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Corporate Governance Mechanisms and Firm Performance in Iraq: A Conceptual Framework

Hassnain Raghib Talab[1], Dr. Kamarul Bahrain Bin Abdul Manaf[2], Dr. Siti Seri DelimaBinti Abdul Malak[3]

[1]PHD candidate at School of Accountancy (Tissa), Unversiti Utara Malaysia , 06010UUM, Sintok, Malaysia
Lecture at Accounting Department, College of Administration and Economics, University of Kufa, Iraq
[2,3]Lecture at School of Accountancy (Tissa) ,Unversiti Utara Malaysia , 06010UUM, Sintok, Malaysia

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Corresponding Author:
Hassnain Raghib Talab
Lecture at Accounting Dept., College of Administration and Economics, University of Kufa, Iraq

ABSTRACT

There is a need for consistency in the aim of the Iraqi government to attract more foreign investors into Iraq for the purpose of stimulating economic growth and development through sound corporate governance practice. This study is grounded on the review of past literatures based on which the proposed conceptual framework was developed and discussed. The relationship between corporate governance mechanisms and firm performance is validated and established via extant scholarly researches. This conceptual study therefore proposed a corporate governance model for the enhancement of the Iraqi listed companies' performance. The model is aimed to resolve the lingering problem of poor firm performance via the various identified internal and external corporate governance mechanisms which reflect the economic and reporting climate of Iraq. This model can be subjected to empirical validation via the collection and analysis of relevant data. The proposed conceptual framework creates a case for both policy makers and management of listed companies in Iraq on the significance of sound corporate governance. The proposed conceptual framework is unique and comprehensive compared to the few studies on corporate governance that emanated from Iraq. In this paper, internal audit function establishment and the training of internal audit department staff are proposed to serve as internal monitoring mechanisms. Through the two mechanisms, Iraqi listed company's performance can be enhanced.

KEYWORDS: ***Firm performance, Iraq, internal and external corporate mechanisms and ownership structure.***

1. INTRODUCTION

Corporate governance continues to attract policy issues in many countries due to its importance to economic development. Effective corporate governance ensures the efficient use of resources within the firm and the society at large. It ensures that firms are better managed through the system of accountability and strict adherence to applicable laws and regulations (Mulili & Wong, 2011). However, the occurrence of high profile corporate collapse caused by unethical management conduct as well as exacerbated weak corporate governance practice and its antecedent has brought a lot of challenges to the economy across the global. For instance, a number of unethical issues business practise that plague the corporate environment in Iraq as evidenced in the reported cases of Iraqi North Bank, Basra Bank and Iraqi, and Warka Bank posed a serious challenge for the effort for the rehabilitation of post Iraqi war that is aimed at stimulating foreign direct investment into the country (Asj, 2016). Therefore, it is imperative on the Iraqi government to ensure that the poor corporate governance issues are addressed by the board of directors by introducing a code of governance that will be guiding the firm performance of listed companies in Iraqi stock exchange.

Improving corporate governance practice is important as shareholders are more concerned about the return on the money invested in the company as supplier of capital. A certain level of assurance is needed for the managers to perform as shareholder with dividend (Shleifer & Vishny, 1997). Shareholders as well as regulators highlight the importance of effective corporate governance mechanism. Effective corporate governance is critical in ensuring and increasing investors' confidence (Jesover & Kirkpatrick, 2005). According to Fauzi and Locke, (2012); Tornyeva and Wereko, (2012),effective corporate governance enhances firm performance and protect shareholders interest. The presence of a well-structured governance mechanism provides effective oversight for management and incentive for management to align their interest with the management (Hart, 1995). In addition, corporate governance subdues the internal pressures that encourage firm failure arising from poor management and managerial self-dealing. Invariably, through better management and efficient allocation of firm resources, the demand for company shares and the share price could significantly increase and lead to firm performance (Hamad, 2013). This study shall therefore, examine the impact of internal corporate governance and external corporate governance on the form performance oflisted companies in Iraqi stock exchange by focusing on the board effectiveness, audit committee effectiveness, internal audit function (internal audit existence and internal audit training)and external auditing.

