, management and business organization research. It has gained more attention since the early 1990s as a result of the growing global trend and financial reporting requirements. Previous literature shown significant financial scandals around the globe that is caused by a lack of corporate governance principles (Ehikioya, 2009; Okoye et al., 2020).

According to Maier (2005), corporate governance is a group of connections among a company’s board, stockholders, stakeholders and management. Better corporate governance guarantees that businesses consider the objective of a variety of stakeholders along with those in the communities in which they exist and their trustees are responsible to the business and the stockholders as well (Abebe Zelalem et al., 2022).
In addition, the function of auditors, directors and managers toward shareholders and other stakeholders are defined by corporate governance rules and regulation. Thus, it is important for shareholders to be confident and have a good return on their investment (Goel, 2018). Corporate governance also pushes the company to deal with the other stakeholders in responsible manners, such as, customers, environment, creditors, society and suppliers (Kolk & Pinkse, 2010; Li et al., 2021)). Hence, corporate governance is not paying an attention to the board responsibility but also gives value and respect towards social and environment accountability (Goel, 2018).

Recently, effective corporate governance practices can be seen as an essential tool for achieving sustainable development, growth and support the business principle of going concerned (Long et al., 2022). When the business firms are profitable as their own interest and manage enough cash flow, the governments are also delighted and supported them to work continuously (Okoye et al., 2020). This is because corporate taxes provide a consistent source of income for the most of governments and it is essential for the construction of infrastructure, and through increased tax income, corporate governance can boost capital investment as well. In banking sectors, effective corporate governance assures management authenticity and establishes the standard of financial services provided by banks, which has an impact on the sector’s success as a whole. Interestingly, good corporate governance methods protect investors, enhance firm performance, and encourage investments as well (Ur et al., 2013).

The improvements of corporate governance are particularly important for emerging economies because they should build investor trust and make business structure more efficient and productive which can enable them to compete with international corporations (Reed, 2002). In Iraq, corporate governance components are not keeping up well. By having a lot of national potential investors, business organizations and particularly banks are still trying to draw the attention of international investors to invest their money in Iraq (Karem et al., 2021). From this point of view, it is really significant for the Iraqi government to enforce business organizations to follow the proper corporate governance mechanisms seriously because it can be seen as a factor to attract international investors to invest in Iraq.

From the previous investigations that established the connection between corporate governance and firm performance, there is a positive relationship observed between corporate governance and financial performance, such as (Abatecola et al., 2012; Abebe Zelalem et al., 2022; Brown & Caylor, 2006; Ehikioya, 2009; Goel, 2018; Klapper & Love, 2004; Okoye et al., 2020; Ur et al., 2013). However, very few studies focused on the association between corporate governance and financial performance in banking sectors in Iraq. Therefore, this study empirically examines the relationship between corporate governance and the financial performance of banking sectors in Iraq by applying data from the listed banks on the Iraqi stock exchange (ISX).

**Literature review**

**Theoretical background**

*Agency theory*

An essential theory in the topic of corporate governance is agency theory. It is considered as one of the most theories that have an important role in determining the relationship between the managers and owners of the organization. According to Alfairoih et al. (2012), agency theory relates to the behavior of principals “shareholders” and agents “managers” in terms of the ownership separation from the control of the organization. The managers will be authorized by the shareholders
to provide services and make important decisions on their behalf. Agency theory explains the problems that could arise due to the conflict between shareholders and managers. This conflict increases in cases of self-interest by any of the two parties to maximize their benefits, as a result, agency costs emerge (Alfaraih et al., 2012). Agency issues may occur due to the CEO duality. The idea of separation between the CEO and the chairman is supported by the agency theory. This due to the fact that increasing the board independency can improve the firm performance and better control as well (Jensen, 1993). In case of that one person can make decisions and takes the responsibility will reduce the agency costs and may negatively reflect the firm performance. In addition, the effective function of the board relay on its size. It is preferred to have no more than seven or eight board members, as the large boards expect to get less effective function and face a high cost to control the organization (Jensen, 1993). Regarding the independent board, Agency theory predicts that independent boards could better limit or prevent managerial opportunism, and help reduce agency costs (Allegrini & Greco, 2013; Chalevas, 2011; Fama & Jensen, 1983).

