Journal of Research Administration
Society of Research Administrators International

# THE ROLE OF BANK GOVERNANCE IN IMPROVING THE QUALITY OF BANKING SERVICES (AN APPLIED STUDY IN A SAMPLE OF BANKS LISTED IN THE IRAQ STOCK EXCHANGE)

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**Abstract:**

The research aims to demonstrate the impact of governance on banking services under the mediation role of financial disclosure. The research also aims to define a clear concept of financial disclosure, the governance of commercial banks and the quality of financial information, and to identify the extent to which there is a relationship between financial disclosure and the governance of commercial banks for data and annual financial reports on the quality of information. accounting. The research was applied in a sample of banks listed in the Iraq Stock Exchange, focusing on the commercial banks listed in this market for the financial years 2021-2022 data. It was imposed by the financial crisis and is more responsive to the requirements of the modern business environment.

## Introduction:

Financial disclosure represents an essential pillar for the groups related to the company in general and the category of users in particular, given the information it provides that helps them in making appropriate economic decisions. Objective information base. The need also comes for the great role that governance and its principles play through raising the efficiency of financial disclosure in banks in general and commercial banks in their particular form, as the financial and banking crises in the global economy led to a practical view on how to apply the concept of governance in the commercial banking sector to avoid these crises.

## The first topic: research methodology

### 1-1Research problem:

The problem of financial disclosure is that commercial banks control the process of disclosing important information and it is not disclosed as abstract information regardless of its importance. This information is withheld from investors and shareholders, which is evidence of management bias and conflict of interest.

**1-2 Research importance:**

The importance of the research stems from the existence of a research gap, as the issue of financial disclosure and governance has recently received increasing attention, as a result of the exposure of banking institutions and sectors to many collapses and crises in the world, which requires guidance and opening new horizons for further studies related to financial disclosure and governance, as It is considered one of the determinants that contribute to the promotion and development of banking services.

**1-3 Research objectives:**

The main objective of the research is to try to find out the possibility of improving the quality of banking services in light of the application of financial disclosure and the governance of commercial banks by defining a clear concept of financial disclosure, the governance of commercial banks and the quality of financial information, and to identify the extent to which there is a relationship between financial disclosure and the governance of commercial banks for data and annual financial reports on quality of accounting information.

**1-4 Research hypothesis:**

The research is based on a basic hypothesis as follows: There are no statistically significant differences for the role of bank governance in improving the quality of banking services in commercial banks listed in the Iraq Stock Exchange.

**1-5 Research community and sample:**

After conducting a field survey of a group of Iraqi companies with the aim of identifying the sample that suffers from the research problem at hand, the banks listed in the Iraq Stock Exchange were selected as a sample for the current research.

**The second topic: the theoretical side of the research**

**2-1 The concept and importance of banking governance:**

The World Bank defined governance as the tool of good governance through which many economic reforms are carried out through which the efficient use of resources in institutions, the ability of institutions to perform well in business and develop appropriate and effective plans through which the best standards of transparency and reform are achieved (the expensive Belkasem, 2018: 331).

Corporate governance is characterized by a higher degree of social responsibility through which the organization adheres to ethical standards at work, and effective community contribution in most of the work it does, which means more productivity and effectiveness and improving and enhancing the reputation of the organization in the community in which it operates (Alabdullah & Ahmed, 2018:37).

The rights of shareholders in all institutions are numerous and varied, including their right to transfer ownership of shares, their right to vote, freely choose members of the Board of Directors and in general assemblies, and their right to access any comprehensive, adequate and complete data and information contained in the financial statements of the institutions in a timely manner that allows them to take the appropriate decision in At the appropriate time, as well as their right to obtain profits and returns, and to grant shares and other rights that governance must guarantee them these rights effectively and efficiently (Al-Asiry, 2017:73).

