The Impact of Adopting International Financial Reporting Standards on Corporate Value - A Study in the Iraqi Banking Sector for the Period from 2008 to 2022

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Abstract

This study examined the impact of adopting International Financial Reporting Standards (IFRS) on corporate value in the Iraqi banking sector during the period 2008–2022, using a descriptive-analytical methodology and statistical tools.

The sample included banks listed on the Iraq Stock Exchange, and statistical measures were used to assess changes in corporate value before and after IFRS implementation. The results showed a positive and statistically significant impact of IFRS adoption on bank value, through improving the quality of financial reporting, enhancing transparency, and reducing the information gap.

However, these benefits face institutional and regulatory challenges, such as weak legislative structures and a lack of professional expertise. The study concludes that adopting IFRS represents an effective strategy for increasing investment attractiveness, while recommending strengthening the organizational structure and professional training programs to ensure optimal implementation.

Keywords: International Financial Reporting Standards (IFRS), Corporate Value, Iraqi Banking Sector.

1. Introduction

In recent decades, the world has witnessed a radical shift in the patterns of preparing and presenting financial statements, as a result of financial globalization and the increasing movement of capital across borders. This has necessitated the development of unified accounting standards that enhance the transparency and comparability of financial information. In this context, International Financial Reporting Standards (IFRS) have emerged as a global reference framework aimed at raising the quality of financial disclosure and improving market efficiency. Many developing and developed economies have placed great importance on adopting these standards as a strategic tool for attracting investment and achieving integration with global markets (Barth et al., 2008).

In Iraq, the adoption of IFRS is of particular importance given the unique nature of the economic and financial environment, which is characterized by a transitional phase. The banking sector seeks to enhance the confidence of local and international investors amidst political and economic challenges. Financial disclosure is a fundamental approach that enables banks to build a positive image among clients, thus directly impacting company value.

2. Previous Studies

The literature has shown mixed results regarding the impact of IFRS adoption on disclosure and firm value:

- Positive Effect

Barth et al. (2008) found that IFRS adoption reduced information asymmetry and increased the quality of financial reporting, which positively impacted firm value.

Al-Shammari et al. (2017) in a Gulf context showed that adoption increased foreign investor confidence and improved market valuation of firms.

- Negative Effect

Callao & Jarne (2010) in Spain showed that adoption did not always achieve the expected improvement in transparency, as some accounting practices remained localized.

Lack of Substantial Effect

Ahmed et al. (2013) found that the transition to IFRS had no significant impact on some market indicators, particularly in developing economies, due to the weak institutional environment.

Researcher's Consensus: Based on these findings, the researcher agrees that adopting IFRS in Iraq will have a significant impact on company value, with the potential for this impact to vary depending on environmental and regulatory factors.

3. Research Methodology

a. **Research Problem:** The research problem revolves around the question of the impact of adopting IFRS on corporate value in the Iraqi banking sector.

b. **Research Significance:** It contributes to bridging the research gap regarding the adoption of International Financial Reporting Standards (IFRS) and its impact on corporate value in the Iraqi context.

c. **Research Objective:** To verify the existence of a statistically significant impact of adopting IFRS on corporate value in Iraqi banks.

d. Research Hypothesis

H1: There is a statistically significant impact of adopting IFRS on corporate value.

e. Study Population and Sample: The research population includes all banks listed on the Iraq Stock Exchange during the period (2008–2022). A sample of (13) banks was selected.

f. Data Collection Method: Secondary Data: Published annual reports and Iraq Stock Exchange databases.

g. **Used Indicators:** Adoption of International Financial Reporting Standards (IFRS) and firm value (measured by Tobin's Q).

h. **Analysis Tools:** Descriptive Statistics (mean, standard deviation, etc.).

The Theoretical Framework of International Financial Reporting Standards

First: The Historical Background of the Development of IFRS

The roots of International Financial Reporting Standards go back to the establishment of the International Accounting Standards Committee (IASC) in 1973, which sought to unify accounting rules and provide a standard framework that facilitates the comparability of financial statements across countries. At the beginning of the new millennium, the committee evolved into the International Accounting Standards Board (IASB), which today issues and develops International Financial Reporting Standards (IFRS). These standards have gained widespread acceptance, having been adopted by more than 140 countries, including most major economies (Christensen et al., 2015).

Second: Justifications for Adopting IFRS

1- Enhancing transparency: by providing financial reports that reflect a realistic picture of financial position and performance.
2- Improving comparability: IFRS makes it easier for investors to compare companies domestically and internationally.
3- Attracting foreign investment: Compliance with international standards is seen as an indicator of strong corporate governance.
4- Reducing the information gap: by reducing the problem of information asymmetry between management and stakeholders (Scott, 2015).