**Stewardship theory**

Several theories have been developed by Scholars to evaluate, explain, or predict the relationship between corporate governance and organizational performance. stewardship theory is considered an alternative to agency theory, and displays a different view of effective board structuring. This model looks at the manager as a “steward” rather than the completely self-interested agency theory man (Muth & Donaldson, 1998). According to stewardship theory, directors aimed to enhance the value of the organization and maximize shareholder wealth; as well as, they do not try to achieve self-serving objectives (Davis et al., 1997). It is obvious that shareholders are free to invest in any organization that they prefer; however, directors do not have this flexibility and they would mostly struggle in changing their current job. Therefore, managers are more focused on the long-term progression of the organization (Monks & Minow, 2004). In terms of the role of CEO duality, stewardship theory pointed out that if CEO and chairperson roles were combined, better leadership and greater improvement in the firm’s performance will be achieved too. Fama & Jensen (1983) pointed out that the manager’s reliable behavior will serve the corporations interests. Thus, as a matter of fact, managers could be considered useful stewards as they attempt to increase organizational value.

**An overview of relevant literature**

Researchers around the globe have investigated and tested on financial institutions in order to show the impact of corporate governance mechanisms on financial performance. This section illustrates a number of previous studies in that field.

**CEO Duality**

Many studies have investigated the separation of the chief executive officer (CEO) and the position of chairperson because this arrangement is most common in countries with poor regulatory regimes. There is a strong argument that the shareholder-manager issue is more visible in a corporate setting, where the CEO and chairperson are the same people (Ehikioya, 2009). When the CEO and chairperson are different from each other, companies are more profitable (Yermack, 1996). Ehikioya (2009) applied a regression model to analyze publicly available data for the fiscal years 1998 to 2002 for a sample of 107 companies listed in the Nigerian Stock Exchange. The study reported that CEO duality adversely impacts firm performance. Similarly, A study by Falah (2017)
tasted the link between corporate governance and companies’ performance of Palestine Stock Exchange (PEX). OLS regression model was utilized based on a sample of 32 listed firms throughout 2008-2016. The results shown that CEO duality have significant and negative effect on ROE, ROA and Tobin Q which are indicators for financial performance. Kyere & Ausloos (2021) also supported the above argument and they found that CEO duality has not any influence on financial performance indicators. On the other hand, Peng et al. (2007) investigated the association between CEO Duality and companies’ performance during Chinese corporate development. The study targeted more than 403 publicly listed companied in China and they found a positive and significant association between CEO duality and financial performance indicators.

**Board size**

The board of directors has a significant impact on an organization by offering strategic and policy direction (Abebe Zelalem et al., 2022). An institution's board of directors can provide significant and unique resources and decrease its dependency on the environment (Pfeffer & Pfeffer, 1972). Abebe Zelalem et al. (2022) recommended that, stakeholders and directors should put in place and suitable governance system to improve financial and business performance. They have examined the impact of governance on return on asset and equity of insurance companies in Ethiopia. They found that board size has a significant and positive effect on the financial performance of insurance companies. Okoye et al. (2020) has also supported the strong effects of corporate governance measures on banks financial performance and recommended that keeping adequate corporate governance mechanisms have a positive impact of banks performance and profitably as well. Their study investigated the relationship between governance practices and banks performance in Nigeria. They used the size of bank board as one of the corporate governance proxies. The employed statistical method was the Generalized Method of Moments. The research result demonstrated that board size substantially positively impacts profitability and financial performance of Nigerian banks. However, Falah (2017) found a negative connection between board size and financial performance of firms that listed on Palestine Stock Exchange.

**Audit committee meeting**

The audit committee’s responsibility is to ensure that the firm’s financial reporting complies with standards set by the council of corporate governance. It also needs to ensure that organizations like those that require disclosure compliance (Davidson et al., 2005). Kent & Stewart (2008) found that the frequency of meetings by audit committee was positively associated with the quality of disclosure. Similarly, a study by Kyere & Ausloos (2021) focused on corporate governance and financial performance of 252 listed firms for the year 2014 that listed on London Stock Exchange “LSE”. They found that there is a favorable association between audit committee meetings and ROA as a measurement of financial performance. However, a study by Klein (1998) found that the accuracy of accounting and financial performance has not been impacted by the existence of audit committees. One of the very few studies conducted in Iraq regarding corporate governance and firm performance, a study conducted by Talab et al. (2017). They recommended a model for enhancing corporate governance practices for firms that are listed on the Iraqi stock exchange. The study finding illustrated that the training of internal audit staff and the internal audit function are vital to serve internal monitoring mechanisms. Through a good training of audit staff, the performance of Iraqi-listed companies can be improved as well.
Independent board