The fair treatment of shareholders is one of the most important principles of governance, in which justice and equality are provided to all shareholders, regardless of their size, young or old, or their nationality, national or foreign, or any other difference or discrimination. Therefore, this fair and equal treatment includes the elimination of any bias in favor of any A class of shareholders or preventing any class of shareholders from obtaining their full legal rights (Aifuwa & Embele, 2019:38.(

**2-2 Banking Governance Objectives:**

The set of objectives that governance seeks to achieve within institutions are concentrated in the following set of objectives (Saghir, 2015: 17):

1. Work to eliminate all forms of corruption in all its forms, whether financial, accounting, political, or other types of corruption that affect the quality of work within these institutions, and the efficiency, effectiveness, and transparency of the work in those institutions, which ultimately guarantees the efficient and effective workflow. .
2. Attracting diversified investments to institutions, whether local or foreign, which means at the same time avoiding the flight of capital abroad and exploiting them in an efficient and effective way that maximizes the benefit of those funds in achieving the various and multiple objectives that the institutions target. and effective community contribution in most of the work it does, which means more productivity.
3. Governance effectively targets the ability to achieve credibility and stability in the financial sectors, whether locally or internationally, and thus further development and continuous modernization of all financial sectors through continuous development and modernization processes.

**2-3 The concept of accounting disclosure and its basic rules:**

There are many concepts presented for accounting disclosure in terms of its relationship to the data and information that are disclosed, but it can be said that these multiple concepts of disclosure are all concentrated in that disclosure represents that process through which all financial information is shown quantitatively or descriptively in a set of financial statements or in a set of notes Or complementary tables or margins at the appropriate time (Zagdar, 2010: 84).

Disclosure is based on a set of basic rules that must be available in order to make an effective disclosure of information needed by all parties in the organization, and among these rules are the following (Sedge, 23:2016):

1. The necessity of disclosing all the general and private policies of the institution, which refer to the set of rules, customs, procedures and principles that the administration can follow in the good preparation of financial and non-financial statements, with the need to take into account the principle of caution and the real content of all financial events and operations and taking into account their relative importance.
2. Work on a comprehensive and complete disclosure of all financial data in the financial statements and the notes on those financial statements and any other data, whether rules related to the disclosure of the company's share information or rules related to the general disclosure of the balance sheet.
3. Provide the required disclosure based on the international accounting standards with regard to the statement of changes in the financial position, and the disclosure of all sources and uses of assets from all operations that are carried out separately from the unusual sources.
4. The necessity of disclosing in the income statement the income resulting from the normal operations of the enterprise, separately from that income resulting from the unusual items.

**2-4 The role of bank governance in supporting the credibility of financial and accounting disclosure:**

Corporate governance helps to provide more credibility and reliability in financial and accounting disclosure through the impact of governance on the accuracy and credibility of the information disclosed, and the application of all principles that guarantee the protection of the rights of shareholders, investors and other parties to obtain that information in a timely manner and in an easy and fast manner appropriate to their needs. and their conditions (Khanfar, 2019: 20).

Hence, governance supports the credibility and reliability of disclosure processes by strengthening aspects of financial disclosure as a result of applying governance principles related to transparency and reliability and practicing all ethical aspects that protect the rights of multiple stakeholders related to the institution all the general and private policies of the institution, which refer to the set of rules and principles that the administration can follow in the good preparation of financial and non-financial statements, with the need to take into account the principle of caution and the real content of all events (García & García, 2018:549).

The quality of financial and accounting disclosure resulting from the application of the principles and foundations of governance contributes to the positive impact of this disclosure on providing the financing that institutions need through stock exchanges or capital markets, because disclosure is one of the basic conditions that affect the establishment and construction of financial markets exploiting them in an efficient and effective way that maximizes the benefit of those funds in achieving the various and multiple objectives that the institutions target. and effective community contribution in most of the work it does, which means more productivity during the period (Habib & Jiang, 2015:32 ).

As these markets are often supervised by many professional and semi-governmental bodies that, like those institutions listed in the financial markets, work to follow all the legal rules and the multiple and various procedures determined by the profession, and then the disclosure gains credibility by the shareholders and users of all information contained in the reports that are disclosed in companies (Hassan & Marston, 2019: 19).

**The third topic: the applied side of the research**

**3-1 Research community and sample:**

The research community consists of individuals working in the Iraqi banking sector, including administrators, accountants, auditors, and financial analysts. As for the research sample, a sample of those individuals was selected, as 165 questionnaires were distributed, and 160 of them were retrieved, valid for analysis. The researcher relied on personal interviews with individuals. The research sample.