Third: Obstacles to Adoption in the Iraqi Environment

Despite the advantages, Iraq faces multiple challenges when adopting IFRS:

Weak institutional infrastructure: Inadequate supporting electronic and regulatory systems.

Lack of human resources: The need to train accounting personnel on IFRS standards.

Legal and regulatory challenges: Some local laws are not compatible with IFRS requirements.

Unstable economic environment: Market fluctuations and security and political challenges limit effective implementation.

Fourth: IFRS and the banking sector

The banking sector is considered one of the sectors most affected by the adoption of IFRS, given its reliance on financial disclosure to build trust with customers and investors. International studies indicate that the implementation of IFRS has contributed to improving the quality of banks' financial information and increasing their operational efficiency (Barth et al., 2008). In the Iraqi context, the application could constitute a strategic step towards rebuilding confidence in the banking system and enhancing regional competitiveness.

Results of Research Hypothesis Testing:

After completing the measurement of all research variables, presenting them, and commenting on them in the previous section, and in order to conduct the necessary analyses to examine the data and test the hypotheses using specialized statistical programs, the researcher coded the variables according to their type, as shown in the table below. The table also included an explanation of the method of measuring each variable, as follows:

Table (1) Summary of coding of research variables and method of measuring them

Variable Name	Variable Type	Variable symbol
International Financial Reporting Standards	Independent	ifrs
Company Value	Dependent	FV
Company Age	Controller	Age
Company Size	Controller	Size
Growth Rate	Controller	RG
Financial Leverage	Variable Type	Lev

Descriptive statistics can be used to describe the basic features of the research data, as well as to clarify the research sample and research directions specific to the research hypotheses. Statistical programs were used to find the minimum and maximum limits, the arithmetic mean, which is one of the measures of central tendency, in addition to the standard deviation, which represents one of the measures of dispersion.

Table (2) Descriptive statistics for research variables

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ifrs	194	0	1	.46	.500
FV	194	.336	3.947	.85729	.312800
Age	194	2.000	30.000	17.24742	6.358921
Size	194	24.451	28.513	26.85121	.688186
RG	194	-.832-	28.622	.29730	2.131144
Lev	194	.191	1.187	.56096	.178967
Valid N (listwise)	194				

The table above shows the sample size, minimum and maximum values for the variable data, as well as the arithmetic mean and standard deviation. The most important thing to note from the table above is that the total valid N values (listwise) for all variables is 194 observations, and the sample size for all variables is 194 observations, meaning there are no missing values in the data for any of the variables. The researcher also conducted a normal distribution test for the research variable data, and the results were as follows:

Table (3) Testing the normal distribution of research variables data

One-Sample Kolmogorov-Smirnov Test							
		ifrs	FV	Age	Size	RG	Lev
N		194	194	194	194	194	194
Normal Parameters[a,b]	Mean	.46	.85729	17.24742	26.85121	.29730	.56096
	Std. Deviation	.500	.312800	6.358921	.688186	2.131144	.178967
Most Extreme Differences	Absolute	.359	.151	.044	.103	.318	.057
	Positive	.359	.151	.038	.071	.318	.057
	Negative	-.322-	-.078-	-.044-	-.103-	-.315-	-.042-
Test Statistic		.359	.151	.044	.103	.318	.057
Asymp. Sig. (2-tailed)		.000[c]	.000[c]	.200[c,d]	.000[c]	.000[c]	.200[c,d]
a. Test distribution is Normal.							
b. Calculated from data.							
c. Lilliefors Significance Correction.							
d. This is a lower bound of the true significance.							

Although the results indicate that the significance level (Sig) for all variables (except for leverage and company age) is less than 0.05, which initially means that the data do not closely resemble a normal distribution, based on the theory that if the sample size exceeds 30 observations, it is normally distributed and suitable for statistical analysis, the data were considered to have met the normal distribution test because the research sample was 194 observations. (Sekaran & Bougie, 2016).

Correlation Matrix (Correlation Analysis between Research Variables)

The table shows the binary correlation matrix between the research variables: -

Table (4) Correlation Matrix between Research Variables

Correlations							
		ifrs	FV	Age	Size	RG	Lev
ifrs	Pearson Correlation	1					
	Sig. (2-tailed)						
FV	Pearson Correlation	-.470-**	1				
	Sig. (2-tailed)	.000					
Age	Pearson Correlation	.583**	-.306-**	1			
	Sig. (2-tailed)	.000	.000				
Size	Pearson Correlation	.423**	-.127-	.571**	1		
	Sig. (2-tailed)	.000	.078	.000			
RG	Pearson Correlation	-.101-	.123	-.067-	-.023-	1	
	Sig. (2-tailed)	.161	.088	.354	.749		
Lev	Pearson Correlation	-.237-**	.501**	.010	.358**	.103	1
	Sig. (2-tailed)	.001	.000	.890	.000	.153	
**. Correlation is significant at the 0.01 level (2-tailed).							