The stewardship theory and agency theory have predicted different results regarding the board content (Kyere & Ausloos, 2021). Except for sitting fees, an independent board of directors has no substantial interest in the bank. Due to their ineligibility for senior management roles, which raises the possibility that they would not be objective on evaluating management’s performance (El-Chaarani et al., 2022). In research of 252 listed firms for the year 2014 that were listed on the London Stock Exchange “LSE”. Kyere & Ausloos (2021) found that outside board has a positive influence on Tobin’s Q and ROA, which were both indicators of financial performance. Additionally, El-Chaarani et al. (2022) conducted a study on corporate governance and firm performance of the banking sector in North African and the Middle Eastern during COVID19 pandemic. Their study used both financial and non-financial information of world bank report, banks financial reports and the database of Orbis Bank focus. The results illustrated that an independent board has a favorable impact on banks financial performance. Falah (2017) has also the similar results and indicated that independent board have a positive and significant relationship with firm performance. Based on reviewing the previous studies and literature, the below hypothesis was enhanced in this research:

H1: CEO Duality (CD) has a significant and negative impact on banks’ financial performance in Iraq.
H2: Board size (BS) has a significant and positive impact on banks financial performance in Iraq.
H3: Audit committee meetings (AUCM) have a significant and positive impact on banks’ financial performance in Iraq.
H4: Independent board (IB) has a significant and positive impact on banks’ financial performance in Iraq.

Methodology

Research design data collection

This paper aimed to examine how financial performance is impacted by corporate governance in Iraqi banks. The study applied a quantitative method to determine the impact of corporate governance on firm performance. Because of this, this investigation employed an explanatory research methodology to explore the connection between the dependent and independent variables. This study applied secondary data and it was collected from the five-year audited financial report annually for ten banks from (2017-2021) that listed on Iraqi stock exchange (ISX).

Variable description and measurement indicators

<table>
<thead>
<tr>
<th>Variables</th>
<th>Abbreviation</th>
<th>Measurements</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variables:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Return on Assets</td>
<td>ROA</td>
<td>Net earnings divided by total assets</td>
<td>(Okoye et al., 2020)</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>ROE</td>
<td>Net earnings divided by total equity</td>
<td>(Falah, 2017)</td>
</tr>
<tr>
<td>Independent variables:</td>
<td>CD</td>
<td>Measured as 1 if the CEO and chairperson is same, otherwise will be 0</td>
<td>(Ehikioya, 2009)</td>
</tr>
</tbody>
</table>
The research variables applied in the empirical analysis are summarized in table 1. A multiple regression analysis was employed to inspect the hypothesis and describe the connection between corporate governance and financial performance indicators. Return on assets (ROA) and return on equity (ROE) are two dependent variables to measure financial performance, while the independent variables for estimating corporate governance indicated as CEO Duality (CD), Board Size (BS), Audit Committee Meetings (AUCM), Independent Board (IB). Based on the above explanation, the study was utilized the following models to evaluate the association between the variables:

1. \[ ROA = \alpha + \beta_1 CD + \beta_2 BS + \beta_3 AUCM + \beta_4 IB + e \]
2. \[ ROE = \alpha + \beta_1 CD + \beta_2 BS + \beta_3 AUCM + \beta_4 IB + e \]

where,
- ROA = Return on Assets
- ROE = Return on Equity
- \( \beta_1 - \beta_5 \) = Coefficients for corresponding the explained variables
- CD = CEO Duality
- BS = Board Size
- AUCM = Audit Committee Meetings
- IB = Independent Board
- \( \alpha \) = Constant
- e = Error term