The questionnaire was designed in a way that is consistent with the objectives and hypotheses of the research. The questionnaire included an introductory introduction that showed the nature of the research and the general (demographic) questions of the research sample in addition to the questions related to testing the research hypotheses. The questions were also formulated in the questionnaire form so that the answer is converted into quantitative values on A five-point Likert scale that takes the range from 1 to 5.

A set of statistical methods were used in order to prove or deny the research hypothesis, as the arithmetic mean was used in proportion to the maximum value of the five-point Likert scale, percentages and standard deviation, in addition to the use of the t-test.

Where the arithmetic mean was used in relation to the maximum value of the five-point Likert scale, and if the arithmetic mean exceeded three degrees of the scale area, the study is acceptable, that is, if it obtained a percentage higher than 60%, in addition to the use of both percentage scales as well as the standard deviation.

The One Sample T-test was used, and it aims to show that the relationships between the variables of the study are real and not due to chance, by inferring about the arithmetic mean of the statistical community and showing its statistical significance, as the calculated T is compared with the tabular T, if its calculated value is If it is greater than its tabular value, the study will be accepted and can be circulated to the statistical community.

ISSN:1539-1590 | E-ISSN:2573-7104
Vol. 6 No. 1 (2024)

### 3-2 The results of the distribution of the questionnaire and the analysis of the demographic characteristics of the research sample:

The distributed questionnaires were 165 questionnaires, and 160 questionnaires subject to statistical analysis were retrieved, as the percentage of these forms reached 96.9%, while the non-returned forms amounted to 5 forms that could not be analyzed, i.e. 3.1%. it exploiting them in an efficient and effective way that maximizes the benefit of those funds in achieving the various and multiple objectives that the institutions target. and effective community contribution in most of the work it does, which means more productivity

It is also possible to analyze the demographic characteristics of the members of the research sample, as it becomes clear that 15.5% of the members of the research sample range in age from 30-40 years, and 28.75% of them range in age from 40-50 years, while the rest are more than 50 years old. The percentage of males among the research sample was 60.5%, while the percentage of females was 39.5%. Also, the percentage of the research sample holders of a bachelor's degree was 70%, master's degree 20%, and doctorate degree 10%, which means that they are qualified to understand the subject. The years of experience for the research sample individuals was the largest percentage for the category of more than 15 years, at a rate of 75.5%. in research sample.

### 3-3 Testing the research hypothesis:

The research hypothesis states the following: (There are no statistically significant differences for the role of bank governance in improving the quality of banking services). Table (1) shows the arithmetic mean, percentage, and standard deviation of the variables of the research hypothesis.

Schedule (1): The arithmetic mean, percentage, and standard deviation of the research hypothesis variables

| No. | Variables | Arithmetic mean | Percentage | Standard deviation |
|---|---|---|---|---|
| 1 | Under the governance of banks, the actions or procedures that are implemented by the parties representing shareholders and stakeholders are determined, in order to provide appropriate methods for risk management, supervision and control by relying on legal and regulatory procedures to preserve the value of the bank and achieve its objectives. | 4.226 | 84.52% | 0.613 |

| No. | Variables | Arithmetic mean | Percentage | Standard deviation |
| --- | --- | --- | --- | --- |
| 2 | The bank has an internal system that includes policies, processes and individuals that serve the needs of shareholders and other stakeholders by directing management activities with good performance, objectivity and integrity, that is, it is a system of operations that guarantees good management of the company to ensure shareholders' rights to achieve transparency when disclosing accounting information. | 3.915 | 78.30% | 0.552 |
| 3 | The bank follows a set of systems, procedures and mechanisms to control the management of the bank through a strategic view to achieve long-term goals that satisfy each of the shareholders, stakeholders, creditors and customers. | 3.882 | 77.64% | 0.586 |
| 4 | The bank uses a set of tools and mechanisms, such as the board of directors mechanism and the audit committee mechanism, to tighten the process of controlling the management's actions and performance in a manner that guarantees the protection of the rights of shareholders. | 4.002 | 80.04% | 0.632 |
| 5 | The Bank follows a set of laws, regulations, and decisions that regulate the relationship between all parties to the Bank, and which aim to protect its stakeholders, i.e. they are control tools that control, direct and organize, and that ensure good management of the Bank and guarantee the rights of its shareholders in a transparent and clear manner. | 4.115 | 82.30% | 0.589 |

| No. | Variables | Arithmetic mean | Percentage | Standard deviation |
|---|---|---|---|---|
| 6 | Banking governance helps solve the problem of conflict of interest between managers and shareholders in large companies as a result of the separation of ownership from management, as the company is seen as a private property of its owners during the period. | 3.900 | 78.00% | 0.487 |
| | Average | 4.007 | 80.13% | 0.577 |

Source: Prepared by the researcher.