Specifically, this study adds internal control existence and the training frequency of internal control department staff and external audit quality of listed companies in Iraq to the performance model. Internal audit control function is also referred to as internal corporate governance control mechanism that ensures effective corporate governance (Christopher, Sarens, & Leung, 2009; Talab, Abdul Manaf, and Abdul Malak, 2017). The rationale behind establishing an internal audit function is to preserve the firm's assets and ensuring that financial information depicts the state of the economy (Ebaid, 2011; Talab et al., 2017). Going beyond Ebaid (2011) view, the Institute of Internal Auditor extend the role of internal audit to include value added assurance and consulting service. According to Ruud (2003), internal audit function complements the function of the management, audit committee, and the board of director. Based on the guideline of the practice for internal audit issued in Iraq, the independence of the internal audit must be preserved. Therefore, it is a requirement that the head of the internal audit function should report directly to the board through the audit committee. Christopher et al. (2009) mentioned that the objective of an internal auditor involves an independent state of mind and fair attitude. In this way, internal audit function will strengthen governance disclosure as well as enhance shareholders and other stakeholders' confidence in firm (Archambeault et al., 2008). In Iraq, internal audit establishment is not mandatory in the

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

company law; however few companies create their own internal audit department responsible for establishing the company's internal control system (Talab et al., 2017). Accordingly, this study expects those companies that established internal control department be responsible for effective corporate governance, which will improve firm performance.

Moreover, the agency theory suggests several corporate governance mechanisms and these mechanisms are made provision for in the code of corporate governance to mitigate the agency problem associated with the separation between ownership and control (Jensen & Meckling, 1976; Fama, 1980). The import of these mechanisms is to align the interest of shareholders and management interest. An important external corporate governance mechanism is the external auditing. Few studies like Fan and Wong (2005); Lennox (2005) examined the role of quality external monitoring mechanism to help in reducing the agency problems that emerges from the separation of ownership from control. The studies argued that external monitoring by high quality auditor improves the credibility of financial reporting. An independent examination of the books of account of a company by an auditor reduce agency problem by preventing the insider (controlling shareholders or managers) from engaging in discretionary accounting practices and estimates (Jensen & Meckling 1976). In the model of DeAngelo (1981), high quality auditors are said to be conscious of their reputation capital and this makes them to supply high quality audit than other auditors.

However, there is a separation of ownership from those who manage the business by presenting the principal – agent relationship, whereby, individual like shareholder signs a contract to engage another individual (the manager) who carry out some assigned functions as stipulated (Jensen & Meckling, 1976). In this kind of situation, the incentive of the principal and the agent are not aligned since all the profit accruing from the agent effort goes to the principal. Accordingly, the difference in the shareholders' and managers' interests prompts the managers to take steps that are critical to the shareholders (Fama & Jensen, 1983). The severity of the agency problem depends on whether the ownership structure is dispersed or concentrated. According to Bolton and Von Thadden (1996) dispersed ownership in countries with active stock market and efficient regulatory system with active market mechanisms is more preferable. Dispersed ownership improves market liquidity and leads to risk diversification (Admati et al., 1994). This structure exacerbate agency problem as the principal lacks the ability to monitor the agent (Shleifer &Vishny, 1986). Ownership concentration on the other hand lowers the agency problem arising from disperse ownership structure since shareholders can easily monitor and discipline managers that performs poorly (Admati et al., 1994).