**Statistical findings and discussions**

**Descriptive statistics**

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on Assets</td>
<td>50</td>
<td>-.35470</td>
<td>.59868</td>
<td>.403354</td>
<td>.17136419</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>50</td>
<td>-.47870</td>
<td>.60777</td>
<td>.424073</td>
<td>.18948113</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>50</td>
<td>.00000</td>
<td>1.00000</td>
<td>.00000</td>
<td>.40406102</td>
</tr>
<tr>
<td>Board Size</td>
<td>50</td>
<td>5.00000</td>
<td>8.00000</td>
<td>6.42000</td>
<td>.92780188</td>
</tr>
<tr>
<td>Audit Committee Meetings</td>
<td>50</td>
<td>3.00000</td>
<td>5.00000</td>
<td>4.02000</td>
<td>.71399994</td>
</tr>
<tr>
<td>Independent Board</td>
<td>50</td>
<td>.00000</td>
<td>.60000</td>
<td>.211104</td>
<td>.11603518</td>
</tr>
</tbody>
</table>

**Valid N (listwise)**

Source: Computed by the authors
Table 2 presents the descriptive statistic results of corporate governance indicators and financial performance measurements. Return on assets and return on equity have an average mean of 40.3 and 42.4 percent with a standard deviation value of 0.17136419 and 0.18948113 respectively. The minimum and maximum value of return on assets are -0.35470 and 0.59868, while return on equity range from -0.47870 to 0.60777. CEO Duality has mean and standard deviation average of 20 and 40.4 percent respectively with minimum and highest value of 0.000 and 1.000. The board size value of mean and standard deviation is 6.420 and 0.927 individually with the minimum and maximum value of 5.000 and 8.000. Audit committee meetings and independence board have a mean value of 4.020 and 0.211 with standard deviation value of 0.713 and 0.116 respectively. The minimum and maximum value of audit committee meetings is 3.000 and 5.000 individually and the independence board minimum and highest value are 0.000 and 0.600 respectively. In light of these findings, it may be concluded that Iraqi banking sector have already followed corporate governance mechanism partially. It also indicated that they have ability to improve them and apply for international corporate governance practices as well.

**Pearson correlation analysis**

Table 3: Correlation between the variables

<table>
<thead>
<tr>
<th></th>
<th>ROA</th>
<th>ROE</th>
<th>CD</th>
<th>BS</th>
<th>AUCM</th>
<th>IB</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td>0.9818</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CD</td>
<td>0.2340</td>
<td>0.1798</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BS</td>
<td>0.2777</td>
<td>0.3186</td>
<td>-0.2831</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUCM</td>
<td>0.3448</td>
<td>0.3753</td>
<td>-0.0849</td>
<td>0.1103</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>IB</td>
<td>-0.2412</td>
<td>-0.2394</td>
<td>-0.1146</td>
<td>-0.0956</td>
<td>0.2154</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

*Source: Computed by the authors*

Table 3 demonstrates the Pearson correlation between dependent, and independent variables. It shows that there is weak and positive connection between CEO Duality and bank performance indicators at 0.2340 and 0.1798. The association between board size with ROA and ROE is positive with a value of 0.2777 and 0.3186 respectively. Additionally, AUCM has a significant and positive connection with financial performance measurements with a correlation coefficient of 0.3448 and 0.3753. However, a negative and significant relationship can be seen between IB and financial performance indicators with a correlation coefficient of -0.2412 and -0.2394 respectively.

**Multicollinear diagnoses**

Table 4: Collinearity test

<table>
<thead>
<tr>
<th>Variables</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>.899</td>
</tr>
<tr>
<td>Board Size</td>
<td>.899</td>
</tr>
<tr>
<td>Audit Committee Meetings</td>
<td>.936</td>
</tr>
<tr>
<td>Independent Board</td>
<td>.921</td>
</tr>
</tbody>
</table>

*Source: Computed by the authors*
In this research multicollinearity is free from any issues as it is presented in table 4. The VIF value is below 10 and all vales of tolerance is above the standard, which is 0.1.

**Model summary**

**Table 5: Model summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.598a</td>
<td>.358</td>
<td>.301</td>
<td>.14326023</td>
</tr>
<tr>
<td>2</td>
<td>.612a</td>
<td>.375</td>
<td>.320</td>
<td>.15629928</td>
</tr>
</tbody>
</table>

Source: Computed by the authors

Table 5 presents a model summary for both model 1 and 2, it shows R value is 0.598 for model 1 and 0.612 for model 2 which may accept the relationship between both dependent and independent variables.

