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ISTANBUL GELISIM UNIVERSITY
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Department of Economics and Finance

THE ROLE OF CORPORATE GOVERNANCE IN ATTRACTING FOREIGN DIRECT INVESTMENT STUDY THE CASE OF IRAQ

Master Thesis

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DECLARATION

I hereby declare that in the preparation of this thesis, scientific ethical rules have been followed, the works of other persons have been referenced in accordance with the scientific norms if used, there is no falsification in the used data, any part of the thesis has not been submitted to this university or any other university as another thesis.

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SUMMARY

Corporate governance is defined as setting the basic regulations for work and applying systems in business, thus attracting investments, organizing businesses, and achieving sustainable economic development.

Several studies have been conducted to examine the factors affecting the foreign direct investment in Arab countries. However, most of them did not take into account the impact of corporate governance on foreign investment in Iraq. Therefore, this study attempts to determine whether corporate governance has a role in attracting foreign investments in Iraq based on several important variables such as gross domestic product, inflation, and the index of transparency and economic freedom in Iraq.

This study relied on the ARDL model to study the long- and short-term relationship between corporate governance and foreign direct investment, where the level of stability of the study variables was studied first, and then the most appropriate degree of delay was determined for the study. The relationship between the variables and the long- and short-term relationship was studied according to the equations of the model.

The study basically concluded that that there is a positive and significant impact of gross domestic product (GDP), and economic freedom (LE) on the FDI in the long run. We can also notice that there is a negative but not signtificant impact if Inflation, and Transparency International Corruption Perception Index on the FDI in the long run. We note by studying the short-term relationship between the variables of the study that all corporate governance variables affect foreign direct investment in Iraq in the short term, as the results have proven that Gross domestic product (GDP), has a positive and significant impact on the foreign direct investment, but Index of economic freedom (LE) variable affect Positively, but not significantly on the foreign direct investment in the short run.

Keywords: Foreign direct investment corporate governance, the gross domestic product, inflation, the index of transparency and economic freedom.

ÖZET

Kurumsal yönetim, temel düzenlemeleri belirlemek ve iş dünyasında sistemler uygulamak böylece yatırımları çekmek, işletmeleri organize etmek ve sürdürülebilir ekonomik kalkınmayı sağlamak olarak tanımlanmaktadır.

Arap ülkelerindeki doğrudan yabancı yatırımları etkileyen faktörleri incelemek için çeşitli çalışmalar yapılmıştır. Ancak çoğu, kurumsal yönetimin Irak'taki yabancı yatırım üzerindeki etkisini dikkate almadı. Bu nedenle, bu çalışma, Irak'ta gayri safi yurtiçi hasıla, enflasyon ve şeffaflık ve ekonomik özgürlük endeksi gibi birkaç önemli değişkene dayanarak kurumsal yönetimin Irak'a yabancı yatırımları çekmede bir rolü olup olmadığını belirlemeye çalışmaktadır.

Bu çalışma, kurumsal yönetişim ile doğrudan yabancı yatırım arasındaki uzun ve kısa vadeli ilişkiyi araştırmak için ARDL modeline dayanmakta olup, burada önce çalışma değişkenlerinin istikrar düzeyi incelenmiş ve daha sonra yatırım için en uygun gecikme derecesi belirlenmiştir. Değişkenler arasındaki ilişki ile uzun ve kısa dönem ilişkisi modelin denklemlerine göre incelenmiştir.

Çalışma temel olarak, uzun vadede gayri safi yurtiçi hasıla (GSYİH) ve ekonomik özgürlüğün (LE) DYY üzerinde pozitif ve anlamlı bir etkisinin olduğu sonucuna varmıştır. Enflasyon ve Uluslararası Şeffaflık Uluslararası Yolsuzluk Algı Endeksi'nin DYY üzerinde uzun vadede negatif ancak anlamlı olmayan bir etkisinin olduğunu da görebiliriz. Çalışmanın değişkenleri arasındaki kısa vadeli ilişkiyi inceleyerek, tüm kurumsal yönetişim değişkenlerinin kısa vadede Irak'taki doğrudan yabancı yatırımı etkilediğini not ettik, çünkü sonuçlar Gayri Safi Yurtiçi Hasıla'nın (GSYİH) olumlu ve önemli bir etkiye sahip olduğunu kanıtladı. doğrudan yabancı yatırım üzerinde, ancak Ekonomik Özgürlük Endeksi (LE) değişkeni, kısa vadede doğrudan yabancı yatırım üzerinde olumlu, ancak önemli ölçüde etkilememektedir.