Therefore, investigating the role of corporate governance is very paramount as to contain the backdrop of its importance role it plays in stabilizing the capital market for attracting foreign investors. Corporate governance codes are set of rules that are designed to align the interest of the executive with the shareholders interest (Aguilera, Filatotchev, Gospel, & Jackson, 2008; Talab, 2015; Mashhadani and Talab, 2013; Talab, 2009).This study aims to contribute to the understanding of corporate governance mechanisms that are pertinent to firm performance in the context of listed companies in Iraqi stock exchange, by extending the discussion on the theoretical perspectives of corporate governance research through the development of a holistic theoretical framework that explains the relationship between corporate governance and firm performance.

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

2. LITERATURE REVIEW

Corporate governance issues will continue to dominate accounting literate due to its significant contribution to economic growth and development. Several studies examined the relationship between corporate governance mechanisms and firm performance in both developed and developing countries. Early studies from developed countries(De Silanes, La porta, Shleifer & Vishny 1998) on corporate governance stressed that legal system across the globe influence investors' protection. La porta et al (2002) stressed that countries with good investors protection have high stock market value and also investors and firms in investor protected environment rely more on external financing for growth purpose. Most of the developing countries operate under a deficient legal regime, capital market and accounting system which negatively impact on firm performance. Classens (2003) demonstrated that sound corporate governance ensures that firms have access to capital at a lower cost, improves firms' valuation, ensures sound operational performance and enhance the relation between the firm and all stakeholders.

Likewise, Braga Alves and Shastri (2011); Maher and Andersson (2000) showed that sound corporate governance improve firm performance, preserve shareholders' right, improve the country investment climate and stimulate economic growth and development. Sound corporate governance improves transparency and accordingly reduce corruption in the country because fraudulent financial reporting is easily detected (Watson & Hirsch, 2010). Several attempts were made in developing countries to conceptualise the issue of corporate governance from the perspective of agency theory, however it have been faced with challenges. Some studies like Bhuiyan and Biswas (2007); Solomon et al., (2003) focused are on the impact on board structure on firm performance; Campbell, Jerzemowska and Najman (2009) conducted compliance studies; Tsamenyi, Enninful-Adu and Onumah (2007) while studies like Siddiqui (2010) concentrated on the state of corporate governance implementation in emerging market. Findings from many of the studies corporate governance studies from emerging market revealed that corporate governance practise is weak.

Corporate governance literature from the context of developing countries have predominantly failed to address the drivers of sound corporate governance from the perspective of firm in developing countries that operates within a deficient institutional framework like poor legal system, weak capital market and ineffective accounting systems that negatively affect firm performance (Adegbite, 2015). According to (Adegbite, 2015), the agency theory fails to capture the 'multidimensional complexity and character of corporate governance phenomena in an international context". In the sense that the theory conceptualizes the market characteristics of developed Anglo Saxo countries that are marked with the features of dispersed ownership structure as well as an efficient and competitive market environment.

Consequently, there is a misfit in policy, academic research and prevailing reality in developing countries with respect to the drivers of sound corporate governance. As rightly noted by Adegbite, (2015), the drivers of sound corporate governance are not transferable between countries due to institutional peculiarities. Accordingly, there is a need for less developed countries design and implement an effective corporate governance which is reflective of the features of corporate governance issues developing countries (Mulili & Wong, 2011). For example, firm ownership structure in the Middle East countries is dominated by family owned firms and majority shareholders (Hopewell, 2010). Unfortunately, few studies (Ani & Azzawi, 2007; Abdul Hakim & Dalloul, 2009; Khudair, 2012; Mashhadani 2009; Jebouri 2007; Rashid 2009; Talab, 2015;

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

Mashhadani and Talab, 2013; Talab, 2009) from Iraq have investigated corporate governance issues from the Iraqi perspective and these few studies are conceptual papers that focused on the importance of corporate governance in Iraq and none of the studies developed a conceptual framework on the drivers of sound corporate governance and their impact on firm performance.