The table above shows the binary and individual-level correlation coefficients between the variables, which gives us a preliminary insight into the nature of the relationship between them.

Hypothesis: "There is a statistically significant effect of adopting International Financial Reporting Standards on company value."

To test this hypothesis, the following linear regression model was developed:

$$FV_{it} = B_0 + B_1\ IFRS_{it} + + B_2\ Age_{it} + B_3\ Size_{it} + B_4\ RG_{it} + B_5\ Lev_{it} + \varepsilon_{it}$$

Using the SPSS statistical program, the results were as follows:

Table (5) Summary of the third hypothesis test model

Model Summaryb				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.640a	.410	.394	.243
a. Predictors: (Constant), Lev, Age, RG, ifrs, Size				
b. Dependent Variable: FV				

The model summary table above shows that the correlation value (R) between the variables reached 0.640, which is a very strong value, and that the coefficient of determination (R Square) reached 0.410, which represents the "explanatory power" of the model used. That is, the independent variable

(International Financial Reporting Standards) and the control variables explain 39.4% of the variance in the dependent variable (company value), and the standard deviation of the estimation error (Std. Error of the Estimate) was 243.0, which is a very low number. The lower this type of error, the better it is from a statistical point of view.

Table (6) Test variance

ANOVAa						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.742	5	1.548	26.127	.000b
	Residual	11.142	188	.059		
	Total	18.884	193			
a. Dependent Variable: FV						
b. Predictors: (Constant), Lev, Age, RG, ifrs, Size						

The above anova shows that the calculated F value was 26.127, which is greater than its tabular value calculated according to the degrees of freedom (df) of (188.5), which amounted to 2.21 at a 5% significance level. The significance level of the test (Sig) was 0.000, which is less than the predetermined error value in the social sciences of 0.05. This indicates the suitability of the statistical model used to test the hypothesis.

Table (7) Regression Function Coefficients

Coefficientsa						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.457	.905		2.714	.007
	ifrs	-.146	.048	-.233	-3.063	.003
	Age	-.004	.004	-.081	-1.059	.291
	Size	-.073	.036	-.160	-2.019	.045
	RG	.006	.008	.039	.682	.496
	Lev	.874	.119	.500	7.371	.000
a. Dependent Variable: FV						

The regression coefficients table shows that the value of the regression equation constant reached 2.457, and the value of the slope of the regression equation for the independent variable (adopting international financial reporting standards) reached -0.146, which shows the effect of the independent variable on the dependent variable (by coefficient B). The negative value of the coefficient indicates that there is an inverse effect between the independent and dependent variables, or in other words, any increase in the independent variable (adopting international financial reporting standards) by one degree leads to a decrease of 14.6% in the dependent variable (company value), with all other independent variables being constant. The researcher attributes the reason for this to the recent application of international financial reporting standards in the Iraqi environment and that they were partially applied to the banking sector without the rest of the sectors. Therefore, investors find it difficult to understand the financial reports prepared in accordance with them, which negatively affected the prices of companies' shares, which was reflected negatively on the company's value. It is also noted from the table above that the significance level of the t-statistic for the independent variable reached 0.003, which is less than the acceptable error in the social sciences and specified. The p-value was 0.05, which means that the sample data provided convincing evidence to accept the hypothesis of statistically proven effect, and thus there is a statistically significant effect of implementing International Financial Reporting Standards on the company's value. The results of the study were consistent with the results of (Cormier et al. 2016), (Wang 2014), Bass emir et al. 2017, and (Latria ds 2010), and contradicted the results of (Jin et al. 2022) and (Hammed et al. 2020).

