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Evidence from Emerging Markets on the Effects of Integrated Reporting and Corporate Governance on the Quality of Financial and Non-Financial Reports

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Abstract. The research includes a focused study of the impact of implementing integrated reporting standards and corporate governance on the quality of financial and non-financial reports in economic units listed on the Iraq Stock Exchange. The research focuses on a fundamental hypothesis: optimal implementation of integrated reporting standards and the consolidation of good governance practices will substantially improve reporting quality and enhance the transparency of information available to investors and stakeholders. The research is based on a multidimensional analytical methodology combining focused theoretical and precise quantitative analysis. Advanced statistical analysis tools examine the relationship between integrated reporting, corporate governance, and reporting quality. The research also aims to provide a tangible scientific contribution that closes an existing research gap. A questionnaire was prepared to achieve the research objective, consisting of four axes and five paragraphs for each axis. The first includes measuring integrated reporting standards, the second includes measuring corporate governance, the third includes measuring the quality of financial and non-financial reports, and the fourth includes measuring the relationship between integrated reporting standards, corporate governance, and the quality of reports in general. One hundred fifty questionnaires were distributed to auditors, accountants, financial analysts, and investors. In companies, a descriptive approach was used to analyse the data. Additionally, simple linear regression was used to validate the questionnaire. The research results revealed a significant correlation and influence between implementing integrated reporting standards, the governance of economic units, and the quality of reports. Furthermore, the research showed that economic units committed to implementing integrated reporting standards and adopting good governance practices are characterised by more accurate, comprehensive, and transparent reports.

Keywords. Financial reporting standards, governance, quality of financial and non-financial reports

1. Research Introduction:

Corporate reporting is essential to communicating information necessary for decision-making to stakeholders. Therefore, corporate reporting should keep pace with the expansion of business activities and the development of economic reality, meet the needs of stakeholders, and reduce information asymmetry among investors by disclosing financial and non-financial information. Disclosure of this type of reporting can increase stakeholders' confidence in

financial reports and support them in making sound investment decisions. Integrated reporting provides capital reports, and the main objective is to improve the quality of the information they provide, whether financial or non-financial (Muhia & Benaissa, 2023). Financial reporting focuses on the information that should be included to satisfy both stakeholders and investors. However, stakeholders demand more than financial information, and most companies have already begun to include other non-financial information in a standalone sustainability report. This is called the modern reporting system, which combines financial and non-financial information into a unified report called the integrated report. This system can help companies create value more effectively for stakeholders and capital markets. Given that the Global Reporting Initiative guidelines assume that economic performance, Environmental, and social reporting are widely accepted and standardised, such as financial reporting. It is essential to know and understand, especially for those interested in adopting integrated reporting and the impact of the non-financial component on financial performance. Jeroe focused on whether publishing an investment report impacts financial performance (Jeroe, 2016). Therefore, in light of contemporary economic transformations, integrated reporting standards are pivotal in reshaping the accounting disclosure system. This model abandons traditional reporting, seeking to integrate financial and non-financial reports into a coherent narrative that reflects the dynamic ability of economic units to create sustainable value. This research aims to demonstrate the complex relationship between the application of integrated reporting standards and the governance of economic units on the one hand, and the quality of reports issued by economic units listed on the Iraq Stock Exchange on the other hand. The research starts with the fundamental research problem: failing to implement integrated reporting in conjunction with the consolidation of good governance practices does not improve the quality of reports. As a result, when integrated reporting standards are employed, they enhance the transparency of information available to investors and stakeholders and work to provide a tangible knowledge contribution that bridges the gap. It is a research-based study that provides practical, applicable solutions to develop disclosure and governance practices in the Iraqi economic environment.

2. Literature Review:

2.1 Integrated reporting is a solution to corporate reporting needs:

Integrated reporting provides guidelines based on principles related to the structure and content of internal and external reports, including financial and non-financial value attributes. Integrated reporting is based on integrated thinking, which is based on integrated decision-making and actions that collectively impact the creation of value for the company. Integrated reporting contributes to how a company's value is created, maintained, or diminished over time. It is the basis upon which investors and stakeholders make sound decisions regarding capital allocation. Integrated reporting is an effective tool that enables a company to move from general thinking and isolated reports to integrated thinking, planning, performance, and value management. Among the benefits and outcomes of adopting integrated reporting are its role as part of a corporate reporting system, as it forms an important foundation for global corporate reporting and delivers coherent and interconnected messages across all aspects of the company's narrative. It gives management a deeper insight into the impact of decisions and all activities, such as identifying activities that create value for the company and those that diminish its value. It also expands stakeholders' understanding of how to make sound decisions and invest in capital. Money: How to Measure Performance. (Hoffman,2022)

2.2 Financial and non-financial reports:

2.2.1. High-quality financial reporting: The concept of high-quality financial reporting is theoretically based on management and stakeholder theories. Financial report preparers must be good trustees and produce high-quality reports contributing to decision-making. They must faithfully represent what happened without bias and be complete and error-free. The information contained in high-quality financial reports must provide accurate and fair information about the underlying financial position and current economic performance. These high-quality financial reports must meet all the requirements of various stakeholders. The presentation in the report also improves its quality. The conceptual framework for high-quality financial reporting is then developed, considering its premises, characteristics, and results (Muzira, 2019).