2.1. Internal Corporate Governance Mechanisms and Firm Performance

An important corporate governance mechanism that aligns the interest of the managers and those of the shareholders is the board of director. The board of director has the statutory responsibility of monitoring and advising the managers on behalf of the shareholders. Accordingly, the structure of the board with respect to board size, board composition, the leadership structure and internal control is very essential. As such, corporate governance policy makers and scholars have laid much emphasis on these board structure components in the recent time, although there are conflicting views regarding the effectiveness of the each of these components of the board structure. For example, the size of the board affects the functioning of the board. Lipton and Lorsch (1992) argued that large boards creates a free rider problem and are expensive to maintain.

Eisenberg, Sundgren, and Wells (1998) examined a small board of more productivity and effective in board monitoring. Contrarily, Agrawal and Knoeber (2009) found that larger board are breeding space for individuals with experience and expertise while Ellstrand et al. (1999) reported that large board prevent CEO dominance. Both board composition and board leadership structure captures board independence which is key to board effectiveness, hence firm performance. A duly composed board according to policy makers and scholars of corporate governance proposed that the proportion of independent directors in boardroom should more to prevent management domination (Fama & Jensen 1983). Whilst the general argument supports the monitoring effectiveness of independent directors, few emerging studies have shown otherwise.

For example, Hsu and Wu (2014) found a positive relationship between firm failure and the proportion of independent directors in boardroom. Lastly, board leadership structure as measured by CEO duality that is the position of the CEO and chairman vested on the same individual has generated conflicting scholarly arguments. The first view holds that CEO duality permits sounds decision making as the line of responsibility is clearly defined, hence separating the two roles could cause familiarization problem which will negatively affect the ability of the CEO to take value rendering decisions. Accordingly, Faleye (2007); Dahya et al. (2009) reported that splitting the two role was counterproductive as it does not improve firm performance. The other view held that CEO duality concentrate power into the hand of a single individual which result in CEO dominance. Consequently, the board cannot monitor and control the CEO since the independence of the board is compromised (Fama & Jensen, 1983).

Further, the recent corporate governance scandals have highlighted the role of the internal audit function in strengthening corporate governance (Bailey, Gramling & Ramamoorti, 2003). The establishment of an efficient internal control department could help to prevent fraud in companies and ensure compliance with all relevant regulations and laws. Internal audit function can improve firm performance (Gordon & Smith 1992). Gordon and Smith (1992) argued that an independent internal audit function in an improved environment could reduce reporting error. According to Mercer (2004), Archambeault et al. (2008); Holt and Dezoort (2009) the existence of internal audit function enhance stakeholder confidence when its complement governance disclosure. Kaplan and Schultz (2007) explained that internal audit function (IAF) help

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

expose fraudulent activities. While, Coram et al. (2008) documented that firms that establish internal audit department have the advantage of detecting fraudulent reporting arising from misappropriation of assets. However, the value of internal audit function depends on the quality of the internal audit function which is could be determinant on the quality of the internal audit staff training. The training of internal audit staff is critical to the efficient performance of the firm and that of its internal audit department (Johnson, 1991).

2.2 External Corporate Governance Mechanisms and Firm Performance.

In addition to the internal corporate governance mechanisms, there exist external corporate governance mechanisms such as external auditing, analyst forecast and market for corporate control through merger and acquisition reduced agency cost. The prominent and active mechanism in the external category in developing market is the external auditing. The market for corporate control is not active because of the dominance of the family ownership at the capital market of developing country. Therefore, this is the reason why external auditing is one of the focuses of the present study. An external auditing is an independent verification of the books of account of the company by an independent person appointed by the shareholders for that purpose. In developing countries where the traditional corporate governance control systems is weak in controlling outside investors, the quality of the external auditing process is very important in reducing agency cost.