It is clear from the above table that the general mean of the arithmetic mean for all paragraphs was (4.007) with a percentage of (80.13%) and a standard deviation of (0.577), which indicates the initial acceptance of the research hypothesis, The bank has an internal system that includes policies, processes and individuals that serve the needs of shareholders and other stakeholders by directing management activities with good performance, objectivity and integrity, that is, it is a system of operations that guarantees good management of the company to ensure shareholders' rights to achieve transparency when disclosing accounting information. the relationship between the two research variables is a real relationship and does not belong to chance The following test can be used:

Schedule (2): Results of One Sample T-test for the research hypothesis variables

| No. | Variables | T tabular | Degree of freedom | Level of significance |
|---|---|---|---|---|
| 1 | X1 | 10.213 | 159 | 0.05 |
| 2 | X2 | 9.425 | 159 | 0.05 |
| 3 | X3 | 11.662 | 159 | 0.05 |
| 4 | X4 | 6.918 | 159 | 0.05 |
| 5 | X5 | 8.114 | 159 | 0.05 |
| 6 | X6 | 9.446 | 159 | 0.05 |
| | Average | 9.296 | 159 | 0.05 |

Source: Prepared by the researcher.

From table (2), it is noted that the calculated value of T for paragraphs 1 to 6 is greater than its tabular value, as it ranged between 6.918 and 11.662, which indicates the acceptance of this hypothesis, especially with regard to the following:

1. Under the governance of banks, the actions or procedures that are implemented by the parties representing shareholders and stakeholders are determined, in order to provide appropriate methods for risk management, supervision and control by relying on legal and regulatory procedures to preserve the value of the bank and achieve its objectives.
2. The bank has an internal system that includes policies, processes and individuals that serve the needs of shareholders and other stakeholders by directing management activities with good performance, objectivity and integrity, that is, it is a system of operations that guarantees good management of the company to ensure shareholders' rights to achieve transparency when disclosing accounting information.
3. The bank follows a set of systems, procedures and mechanisms to control the management of the bank through a strategic view to achieve long-term goals that satisfy each of the shareholders, stakeholders, creditors and customers.
4. The bank uses a set of tools and mechanisms, such as the board of directors mechanism and the audit committee mechanism, to tighten the process of controlling the management's actions and performance in a manner that guarantees the protection of the rights of shareholders and other stakeholders.
5. The Bank follows a set of laws, regulations, and decisions that regulate the relationship between all parties to the Bank, and which aim to protect its stakeholders, i.e. they are control tools that control, direct and organize, and that ensure good management of the Bank and guarantee the rights of its shareholders in a transparent and clear manner.
6. Banking governance helps solve the problem of conflict of interest between managers and shareholders in large companies as a result of the separation of ownership from management, as the company is seen as a private property of its owners during the period.

It is possible to clarify the value of the correlation coefficient (Pearson) between the governance of banks and the quality of banking services in the banks listed in the Iraq Stock Exchange as a research sampleThe bank has an internal system that includes policies, processes and individuals that serve the needs of shareholders and other stakeholders by directing management activities with good performance, objectivity and integrity, that is, it is a system of operations that guarantees good management of the company to ensure shareholders' rights to achieve transparency when disclosing accounting information. The bank follows a set of systems, procedures and mechanisms to control the management for determine the nature of the relationship between the two variables of the research and determine its type whether it is a direct relationship or an inverse relationship, as shown in the following table:

Schedule (3): The value of the correlation coefficient (Pearson) between the governance of banks and the quality of banking services

| Correlations | | | |
|---|---|---|---|
| | | Bank Governance | Quality of Banking Services |
| Bank Governance | Pearson Correlation | 1 | .966* |
| | Sig. (2-tailed) | | .000 |
| | N | 160 | 160 |
| Quality of Banking Services | Pearson Correlation | .966* | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 160 | 160 |
| Correlation is significant at the 0.01 level (2-tailed)* | | | |

Source: Prepared by the researcher.