2.2.2 Quality of financial reports: It is the provision of more helpful information about the characteristics of the financial performance of an economic entity, which is relevant to making specific decisions by a specific decision maker (Dechow et al., 2010; Habib & Jiang, 2015). The quality of financial reports depends on the qualitative characteristics of the information, as it plays an evaluative role. Potential investors can use financial reports to estimate expected future dividends. The other role is supervisory, as shareholders rely on these same reports to monitor and track the degree of risk aversion. (Daniel A et al., 2018)

2.2.3 Non-financial Reports: Human Capital. The OECD has paid increasing attention to investment in long-term capital over all other forms of capital. The increasing interest in human capital within organisations and its connections to other capitals that drive business value is reflected in its benefits in global integrated reporting. Integrated reporting standards include sub-reports on community-based information. These reports, which address the social dimension of sustainable development, provide insight into the impact of an economic unit on the community in which it operates. Human capital includes the value of individuals at work, their personal and collective knowledge, education, training, skills, creativity, experience, attitudes, and the ability to change employees within an economic unit. Human capital is an important part of the intangible assets of economic units and a fundamental pillar of value creation. The ability to select reporting indicators can reduce the representation of information and will not allow investors to determine how economic units generate and use human capital. There are separate reports on managing human and financial capital for the economic unit. However, financial analysts and investors do not read separate reports on human capital. They prefer integrated reports. However, they want to know the economic unit's ability to attract and retain top talent through the economic unit's reports. Despite this, a third of economic unit annual reports paint an "incomplete picture" of business performance (Tatiana & Natalia, 2019).

3.2 Integrated Reporting and Economic Unit Governance:

Integrated reports are comprehensive disclosure tools prioritising sustainability as a key aspect of reporting on the economic unit's activities. Integrated reports are the product of a single report that combines the financial and narrative information in the economic unit's annual report with the non-financial and narrative information in the economic unit's sustainability and social responsibility report. The International Integrated Reporting Council considers the integrated report to be a concise communication tool on how the economic unit's strategy, governance, financial performance, and prospects are performed within the context of its external environment, leading to short- and long-term value creation. Integrated reports address environmental, social, and governance relationships. ESG reports are prepared in two types: the first is general standard disclosures, which include strategy and analysis, a record of the economic unit's characteristics, essential "material" aspects and agreed-upon boundaries,

stakeholder engagement, a record of report characteristics, governance, integrity, and ethics. The second is specific standard disclosures, which include disclosures related to management style and indicators according to economic, environmental, and social aspects. The economic aspects include economic performance, market presence, indirect economic impacts, and purchasing practices. The environmental aspects include basic materials, energy, water, biodiversity, emissions, liquid and solid waste, products and services, compliance, transportation, aggregate, supplier environmental assessment, and environmental complaint mechanisms. The social aspects include many criteria (Al-Hussaini, 2020).

3. Study Method:

3.2. Description of the Study Tool: We used a descriptive strategy to analyse relevant literature and answer our study questions. We identified a real problem with integrated corporate reporting due to the lack of disclosure of complete financial and non-financial reports. This means we achieved our study objectives and answered our research questions. The data was analysed using the updated SPSS statistical program to validate the study's hypotheses, which is part of the analytical approach. To this end, we designed a 20-question questionnaire, divided equally among the four variables. Accountants and internal auditors in companies listed on the Iraq Stock Exchange were randomly selected from 150 individuals. The statistical analysis used the data to demonstrate the validity and reliability of the questionnaire. Simple linear regression was used to validate the hypothesis further, and Pearson's correlation coefficient was used to determine the correlation between the study variables.

3.2. Research Problem and Hypothesis: Despite the growing importance of integrated reporting and corporate governance in improving the quality of financial and non-financial reports, there is a gap in understanding how these factors impact the quality of reports in economic units listed on the Iraqi Stock Exchange. Investors and financial analysts face difficulty in evaluating the overall performance of economic units due to the lack of integrated and reliable information. Furthermore, the level of implementation of integrated reporting standards and corporate governance varies among economic units, affecting the quality and comparability of reports. To determine the level of implementation of integrated reporting standards in economic units listed on the Iraq Stock Exchange, and whether there is a combined effect of the implementation of integrated reporting standards and corporate governance on the quality of financial and non-financial reports, the central research hypothesis focuses on "the role of the implementation of integrated reporting standards and corporate governance in the quality of financial and non-financial reports." Two main hypotheses branch from this hypothesis:

3.2.1. Existence Hypothesis: There is a correlation and influence between integrated reporting standards, corporate governance, and the quality of financial and non-financial reports.