There is no consensus on the exact definition of audit quality and how best to measure audit quality (DeFond & Zhang, 2014). The definition of audit quality varies based on the perception of the user of financial statement. For instance, to an investor an audited financial statement should be free from any material misstatement and fraud while the auditors perceive an audit quality to mean an audit engagement that meet up with all regulatory requirements (Wooten, 2003). The difference that exists in the perception of what an audit quality refers to between the auditor and users of financial statement creates an expectation gap as the investors see the work of an auditor as that of detection and prevention of fraud. However, in auditors' view, an audit is only expected to give an assurance on the credibility of the financial statement based on evidences that are available at the disposal of the auditor (Wooten 2003). In the widely cited definition presented by DeAngelo (1981), audit quality is the likelihood of auditor detecting material misstatement in the financial statement and his ability to report such misstatement. From DeAngelo (1981) definition, auditor skills and independence determine the extent of audit quality. In Chia-Ah and Karlsson (2010) view any threat to auditor's independence undermines the auditor's ability to carry out an audit effectively. Fan and Wong (2005) and Lennox (2005) examined the role of quality external monitoring mechanism to help in reducing the agency problems that emerges from the separation of ownership from control. These studies argued that external monitoring by high quality auditor improves the credibility of financial reporting. Theoretically, an independent examination of the books of account of a company by an auditor reduce agency problem by preventing the insider (controlling shareholders or managers) from engaging in discretionary accounting practises and estimates (Jensen & Meckling, 1976).

2.3 Ownership Structure and Firm Performance

The separation of ownership from those who manages the business present the principal –agent relationship. Whereby, individuals (the shareholder) sign a contract to engage another individual (the manager) who carry out some assigned functions as stipulated (Jensen & Meckling, 1976). In this kind of situation, the incentive of the principal and

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

the agent are not aligned since all the profit accruing from the agent effort goes to the principal. Accordingly, the difference in the shareholders' and managers' interests prompts the managers to take steps that are critical to the shareholders (Fama & Jensen, 1983). The severity of the agency problem depends on whether the ownership structure is dispersed or concentrated. According to Bolton and Von Thadden (1998) dispersed ownership in countries with active stock market and efficient regulatory system with active market mechanisms is more preferable. Dispersed ownership improves market liquidity and leads to risk diversification (Admati, Pfleiderer & Zechner, 1994). This structure exacerbate agency problem as the principal lacks the ability to monitor the agent (Shleifer & Vishny, 1986). Ownership concentration on the other hand lowers the agency problem arising from disperse ownership structure since shareholders can easily monitor and discipline managers that performs poorly (Admati et al., 1994).

The role of managers in improving firm value is significant. Managers minimize cost associated with agency conflict through quality disclosure, hence an improvement in firm value (Bushman & Smith, 2003). As noted by Jensen and Meckling (1976), managerial ownership is another mechanism used in reducing agency problem. Managerial ownership makes managers think and work in accordance with the shareholders' interests. This has the resultant effect of improving firm value. Managers develop agency cost by under investing or over investment of available cash-flow. In this case, shareholders are at disadvantage as they pay more monitoring, bonding and residual costs for those corporate firms (Hillawi, 2012). However, incentive of the shareholders and managers can align through the managerial ownership. This is because the higher the stake of the manager in the firm, the higher the profit the manager will share with other shareholders. Hence, the manager will align their interest with that of the shareholder and refrain from self-serving behavior which will improve firm performance.

Meanwhile, prior studies present two conflicting ideas: the first one state that ownership concentration could be a form of monitoring mechanisms preventing opportunistic behavior. For instance, through their trading activity to discipline management and this approach is considered an effective tool (Admati & Pfleiderer, 2009; Edmans, 2009). The second view presents its submission on the possible collusion between management and majority shareholders to expropriate shareholders in minority (Claessens et al., 2000; Shleifer & Vishy, 1997). Ferreira & Matos (2008) investigated the monitoring role of institutional investors using a global data set obtained from 27 regions. The findings reveal that firms having larger percentage of international institutional shareholding discharge their duty better with respect to value and lower capital expenditure. Kapopoulos, and Lazaretou (2007) concluded that companies with concentrated ownership improve profitability. Mashhadani and Fatlawi (2012) reported that ownership concentration reduces earning management in Iraqi companies.