As for the controlling variables, their effects on company value, according to their level of significance, were as follows:

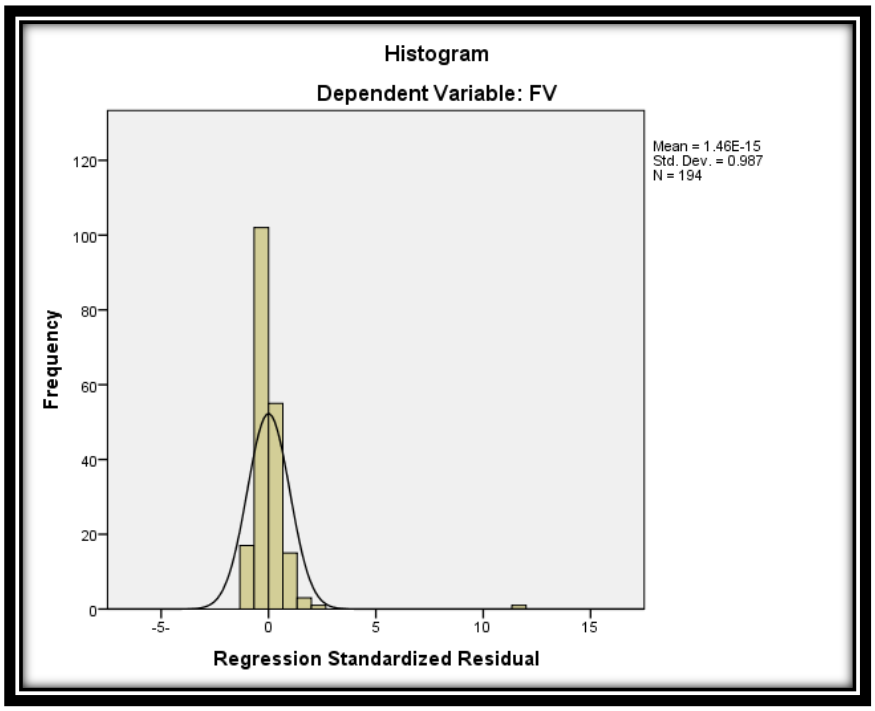
1. Company age had an insignificant inverse effect of 0.4%.
2. Company size had an insignificant inverse effect of 7.3%.
3. Growth rate had an insignificant direct effect of 0.6%.
4. Financial leverage had a significant direct effect of 110.4%.

The regression equation used to test the hypothesis can be reformulated in light of the results obtained and used for prediction purposes as follows:

$$FV = 2.457 - 0.164 * IFRS - 0.004 * Age - 0.073 * Size + 0.006 * RG + 0.87 * Lev$$

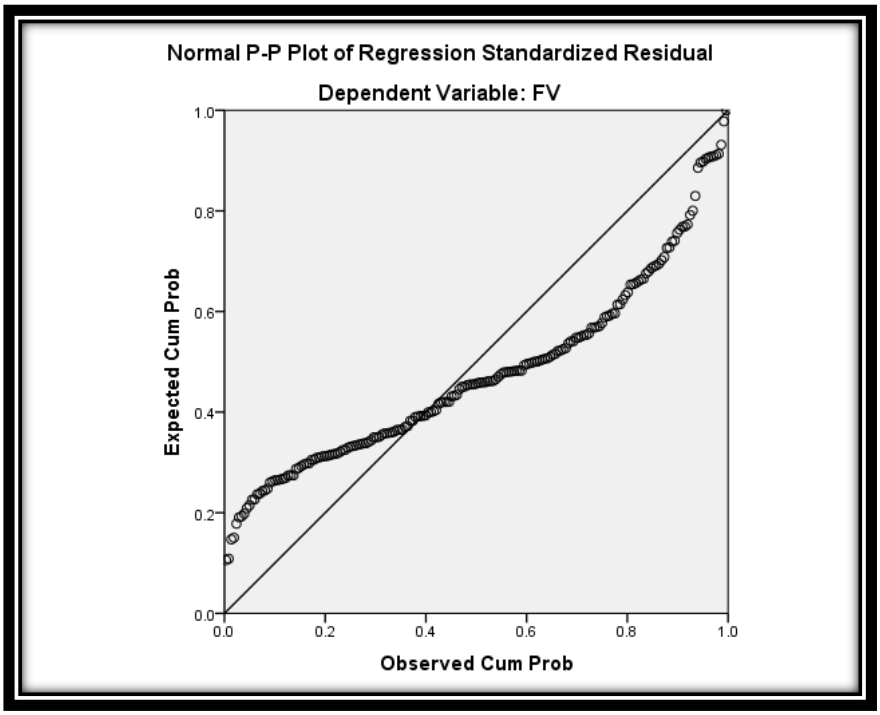
The following figure shows the frequency histogram, which illustrates the normal distribution of the residuals of the regression equation, and which demonstrates the accuracy of the previous regression equation.

Figure (1) Frequency histogram of the residuals of the hypothesis



The following figure graphically demonstrates the fulfillment of the regression analysis test conditions, which shows the distribution of points around a straight line, proving that the statistical residuals follow a normal distribution.