It is clear from the above table that the value of the correlation coefficient between the two axes (bank governance and quality of banking services) is 0.966, which is a direct and significant value (Sig), which is less than the level of significance of 1%. Therefore, the null hypothesis is rejected and the alternative hypothesis is accepted, and we conclude from this that there is a relationship A direct correlation of significant significance between bank governance and the quality of banking services in Iraqi banks, a research sample.

The effect relationships will also be tested by extracting the values of the coefficient (F) between the governance of banks and the quality of banking services through the use of the program (SPSS vr.25) and testing the significance of that effect in order to judge whether it is significant or not. The regression function of the dimensions of the governance of commercial banks has been calculated. (independent variable) on the quality of banking services in the research sample banks (the dependent variable), as shown in the following table:

Schedule (4): Variance analysis between the variable of bank governance and the quality of banking services

| ANOVA | | | | | |
|---|---|---|---|---|---|
| Model | Sum of Squares | Df. | Mean Square | F | Sig. |
| Regression | 110.124 | 1 | 110.124 | 528.974 | .000 |

| | | | | | |
|---|---|---|---|---|---|
| Residual | 24.982 | 158 | .208 | | |
| Total | 135.107 | 159 | | | |

Source: Prepared by the researcher.

The above table includes the (F) test, which is used to test the significance of the entire regression, assuming that there is a significant relationship between the dependent variable (quality of banking services) and the independent variables (bank governance), where the calculated (F) value resulting from this test is compared with the tabular (F) with a degree of freedom (d) for the numerator and (n-d-1) for the denominator, at a certain level of significance. It is noted that the calculated value of (F) amounted to (528.974), which is greater than the tabular (F), which indicates the existence of a high significant relationship, as the table showed the value of ((P - Value, which reached (0.000), which indicates that the independent variable is significant at the level of (0.05), which indicates that the independent variable can affect the dependent variable.

**The fourth topic: conclusions and recommendations**

**4-1 Conclusions:**

The research reached the following conclusions:

1. Corporate governance and the ethical concepts and responsibilities associated with it have become at the forefront of the concerns of governments and decision makers, as a result of the repercussions imposed by the financial crisis, which is more responsive to the requirements of the modern business environment.
2. A sound banking sector is one of the most important pillars that contribute to building the institutional framework for corporate governance in a way that helps achieve the desired objectives of governance for both the economic unit and the customer.
3. The axis on which good governance is based is the board of directors. A good board of directors guarantees to shareholders in the economic unit that the money they have invested is being used by the managers of the economic unit to increase the profits of the company.
4. Governance is based on how to balance the powers enjoyed by management and the protection of the rights of shareholders and other stakeholders. Therefore, it is focused on two basic elements: sound management and transparency.
5. The governance of the economic unit represents a set of systems for monitoring the performance of the economic units according to a specific structure that includes the distribution of rights and duties to regulate the relationship between the departments of those units and their stakeholders.
6. Governance aims to improve the efficiency of using the resources of the economic unit, to maximize its market value, to employ human potential effectively, and to attract local and foreign funding sources for growth, expansion and prosperity.

**4-2 Recommendations:**

The research recommends the following:

1. Strengthening the element of transparency in all transactions of the economic unit in order to control wrong actions and actions, as this requires the presence of a coherent administrative structure and continuous monitoring of all operations.
2. The need to take all necessary measures and procedures to implement financial control and transparency systems in companies and financial institutions in general, and for these systems to have real roles on the ground.
3. The necessity of moving away from temporary solutions and carrying out serious studies that would work to find comprehensive solutions to the current financial crisis, whether through developing current principles in line with the new economic changes.

4. The need to raise awareness of the importance of governance for economic units by setting the regulatory framework through which the objectives of the economic unit can be defined and ways to achieve them by providing appropriate incentives for management.
5. The need for companies to take all procedures and means that would raise the degree of confidence, transparency and credibility in the accounting information contained in the reports and financial statements.
6. Work on training and qualifying accountants and auditors scientifically and practically to be able to properly understand the principles and standards proposed by the responsible authorities, to ensure proper application and raise the quality of performance in companies.

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