3.0 UNDERPINNING THEORY OF THE PROPOSED CONCEPTUAL FRAMEWORK

The main theory underpinning corporate governance research is the agency theory. Agency theory offer two perspective the first perspective discusses the principal-agent relationship called the type one agency problem and the second perspective discusses the outside-controlling shareholders relationship. Primarily, the divergence of interest with respect to risk, return and investment preference of the shareholders and the manager that is created by the separation of ownership from control informed the type one agency problem. According to the type one agency problem, the separation of control from ownership creates information asymmetry which will reduce the ability of shareholders to monitor the manager and as such managers have the incentives to misappropriate shareholder's wealth (Jensen & Meckling, 1976). The type two agency problem consider the outside-controlling relationship where one large shareholder (either family, government or private institution) own a firm with small other shareholders (Shleifer & Vishny, 1986). This structure create a monitoring incentive that mitigate the problem of type one agency problem however creating another problem where the controlling shareholder extract private benefit at the expenses of minority shareholders (Villalonga & Amit, 2004).

Majority of studies on corporate governance are built on theory of agency based on ownership separation from control by Berle and Means (1932). The ownership separation from control creates an agency cost (Berle & Means, 1932). Corporate governance is a set of monitoring mechanisms design to resolve agency issues. Two factors are attributable to agency theory. Firstly, the theory hinges on the argument those corporations are owned by shareholders and control by managers whose interest conflict with those of the shareholders. Secondly, the theory argues that human being is not eager to forgo their personal interest due to their self-centeredness (Daily, Dalton, & Cannella, 2003).

The agency theory imposes on the board of directors a responsibility which involves ratifying the decisions of the management and monitoring of the decisions. Several literatures have investigated the role of agency theory in corporate governance (Baysinger & Hoskisson, 1990; Daily & Dalton, 1994). Some of these literatures have analyzed board composition in corporate governance (Bhagat & Black, 1998; Kiel & Nicholson, 2003). Due to imposition of agency on the board of directors, the maximization of the value of the shareholders increases. However, a common objective is to maximize the value of firm and reduce agency cost and adopt accountings procedures that perfectly reflect the performance of the firm (Yusoff & Alhaji, 2012).

Information asymmetries in agency theory arise from the relationship between shareholders and corporate managers (Hill & Jones, 1992). Ownership and control separation caused managers to behave inconsistently with the shareholders' interests which reduce the shareholders' wealth. Therefore, a mechanism to monitor is established to protect interest of the shareholders (Jensen & Meckling, 1976). The interest of the shareholders can be protected by introducing internal audit to governance mechanism as accountability plays a prominent role in the reduction on cost of agency of an organization.

With the contracts subjected to numbers of internal auditing, corporate governance structure can be of important factor aswhen manager performance is tied to the outcome frominternal auditing, the profit of the firm tends to improve. This eventually led to bonus or remuneration increment through accounting choice that will enhance profit. As it is stated above, the agency theory laid emphasis on how the agent work in the interest of the internal auditor by disciplining the agent and incurring monitoring cost on them (Shleifer & Vishny, 1997). Agency cost is defined as the total cost of monitoring incurred to ensure that the agent performs by the principal in his interest (Jensen & Meckling, 1976). The cost could as well be incurred by the agency otherwise called bonding cost, which is incurred to convince the principal that everything is being done to protect his interest.

Therefore, internal auditing is one of the methods of resolving agency conflict. The agency theory can determine how internal auditing can be applied as exit option by shareholders when they are not satisfied with managers' performance. As an example, when the shareholders could not condone the performance of the managers, they

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

can opt for the option of selling off their shares, which will negatively affect the share value of the firm. An internal auditor can avert this action; although, the agency theory to some large extent give a robust explanation of corporate governance, its applicability in developing countries like Iraq is limited due to the nature of ownership structure. Agency theorist has identified several mechanisms that can protect the shareholders' interest and thus reduce agency cost through internal auditing. Prominent among the mechanisms are the corporate governance mechanisms which is the focus of the present study.