3.2.1. Null hypothesis: There is no significant relationship or influence between integrated reporting standards, corporate governance, and the quality of non-financial reports.

3.2. Study objectives: The primary objective is to identify the role of integrated reporting and the governance of economic units on the quality of reports, provide valuable information to investors and financial analysts, and provide recommendations for improving the practices of economic units. The sub-objectives are:

- 3.3.1. Identify and evaluate the level of implementation of integrated reporting standards, which address the problem of the lack of integrated information by assessing the extent of economic units' commitment to implementing the standards.
- 3.3.2. Measure and evaluate the level of governance of economic units by addressing the problem of varying levels of governance in economic units and their impact on the quality of reports.
- 3.3.3. Analyse the relationship between the implementation of integrated reporting standards and the quality of reports by determining whether implementing these standards positively impacts the quality of information obtained by investors and financial analysts.

4. Results:

In order to test the hypotheses that emerged from the research, a preliminary test of the data for the research variables was conducted. Furthermore, descriptive statistics for the research variables were presented to form a picture of the selected sample's perceptions regarding the variables used in the research. Correlational relationships between the research variables and influence relationships between the research variables were also examined, as follows:

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.901 ^a	.811	.809	1.765

a. Predictors: (Constant) integrated reporting standards and Corporate Governance

From Table 1 above, it is clear that the correlation coefficient's value is 0.901, which is very strong. The value of the coefficient of determination R Square reached 0.8110, meaning that the percentage of explanation of the independent variables (integrated reporting standards, corporate governance) reached 81.1%, depending on the quality of financial reports. In contrast, the corrected coefficient of determination, Adj R Square, reached 80.9.

Model	Unstandardised Coefficients		Standardised Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.631	.807		.782	.435
Integrated reporting standards	.483	.067	.482	7.188	.000
Corporate Governance	.469	.069	.456	6.799	.000

a. Dependent Variable: quality of financial reports

Prepared by the researcher based on the program SPSS V26

From Table (2) above, we can see the values of the regression coefficients, as the value of the constant (Constant) reached 0.631, and the value of B_1 is (0.483), which is called the slope of the regression, meaning that whenever the independent variable (Integrated Reporting Standards) changes by one unit, the (quality of financial reports) will increase by (B_1), meaning that there is a direct effect relationship between the two variables, Integrated Reporting Standards and the quality of financial reports. Likewise, for the second independent variable (corporate governance), B_2 is (0.469). We also note that the t-test value ($T = 7.188$) between the two variables (Integrated Reporting Standards and Financial Reporting Quality) indicates that there is an effect, as the value (Sig = 0.00) is less than the assumed value (0.05). This confirms the validity of the hypothesis that "Integrated

Reporting Standards have an impact on the quality of financial reports." Similarly, for the variable (financial reports), the t-test value (T = 6.799) indicates that there is an effect, as the value (Sig = 0.00) is less than the assumed value (0.05). This confirms the validity of the hypothesis that "corporate governance has an impact on the quality of financial reports."

$$y_2 = 0.631 + 0.483u_1 + 0.469u_2 \dots (1)$$

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1966.988	2	983.494	315.770	.000 ^b
	Residual	457.845	147	3.115		
	Total	2424.833	149			

a. Dependent Variable: quality of financial reports

b. Predictors: (Constant) integrated reporting standards and Corporate Governance

Prepared by the researcher based on the program SPSS V26

From Table 3 above, there are differences between the studied variables based on Fisher's measure (F) if Sig was less than 0.05. "There is an impact of integrated reporting standards and corporate governance on the quality of financial reports," proving the hypothesis's validity.

		quality of financial reports	Integrated reporting standards	Corporate Governance
quality of financial reports	Pearson Correlation	1	.867**	.863**
	Sig. (2-tailed)		.000	.000
Integrated reporting standards	Pearson Correlation	.867**	1	.845**
	Sig. (2-tailed)	.000		.000
Corporate Governance	Pearson Correlation	.863**	.845**	1
	Sig. (2-tailed)	.000	.000	
	N	150	150	150

** . Correlation is significant at the 0.01 level (2-tailed).

Prepared by the researcher based on the program SPSS V26

From Table 4 above, it is clear that there is a correlation between the standards of integrated reporting, corporate governance, and the quality of financial reports, with statistical significance, as Sig was less than 0.05 based on the Pearson Correlation scale.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.765 ^a	.585	.579	2.093

a. Predictors: (Constant) integrated reporting standards and Corporate Governance

From Table (5) Model Summary above, it is clear that the value of the correlation coefficient is (0.765), which is very strong. The value of the coefficient of determination R Square reached (0.5850), meaning that the percentage of explanation of the independent variables (integrated reporting standards, corporate governance) reached 58.5% based on the quality of non-financial reports. In contrast, the corrected coefficient of determination Adj R Square reached (57.9).

