THE ROLE OF CORPORATE GOVERNANCE IN ACCOUNTING DISCLOSURE

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Abstract

Corporate governance is well-known practice that broadly refers to the processes, mechanisms, and relations by which corporations are directed and controlled. The aim of this study is to identify the basic principles of corporate governance, examine the effect of corporate governance practices on accounting disclosure, and understanding the concept of corporate governance within the business environment of large corporation.This study tested its association with accounting disclosure. It is found that the practices of accounting disclosure standards is an important and reflects a good application ofcorporate governance in the present financial environment in Iraq. It is concluded that the accounting disclosure play a significant role in economic growth if it followed the principles of corporate governance.The best way to achieve high level of financial transparency to the stakeholders is to apply the principles of corporate governance in business environment, where the result of this study reveals a statistical and significant relationship between Corporate Governance and Accounting Disclosure.

Keyboard: Corporate Governance, Accounting Disclosure

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Corporate governance is well-known practice that broadly refers to the processes, mechanisms, and relations by which corporations are directed and controlled(Shailer, 2011). The structure of governance and its principles identify the distribution of rights and responsibilities off all staff, shareholders, auditors, creditors, managers, and accountants who work for the corporation. The concept of corporate governance includes the procedures and rules for making important decisions associated with corporate affairs(OECD, 2004). Corporate governance includes disclosure practices in many functions related to organization including accounting transparency through which corporations' objectives are set and followed in the context of the regulatory, social, and market environment (Lee and Shailer, 2008).

The main purpose of accounting disclosure is to inform both current and prospect investors of the best accounting strategies and optimum methods used to improve accounting activates. The disclosure of accounting includes but is not limited to, the statement of cash flows, the balance sheet, the statement of stockholders' equity, and the income statement (Chandra, 2006).

An accounting disclosure is a financial statement issued by a company that reveals all the financial activities without missing information. Through accounting disclosure a company can benefit in different way so that can identifies the financial strategies that are being utilized and reveals financial activates like profits and costs for a certain period(Fares et al., 2013). A study of the effects of corporate governance on accounting disclosure can be developed around specific economic transactions and essential accounting measurements. This study is an attempt to show the potential of corporate governance on developing better accounting disclosure in the setting of accounting regulators and corporate managers who struggle with accounting disclosure requirements

The purpose of the study

This paper focuses on the disclosure of accounting information within the financial statements of Iraqi firms by applying the principles of corporate governance. The aim of the study is to achieve the following objectives in Zain a GSM Iraqi mobilecompany:

1. Identify the basic principles of corporate governance.
2. Examine the effect of corporate governance practices on accounting disclosure.
3. Understanding the concept of corporate governance within the business environment of large corporation.

To achieve the above objectives, the researcher conducted a survey in Zain Company. The population consists of employees and managers in the company. The total number of collected questionnaires equal to 385.

The Concept of Accounting Disclosure

Disclosure is the act of releasing all relevant information pertaining to a company that may influence an investment decision. For example, some countries like US impose a certain level of accounting disclosure to be listed on major U.S. stock exchanges. Also companies must follow all of the Securities and Exchange Commission's (SEC) disclosure requirements and regulations as in UJ. To make investing as fair as possible for everyone, companies must disclose both good and bad information (Investopedia dictionary, 2015).

The accounting disclosure represent the reveal of information varies from firm to firm (Kothari and Robin, 2000). Firms are usually more eager to disclose good information, while they tend to delay the announcement of bad information (AboodyandKaznik, 2000). Thus, good financial information is essentially reflected in stock returns when it is announced, while bad financial information establishesnew information to investors. It is found that firms with informative disclosures tend to exhibit larger analyst following and less dispersion in analyst forecasts (Leuz, 2003). Some researcher argue that voluntary disclosure is essential and should be effective to endure strong contributions to the efficient allocation of resources of financial institutesand so enhance the accounting information through disclosure. The reliabilityof accounting disclosures is very important and can be achieved through the applications of corporate governance (Junttila et al., 2005).

Bertomeu et al., (2008) conducted a study to examine accounting voluntary disclosures of financial firms. They find that more accounting disclosure occurs in business environments with fewer informational frictions, matching the observed association between disclosure and cost of capital. While Arya and Mittendorf (2007) show that more voluntary accounting disclosure by firms can lead to less accounting disclosure by outside information providers; leading to lesseroverall exclusiveinformation publicly revealed and higher value for shareholders.

Companies will now be required to make more and more elaborate disclosures than have been making hitherto, for which they are also required to adhere to the uniform and proper accounting standards, as the standards reduce discretion, discrepancy and improves the utility of the disclosure (Shankaraiah, 2004).

Based on the above arguments, it is concluded that the more disclosure in accounting through transparency of financial information the better performance of the organization and can achieve higher level of competence in the market.

The concept of Corporate Governance

Corporate governance is defined as "a system of law and sound approaches by which corporations are directed and controlled focusing on the internal and external corporate structures with the intention of monitoring the actions of management and directors and thereby, mitigating agency risks which may stem from the misdeeds of corporate officers" (Sifuna, 2012).