4.0 PROPOSED CONCEPTUAL FRAMEWORK

The role of sound corporate governance practice in improving firm performance has been discussed in many literatures even though empirical findings are inconsistent. Likewise, empirical literature on corporate governance is very limited in Iraq. Against this backdrop, there is need to identify the corporate governance mechanism that influence firm performance in Iraq. The proposed conceptual framework utilised the type-two agency theory as an appropriate conceptual linkage in explaining the decision of managers of Iraqi listed companies not to act in manners that are consistent with the shareholders objective especially in an underdeveloped country like Iraq where the development of corporate governance principles and its enforcement remain a challenge. The type-two agency theory advocate that in listed companies where ownership structure is concentrated, the agency problem which exist is between the minority shareholders and the majority shareholders whom because of their controlling power will want expropriate the minority shareholders (Fama & Jensen, 1983; Jensen & Meckling, 1976).

As Bailey, Gramling and Ramamoorti, (2003); Gordon and Smith (1992) asserts, internal audit function strengthened corporate governance because listed companies that established internal control department has the advantage of timely detection of fraudulent reporting. Further, studies like Corem et al. (2008) suggest that the quality of internal audit function greatly depends on the extent of internal audit staff training. Hence, the training of internal audit staff is critical to the efficient performance of the firm and that of its internal audit department (Johnson, 1991).

To improve internal audit efficiency, some listed corporate of Iraq introduced a number of mechanisms. The provision of board committee, audit committee and internal audit function is based on the premise that corporate governance can be a platform through which the internal audit can be make more effective and efficient thereby facilitating and enabling a company to improve performance through accountability. Some of the factors that affect the performance of internal auditor as identified by Tamimi (2012) include practical experience and level of educational of internal audit staff. According to Tamimi (2012) internal audit team, audit teams should be competent, have experience, and participate in different training courses that will help make them more efficient. Thunaibat (2009) documented that the effectiveness of audit committee staff improve the technology and professional performance of internal audit staff. Similarly, said (2010) recommend the establishment of specialized board committee as a means of rehabilitating the internal audit department. Additionally, Salum, Jawher, and Abdul Karim (2012) suggest that necessary audit function should be organized for internal auditor most especially new entrant to enhance their knowledge about the significance of internal audit and its requirements.In another study, it is revealed that the problem associated with the separation of ownership from management can be reduced by institutional shareholders. Institutional shareholders with high percentage of company shares has a strong incentive to engage in monitoring process of management as it bears the cost involved in the monitoring process (Jensen &

DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

Meckling, 1976). Another form of ownership structure that can align management and shareholders' incentive is family ownership.

Afza and Nazir (2014), reported that external audit quality has a strong positive relationship with ROA and Tobin's Q. Ghosh (2007) documented that quality external monitoring (external audit) will increase the incentive of the manager to engage in internal monitoring which will simultaneously improve firm value. Fooladi and Shukor (2012) as well showed that external audit quality has a significant positive relationship with firm performance. Griffin et al. (2010) found that the amount paid as audit fees improves corporate governance quality. According to Ardiana (2010), it was documented that external auditing improves audit quality hence increase firm value which subsequently improve firm value. Beatty (1986) found that high external quality auditing with high reputation reduce the extent of uncertainty in the firm.