**Analysis of variance**

**Table 6: ANOVAa**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td></td>
<td>.515</td>
<td>6.278</td>
<td>.000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td></td>
<td>.924</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>1.439</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Regression</td>
<td></td>
<td>.660</td>
<td>6.753</td>
<td>.000b</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td></td>
<td>1.099</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td></td>
<td>1.759</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Computed by the authors

a. Dependent Variable: Return on Assets and Return on Equity

b. Predictors: (Constant), Independent Board, Board Size, Audit Committee Meetings, CEO Duality

Table 6 illustrates the results of analysis of variance known as “ANOVA”, the value of F for model 1 is 6.278 and model 2 is 6.753, which shows that F statically significant as P value for both models are lower than 0.05.

**Regression analysis**

**Table 7: Multiple regression estimation for ROA**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-.280</td>
<td>.188</td>
<td>-.1493</td>
<td>.142</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>.137</td>
<td>.053</td>
<td>.323</td>
<td>.2563</td>
</tr>
<tr>
<td>Board Size</td>
<td>.056</td>
<td>.023</td>
<td>.301</td>
<td>.2374</td>
</tr>
</tbody>
</table>
Audit Committee Meetings | .095 | .030 | .395 | 3.201 | .003  
Independent Board        | -.385 | .184 | -.261 | -2.095 | .042

*Source: Computed by the authors*

*Note: Dependent Variable: Return on Assets (ROA).*

Table 8: Multiple regression estimation for ROE

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>2 (Constant)</td>
<td>-.385</td>
<td>.205</td>
<td></td>
<td>-1.877</td>
</tr>
<tr>
<td>CEO Duality</td>
<td>.130</td>
<td>.058</td>
<td>.277</td>
<td>2.228</td>
</tr>
<tr>
<td>Board Size</td>
<td>.066</td>
<td>.026</td>
<td>.325</td>
<td>2.602</td>
</tr>
<tr>
<td>Audit Committee Meetings</td>
<td>.112</td>
<td>.032</td>
<td>.420</td>
<td>3.452</td>
</tr>
<tr>
<td>Independent Board</td>
<td>-.436</td>
<td>.201</td>
<td>-.267</td>
<td>-2.176</td>
</tr>
</tbody>
</table>

*Source: Computed by the authors*

*Note: Dependent Variable: Return on Equity (ROA).*

Discussion

The purpose of this paper is to investigate the relationship between corporate governance and the financial performance of listed banks on the Iraqi stock exchange. To attain this objective, this paper selected financial performance as a dependent variable and it was measured by return on assets (ROA) and return on equity (ROE). The independent variable is corporate governance and it was estimated by CEO Duality (CD), board size (BS), audit committee meetings (AUCM) and independent board (IB).

Table 4 and 5 shows regression analysis of corporate governance by applying CEO Duality, board size, audit committee meetings and independent board. The results in table 4 and 5 presents a statistically significant and positive relationship between CEO Duality and banks performance with a coefficient of 0.137 and 0.130 that is measured by ROA and ROE individually. Assuming that other explanations are constant, this basically means that if 1% increase in CEO Duality caused an improvement in banking financial performance by 13.7% and 13.0% respectively as they are measured by dependent variables. This findings is not similar with the work of (Ehikioya, 2009; Falah, 2017) who stated that CEO Duality has a negative connection with firm performance. However, it has agreed with the results of (Peng et al., 2007). Therefore, regarding the first hypothesis that CEO Duality has a significant and negative impact on banks financial performance in Iraq is rejected. This is because stewardship theory had already explained that the role of CEO and firm chairperson can be merged in order to have a clear management which enhances the firm performance (Finkelstein & D’aveni, 1994).

In addition, a positive and statistically significant relationship can be observed between board size and both financial performance measurements with a coefficient value of 0.056 and 0.066 which is estimated by dependent variables ROA and ROE respectively. Assuming that all other variables remain the same, this shows that if 1% rise in board size leads to an increase in firm financial performance by 5.6 and 6.6 percent individually. This result is not consistency with the
argument of (Falah, 2017), however, it is similar with the results of (Abebe Zelalem et al., 2022; Kyere & Ausloos, 2021; Okoye et al., 2020). This may be due to the fact that a larger board size can assist in applying all the resources properly for improving growth and having a good financial performance (Anderson et al., 2004). As a result, regarding the second hypothesis that board size has a significant and positive impact on banks financial performance in Iraq is accepted.