One source defines corporate governance as "the set of conditions that shapes the ex post bargaining over the quasi-rents generated by a firm." (Luigi, 2008) The firm itself is modelled as a governance structure acting through the mechanisms of contract (Williamson, 2002). Here corporate governance may include its relation to corporate finance (Mallin, 2011).

The importance of good Corporate Governance has also been increasingly recognized for improving the firm’s competitiveness, better corporate performance and better relationship with all stakeholders(Shankaraiah, 2004).

One of the most influential guidelines on corporate governance are the OECD Principles of Corporate Governance, first published as the OECD Principles in 1999, revised in 2004 and revised again and endorsed by the G20 in 2015. The Principles often referenced by countries developing local codes or guidelines. Building on the work of the OECD, other international organizations, private sector associations and more than 20 national corporate governance codes formed the United Nations Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) to produce their Guidance on Good Practices in Corporate Governance Disclosure. This internationally agreed benchmark consists of more than fifty distinct disclosure items across five broad categories (Crawford, 2007; Robert, 2014):

- Auditing
- Board and management structure and process
- Corporate responsibility and compliance in organization
- Financial transparency and information disclosure
- Ownership structure and exercise of control rights

The relationship between corporate governance and accounting disclosure

Various studies showed a correlation between corporate governance and accounting disclosure. Enga (2003) examines the impact of ownership structure and board composition on voluntary accounting disclosure. The result of Enga study showed that ownership structure and board composition affect accounting disclosure. His study revealed that larger firms and firms with lower debt had greater accounting disclosure.

In the same context, the Cadbury and Organization for Economic Co-operation and Development (OECD) reports present general principles around which businesses are expected to operate to assure proper governance. The OECD reports one of the basic principles of corporate governance is disclosure and transparency in which organizations should clarify and make publicly known the roles and responsibilities of board and management to provide stakeholders with a level of accountability. They should also implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Disclosure of material matters concerning the organization should be timely and balanced to ensure that all investors have access to clear, factual(Sytseand Hein, 2013).

Shankaraiah (2004) argued that good corporate governance ensures that companies perform better with regard to accounting and revealing financial informationto its stakeholders. The proper practice of accounting standards is very significant, as it leads to the effective disclosure and consequently good corporate governance programs. Hence, the practice of proper accounting standards is more relevant issue of good corporate governance in the present competitive era as the standards provide a useful mechanism to restructure the core corporate values.

Ticker (2008) concluded that corporate governance is a system of accountability primarily directed towards the shareholders in addition to maximizing the shareholders' welfare through the adoption of voluntary accounting disclosure, where the debate on disclosure/ transparency issues of Corporate Governance eventually centers around the proper accounting standards, their practices and issues, as the application of accounting standards give a lot of confidence to the corporate management and the disclosure would be more effective and ensure the good Corporate Governance .

A Study conducted by Fares et al. (2013) examined the impact of governance on the quality of accounting information, a field study on industrial firms listed in Amman Financial Market. Where they were addressed to the concept of governance and the statement of its importance, it's objectives, principles and the role of corporate governance in Jordan, and the impact of quality of financial reports to the principles of corporate governance has been used. The result shows that the existence fully aware of the designers and users of financial statements of the concept of corporate governance, and the foundations of application in contributing to the Jordanian industrial companies listed in Amman Financial Market. Also found that there is effective implementation of the principles of corporate governance affect the quality of financial reporting through accounting disclosure. Their study recommended that an effective implementation of the principles of corporate governance affect the quality of financial reporting through accounting disclosure.

Based on the above argument it is evident there is a certain level of association between corporate governance and accounting disclosure which is tested in this study through a survey in Iraqi firms working in financial activities and practice accounting disclosure. The following section shows the result of testing a hypothesis which states that: Corporate Governance affect Accounting Disclosure in statistical and causal relationship

Results and Discussions

The test of the following hypothesis is made using Simple Linear Regression, ANOVA, and finally checking Residual Plots for Regression Analysis:

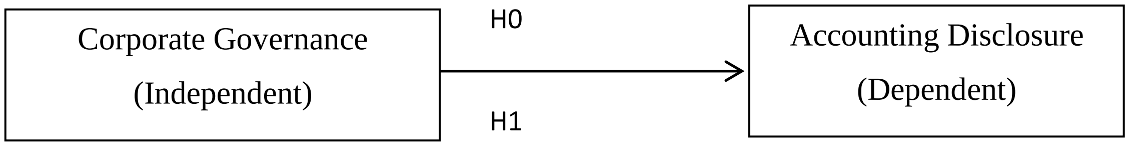
H1: There is a statistical and causal relationship between Corporate Governance and Accounting Disclosure.

H0 (Null Hypothesis): There is no statistical and causal relationship between Corporate Governance and Accounting Disclosure.