The assertion above shows that there exists a relation between internal corporate governance, external corporate governance, ownership structure and firm performance. Thus this study provides understanding and comprehension on the influence of corporate governance mechanisms on the firm performance. The empirical results of this research will unfold valuable insights for accounting standard setting bodies, investors, analysts and researchers to preferable understand how corporate governance mechanisms will improve firm performance. In addition, internal audit function and external audit function are introduced to fill the void from the previous studies. Therefore, based on the preceding discussion, this study proposes a conceptual model which reveals the relationship between corporate governance mechanisms and firm performance. This is illustrated in the figure 1 below:

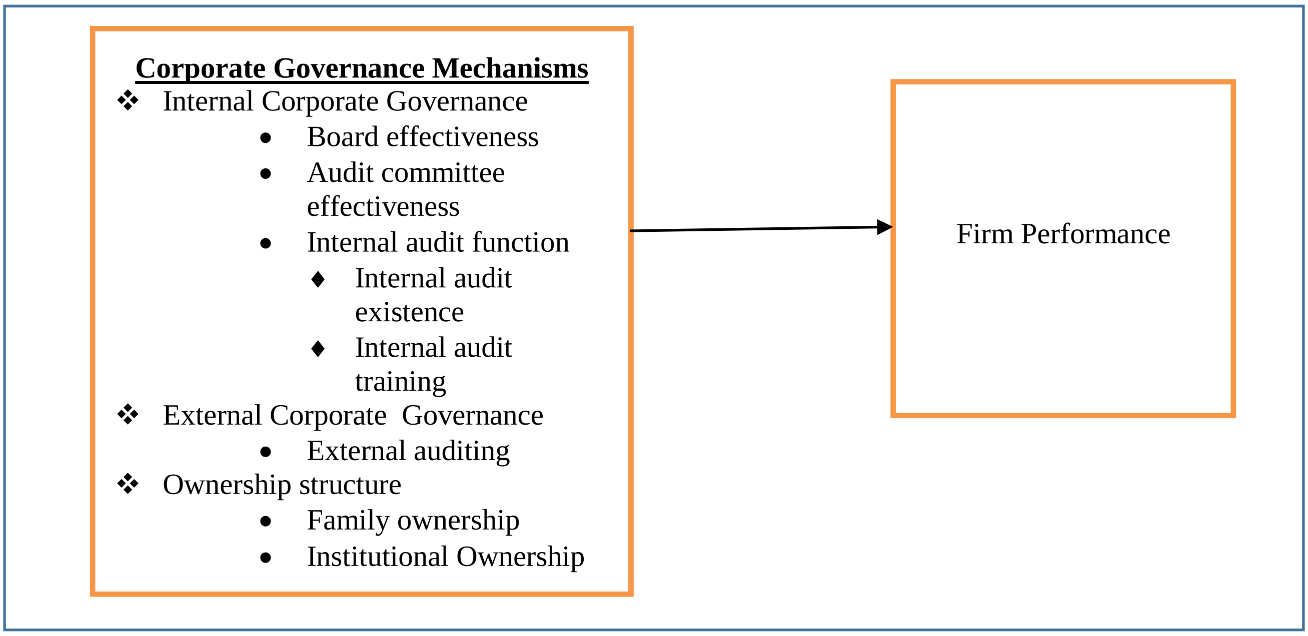

Figure 1: Proposed Conceptual Model

5. CONCLUSION

This conceptual framework proposed in this study makes theoretical, contextual and policy contributions. It conceptualizes the role of corporate mechanisms in enhancing firms' performance and hence stimulating economic growth in Iraq. A major contribution of this study is role of internal audit function and voluntary

Volume 2 Issue 11 November 2017
DOI: 10.18535/afmj/v2i11.15
Page no.1132-1146

compliance to sound corporate governance practise by firms in the absence of corporate governance code which hitherto has not been addressed. While numerous studies exist on corporate governance studies and firm performance to the best of these researchers no study has been conducted in respect to Iraq that extensively studied corporate governance mechanisms. In addition, majority of the studies in this area focussed on developed countries market where code of corporate governance exist and must be complied with voluntarily. Aside this, very few studies to the best of the researchers' knowledge are conducted from the perspective of internal audit function by examining how the existence of an internal audit department and the cost of training internal audit staff in a less regulatory environment with no corporate governance codes affects firms' performance.

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Volume 2 Issue 11 November 2017
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Page no.1132-1146