Figure (2) The normal distribution of the residuals of the third hypothesis



Conclusion

The results showed that adopting IFRS was positively and statistically significantly associated with increased corporate value in banking companies, reflecting the role of these standards in improving the quality of financial reporting, enhancing transparency and credibility, and reducing the information gap between management and investors. The study also revealed that this positive impact may face some constraints resulting from institutional and regulatory challenges in the Iraqi environment, such as limited legislative infrastructure and a lack of sufficient professional expertise.

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Appendix

(A sample of a bank and measurement methods) Ashur Bank

Sales	stock price	Capital Share	Liabilities	Assets	Establishment	
18,200,000,000						2007
30,200,000,000	1.05	50,000,000,000	101,552,000,000	161,114,000,000	2006	**2008**
17,523,000,000	1.25	57,000,000,000	90,379,000,000	160,435,000,000	2006	**2009**
15,000,000,000	0.88	66,700,000,000	62,809,000,000	139,371,000,000	2006	**2010**
19,500,000,000	0.99	66,700,000,000	84,868,000,000	169,295,000,000	2006	**2011**
27,000,000,000	0.93	150,000,000,000	97,368,000,000	267,892,000,000	2006	**2012**
30,344,000,000	0.74	210,000,000,000	124,880,000,000	355,829,000,000	2006	**2013**
32,695,000,000	0.93	250,000,000,000	166,974,000,000	433,199,000,000	2006	**2014**
33,236,000,000	0.43	250,000,000,000	181,639,000,000	407,730,000,000	2006	**2015**
34,342,000,000	0.34	250,000,000,000	130,130,000,000	374,710,000,000	2006	**2016**
20,215,000,000	0.30	250,000,000,000	110,189,000,000	375,795,000,000	2006	**2017**
17,140,000,000	0.23	250,000,000,000	119,071,000,000	467,479,000,000	2006	**2018**
16,140,000,000	0.24	250,000,000,000	157,616,000,000	415,992,000,000	2006	**2019**
79,498,000,000	0.28	250,000,000,000	201,955,000,000	473,954,000,000	2006	**2020**
22,535,000,000	0.44	250,000,000,000	323,930,000,000	613,525,000,000	2006	**2021**
30,733,000,000	0.40	250,000,000,000	485,090,000,000	779,419,000,000	2006	**2022**

Financial Leverage	Revenue Growth	Company Size	Company Age	Company Value Tobin Q	ifrs	year	
0.6303115	0.6593407	25.80538	2	0.956167683	0	**2008**	Ashur Bank
0.5633372	-0.419768	25.80115	3	1.007442266	0	**2009**	
0.4506605	-0.143982	25.66041	4	0.871809774	0	**2010**	
0.5013025	0.3	25.85491	5	0.89134942	0	**2011**	
0.3634599	0.3846154	26.31385	6	0.884192137	0	**2012**	

0.3509551	*0.1238519*	*26.59772*	*7*	*0.787681724*	*0*	***2013***
0.3854441	*0.0774782*	*26.79446*	*8*	*0.922148943*	*0*	***2014***
0.4454884	*0.0165469*	*26.73387*	*9*	*0.709143306*	*0*	***2015***
0.3472819	*0.0332772*	*26.64942*	*10*	*0.574123989*	*1*	***2016***
0.2932157	*-0.411362*	*26.65231*	*11*	*0.492792613*	*1*	***2017***
0.2547088	*-0.152115*	*26.87062*	*12*	*0.377708945*	*1*	***2018***
0.3788919	*-0.058343*	*26.75393*	*13*	*0.523125445*	*1*	***2019***
0.4261068	*3.9255266*	*26.88438*	*14*	*0.573800411*	*1*	***2020***
0.5279817	*-0.716534*	*27.14249*	*15*	*0.707273542*	*1*	***2021***
0.6223738	*0.3637897*	*27.38181*	*16*	*0.750674541*	*1*	***2022***

Measuring Variables

1. Firm Value

   Measuring Firm Value Using Tobin's Q:

   Tobin's Q is a common indicator for measuring firm value. It is defined as follows:

   Tobin's Q = (Market Value of Assets) / (Replacement Cost of Assets)

2. Control Variables

   A- Firm Age:

   Measurement Method: Firm Age = Current Year − Year of Establishment

   B- Firm Size:

   Assets were used as a measurement method: using the natural logarithm of assets

   C- Growth Rate:

   Measurement Method: Growth Rate = ((Current Value − Previous Value) ÷ Previous Value) × 100%

   D- Financial Leverage:

   Measurement Method: Financial Leverage = Total Debt ÷ Total Assets