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.709	.956		7.016	.000
	integrated reporting standards	.232	.080	.290	2.913	.004
	Corporate Governance	.415	.082	.504	5.071	.000

a. Dependent Variable: quality of non-financial reports
Prepared by the researcher based on the program spss vg 26

From Table (6) above, we can see the values of the regression coefficients, as the value of the constant (Constant) reached (6.709) and the value of B₁ equals (0.232), which is called the slope of the regression, meaning that whenever the independent variable (Integrated Reporting Standards) changes by one unit, the dependent variable (quality of non-financial reports) will increase by (B₁), meaning that there is a direct effect relationship between Integrated Reporting Standards and quality of non-financial reports, and also for the second independent variable (corporate governance), B₂ is (0.263). We also note that the value of the test (T = 2.913) between the independent variable, the integrated reporting standards, and the quality of non-financial reports, shows that there is an effect, as the value of (Sig = 0.00) is less than the assumed value (0.05), and this confirms the validity of the hypothesis that states “the existence of an effect of integrated reporting standards on the quality of non-financial reports.” The same is true for the variable (corporate governance), the value of the test (T = 5.071) shows that there is an effect, as the value of (Sig = 0.00) is less than the assumed value (0.05), and this confirms the validity of the hypothesis, i.e. we reject the hypothesis that states “the existence of an effect of corporate governance on the quality of non-financial reports.”

$$y_3 = 6.705 + 0.232u_1 + 0.415u_2 \dots (2)$$

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	906.497	2	453.249	103.513	.000 ^b
	Residual	643.663	147	4.379		
	Total	1550.160	149			

a. Dependent Variable: quality of non-financial reports
b. Predictors: (Constant) integrated reporting standards and Corporate Governance
Prepared by the researcher based on the program spss vg 26

From Table (7) above, there are differences between the studied variables based on Fisher's scale (F) if Sig was less than 0.05, i.e. “There is an impact of integrated reporting standards and corporate governance on the quality of non-financial reports,” and this proves the validity of the hypothesis.

		integrated reporting standards	Corporate Governance	quality of non-financial reports
integrated reporting standards	Pearson Correlation	1	.845**	.716**
	Sig. (2-tailed)		.000	.000
	N	150	150	150
	Pearson Correlation	.845**	1	.749**
	Sig. (2-tailed)	.000		.000

Corporate Governance	N	150	150	150
quality of non-financial reports	Pearson Correlation	.716**	.749**	1
	Sig. (2-tailed)	.000	.000	
	N	150	150	150
**. Correlation is significant at the 0.01 level (2-tailed).				
Prepared by the researcher based on the program spss vg 26				

From Table (8) above, it is clear that "there is a significant correlation between integrated reporting standards, corporate governance, and the quality of non-financial reports," with a statistical significance, as the Sig was less than 0.05, based on the Pearson Correlation scale. It is evident that there is a significant correlation and influence between the independent research variables, integrated reporting standards and corporate governance, and the dependent variables, the quality of financial and non-financial reports. As a result, the hypothesis of existence is confirmed based on the null hypothesis, which includes the absence of a relationship between the independent and dependent research variables.

5. Conclusions:

There is a close and positive correlation between integrated reporting standards, effective corporate governance practices, and the quality of financial and non-financial reports. Economic units that adhere to integrated reporting standards and adopt good governance practices produce more accurate, transparent, and comprehensive reports. Disclosure of non-financial information has become essential and fundamental for assessing the overall performance of economic units. Integrated reporting standards also help integrate this information effectively into reports. Effective corporate governance enhances transparency and accountability, positively impacting the quality of reports. The independence of boards of directors and audit committees plays an important role in ensuring the reliability of reports. Increasing the quality of reports increases investor confidence, increasing investment. Digital transformation contributes to raising the quality of financial and non-financial reports. Encouraging economic units to adopt integrated reporting standards, providing the necessary training and guidance for their effective implementation, and developing and implementing laws and regulations that enhance corporate governance practices, should therefore encourage economic units to adopt business ethics standards. This will lead to the development of standards and indicators for assessing the quality of financial and non-financial reports. This does not stop there, but rather economic units must use modern technologies and advanced, specialized training programs. In the field of integrated reporting, to improve the quality of reports, guide investors to the importance of non-financial information and its role in evaluating the performance of economic units, and provide tools and analyses that will help investors understand and evaluate integrated reports.

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