Moreover, the finding also reveals that there is a positive and significant connection between audit committee meetings and financial performance of listed Iraqi banks with a value of 0.095 and 0.112 that is estimated by both dependent variables respectively. Assuming no changes to other variables, an increase of 1% in audit committee meetings will lead to an increase of banks financial performance by 9.5% and 11.2% individually that is measured by ROA and ROE. This result is different with the argument of (Klein, 1998), on the other hand, it is consistence with the study of (Kent & Stewart, 2008; Kyere & Ausloos, 2021). If the audit committee meets frequently, productive and better financial performance can be achieved (Kent & Stewart, 2008). This is may be because the annual report is more reliable and freer from the bias and error. It is also including all aspects of accounting, finance, social and environment that are really important to consider them specially in Iraq. Therefore, regarding the third hypothesis that audit committee meetings have a significant and positive impact on banks financial performance in Iraq is acknowledged.

Finally, the finding illustrated a negative and statistically significant association between independent board and financial performance of financial performance of banks with a coefficient value of -0.385 to ROA and -0.436 to ROE. Suppose all other variables remains constant, this shows that 1% increase in independent board resulted in a decrease in financial performance of banks by -38.5% and -43.6 respectively. This finding is not similar with the results of (El-Chaarani et al., 2022; Falah, 2017; Kyere & Ausloos, 2021), however, it is agree with the study of (Cho & Kim, 2007) noted that the idea of independent board was enhanced in the United State and United Kingdom in which, they have a different business structure and environment if they are compared with Korea and “Iraq as well”. They are also stated that outside directors are not consistence with corporate governance rules and regulation, particularly in those firms that there is no separation between management and ownership. This may be exactly true in the case of Iraq and most of the decision come from the board of directors rather than the managers of the bank. Hence, regarding the fourth hypothesis that independent board has a significant and positive impact on banks financial performance in Iraq is rejected.

**Summary and conclusion**

This paper has investigated the relationship between corporate governance (CG) and financial performance (FP). Corporate governance was assigned as an independent variable and it was measured by (CEO Duality, board size, audit committee meetings and independent board), while the dependent variable is financial performance and it was measured by two indicators (return on assets and return on equity). The data in study was secondary data and collected from audited annual financial reports of ten banks that listed on the Iraqi stock exchange from (2017-2021). To measure the association between corporate governance and financial performance, two econometric models were promoted by applying multiple linear regression.

The findings demonstrated that CEO Duality has a significant and positive impact on the financial performance of Iraqi listed banks as appraised by both indicators “return on assets and return on equity”. Hence, it is suggested that banks in Iraq with CEO Duality perform well compared
with non-CEO Duality banks. The results also presented that there is a positive and statistically significant connection between board size and financial performance of listed Iraqi banks as it is evaluated by both measurements “return on assets and return equity”. Thus, it is recommended that banks run efficiently with a large board size if it is compared with the banks that have a small board size.

Moreover, the findings stated that audit committee meetings have an influence on the financial performance of Iraqi listed banks as it is estimated by both “return on assets and return on equity”. This shows that frequent and more audit committee meetings will enhance the financial performance of the banking industry. The outcomes also indicated a negative and significant association between the independent boards and the financial performance of listed Iraqi banks as it is assessed by both “return on assets and return on equity”. Since the environment of Iraqi banks is different with some other countries, it is recommended for them to increase executive director because banks that have a high rate of the executive board come out with good performance. Therefore, it is concluded that all of the component of corporate governance that is selected in this study had a significant effect on the financial performance of Iraqi listed banks.

Finally, this research has targeted the banking sector only, therefore, it is suggested for future research to focus on the data from different sectors, such as manufacturing, agriculture, telecommunication and other proxies of corporate governance.

References


Authors

Amanj Mohamed Ahmed  
ORCID: 0000-0001-8743-0799  
PhD student  
Doctoral School of Economics and Regional Sciences, Hungarian University of Agriculture and Life Sciences, H-2100 Gödöllő, Hungary  
ahmed.amanj.mohamed@phd.uni-mate.hu

Dr. István Hágen  
ORCID: 0000-0003-1760-4962  
Associate professor, PhD  
Doctoral School of Economics and Regional Sciences, Hungarian University of Agriculture and Life Sciences, H-2100 Gödöllő, Hungary  
hagen.istvan.zsombor@uni-mate.hu

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