In the following analysis the study examine a simple linear regression model (see below) for testing the relationship between Corporate Governance and Accounting Disclosure (H1) and examining the null hypothesis (H0).

Figure (4. 1)

Regression model between Corporate Governance and Accounting Disclosure



The model summary provides the simple correlation coefficient (R) and coefficient of determination (R^2) for the regression model.

Table (4. 1)

Model Summary of Simple Linear Regression output between Corporate Governance and Accounting Disclosure.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.645[a]	.416	.414	.42722
a. Predictors: (Constant)				
b. Dependent Variable: Accounting Disclosure				

The above table provides the *R* and R^2 values and indicated how well the model predicts the observation on the variance and variability between the two variables. The *R* value represents the simple linear correlation and equal (0.645), which indicates a high degree of correlation. The R^2 (the "R Square" column)indicateshow much of the total variation in the dependent variable (Accounting Disclosure) can be explained by the independent variable (Corporate Governance). As shown above, the value of R^2 = .416 suggests that (41.60%) of the variance in Accounting Disclosure can be explained and interpreted by the variance in Corporate Governance. The adjusted R-squared compares the explanatory power of regression models that contain different numbers of predictors.

The adjusted R-Square value equal 41.40% of the overall variance between which is a very small difference (0.2) between the Predicted $R^2$and adjusted R-Squared obtained from the regression output.

The ANOVA Output

ANOVA output indicates the level of regression relationship fit with the data and the fit of the regression equation as well. In addition to that the ANOVA output table shows if the correlation between Corporate Governanceand Accounting Disclosure is statistically significant if the (ρ-value < 0.05).

Table (4. 2)

ANOVA Output

Model		Sum of Squares	df	Mean Square	F	Sig.(α) = 0.05
1	Regression	50.09	1	50.09	274.643	.000[b]
	Residual	69.922	383	.183		
	Total	120.01	384			

As shown in the table above it is evident that the regression correlation as defined in the model predicts the dependent variable significantly good because (ρ< 0.05 and ρ = 0.000), which indicates that, the overall regression model statistically significantly predicts the outcome variable Accounting Disclosure from the Corporate Governance. In other words the output of regression model indicates a good fit for the data.

The F value in the table above is equal to the ratio of two mean square values. A large F ratio indicates that the variation among independent variable means is not by chance (p < 0.05 or ρ≤ 0.01). As ANOVA table indicates (F = 274.643), which is a large ration and indicates that the variance between Corporate Governance and Accounting Disclosureis statistically highly significant at (ρ≤ 0.01). The result rom ANOVA table shows a strong correlation betweenCorporate Governance and Accounting Disclosure. Therefore the null-hypothesis (H0) is rejected and (H1)the alternative hypothesis (opposite of the null hypothesis) is true.

The Coefficients

The Coefficients table provides the necessary information to predict Accounting Disclosure from Corporate Governance, as well as determine whether Corporate Governance contributes statistically significantly to the model (by checking the "Sig." column). The reading to the values in the table below shows that the significance column ($p < 0.05$), which is statistically significant for the relationship between Corporate Governance and Accounting Disclosure, as shown below:

Table (4. 3)

Coefficients of regression

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.037	.151		6.823	.000
	Corporate Governance	.709	.043	.646	16.562	.000
a. Dependent Variable: Accounting Disclosure						

The regression equation of this model as follow:

$$Y_{\text{(dependent variable)}} = B + B1 * X_{1\ \text{(independent variable)}}$$

Accounting Disclosure = 1.037+ 0.646* Corporate Governance + 0.043.

Based on the output of coefficient table (B= 0.646 at Sig. = 0.000). This resultreveals thatAccounting Disclosure is highly predicted by the change in Corporate Governance which approves H1 and rejects H0.

The following table shows the summary of simple regression result between Corporate Governance and Accounting Disclosure:

Table (4. 4)

Summary of Regression Analysis

Output	Value	Output Table	Sig. level ($\rho< 0.05$)	Description
Pearson Correlation R	0.645	Regression	.000	Positive, Strong, and Significant
R- Square R^2	0.416(41.60%)	Regression		High degree of variance interpretation
F- Test	274.643	ANOVA	.000	Regression model fits the data well.
Regression Coefficient	0.646	Coefficients	.000	Regression coefficient positive and statistically highly significant.

Based on the outputs of model summary, ANOVA, and Coefficients, the study rejects the null hypothesis (H0) and accepts the alternative hypothesis (H1). Therefore, it is concluded that Corporate Governance is highly correlated with Accounting Disclosure.

Conclusion

This study introduces the principles of corporate governance and tested its association with accounting disclosure. It is found that the practices of accounting standards is an important and reflects a good application of Corporate Governance in the present financial environment in Iraq. It is concluded that the accounting disclosure play a significant role in economic growth if it followed the principles of corporate governance.The best way to achieve high level of financial transparency to the stakeholders is to apply the principles of corporate governance in business environment, where the result of this study reveals a statistical and significant relationship between Corporate Governance and Accounting Disclosure.

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