Anahtar Kelimeler: Doğrudan yabancı yatırım kurumsal yönetimi, gayri safi yurtiçi hasıla, enflasyon, şeffaflık endeksi ve ekonomik özgürlük

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ABBREVIATIONS

OECD	**:**	**Organization for Economic Cooperation and Development**
LLC	**:**	**limited liability company**
CEO	**:**	**Chief executive officer**
NEDs	**:**	**Non-Executive Directors**
GDP	**:**	**Gross domestic product**
ISX	**:**	**Iraqi Stock Exchange**
ISC	**:**	**Iraqi Securities Commission**
FDI	**:**	**Foreign Direct Investment**
LE	**:**	**Index of economic freedom**
CPI	**:**	**Transparency International Corruption Perception Index**
ξ	**:**	**long-run coefficients**
Υ	**:**	**Short-run coefficients**
αt	**:**	**The error term**
IMF	**:**	**The International Monetary Fund**
WTO	**:**	**The World Trade Organization**
UNCTAD	**:**	**United Nations Conference on Trade and Development**

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DEDICATIONS

To who stood and encouraged and heard me the sound of clapping

Thank You God

Thank You Dad

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To my professors in my studies

To everyone who literally taught me

I dedicate this work

Researcher

DHUHA IMAD SAMI

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The issue of corporate governance has recently gained prominence in policy debates around the world. It primarily relates to the organizational decision-making framework and methods, but can cover a wide range of other topics, many of which relate to incentives that affect business behavior. According to the 1999 OECD Corporate Governance Principles, corporate governance has two meanings. On the one hand, it covers the communications between the various agents in the LLC and the resulting patterns of behavior. In other words, corporate governance describes how managers and shareholders, as well as employees, creditors, key customers and communities interact to shape the business plan (Judge, Talaulicar, 2017).

On the other hand, since corporate strategy is developed within the framework of a set of regulations, corporate governance must also be supported by public policy. These laws and regulations may also include specific self-regulation, but they often include general laws and rules, including bankruptcy laws, securities laws, employment laws, and laws governing securities trading. Appropriate public policy, along with an appropriate legal and regulatory environment, is essential for the development of good corporate governance standards. This is the main reason why corporate governance is given due consideration by governments around the world (Keasey, et.al, 2005).

Good corporate governance, while not the primary driver of economic development, is essential to the efficient operation of the engine. If Iraqi companies adhere to best corporate governance practices, both domestic and foreign investors will stick with them. As a result of the privatization and commercialization of state companies in Iraq, the size of organizations is increasing exponentially, and as a result, expectations of various stakeholders that can only be met through sound corporate governance are increasing (Kurecic, Kokotovic, 2017).

The process of financial and other laws in a company that basically establishes the relationship between the board of directors, senior management and shareholders is known as corporate governance. Every aspect of the economy is liberalizing and affected by globalization, and emerging economies now face more problems, threats and challenges than ever before. Corporate governance guidelines for organizations

help reduce the knowledge gap between foreign investors and the host country. As a result, corporate governance practices need to be reviewed while considering the factors affecting foreign investments. Good corporate governance eliminates bad decisions and harmful externalities (Malikane and Chitambara, 2017).

1.2 Methodological framework for research

1.2.1 Importance Of The Study

In this competitive business environment where Iraq ranks 150th in the world in terms of transparency and corporate failures increase, only companies that adopt strong corporate governance and best practices can survive and achieve long-term success on both a national and global scale. In this area.

Excellent corporate governance is required on a much broader scale than the concerns of bank stakeholders alone. It has a significant impact on the economy as a whole, influencing the ability to mobilize, distribute and manage the use of productive resources at every stage of the investment process. The need for excellent corporate governance is increasing due to some of the most pervasive contemporary developments in the global economy today, particularly due to increased private sector participation, increasing internationalization and rapidly changing competitive landscapes for investors and companies (Kurecic, and.Kokotovic, 2017).

1.2.2 Reasons for choosing the research

This research comes within the framework of the growing interest in the role of corporate governance in attracting foreign direct investment and improving the economic and social performance of countries. Corporate governance is a decisive factor in attracting investments and encouraging them to remain, thus enhancing economic development and improving the standard of living and social stability in countries.

1.2.3 Research Problem

In recent years, its role of attracting capital within the framework of corporate governance and financial markets has become an important issue. This is due to several important reasons. First, governance provides the basis for states and their financial markets to mobilize national savings and direct them to investment areas that support the national economy and realize economic growth through the optimal allocation of

resources within the framework of economic development. Second, many countries have helped financial markets grow and develop and the important role they play in driving any country's economic growth. Third, the assessment of corporate governance in the Iraqi financial market differs from other markets such as Turkey and Arab countries in terms of application and adherence to the principles and mechanisms of the oversight and board of directors, which are reflected in the practices of management.

Thus, the problem of the research is the need to determine the importance of applying the principles of corporate governance in attracting foreign direct investment, and identifying best practices in this field, in light of the current economic conditions, changes in international regulations, and the challenges that countries face in attracting investment. The most important problem the research aims to prove:

"Is there a role for corporate governance in attracting foreign direct investment?"

1.2.4 Assumptions

The research is based on the premise that (that corporate governance has a positive moral role in the currency of attracting foreign investment to Iraq)

1.2.5 Purpose of The Study

The main purpose of this study is to create an intellectual framework regarding corporate governance and its role in attracting foreign investments to countries, especially Iraq. This is where the researcher tries to achieve this goal by defining the concepts related to corporate governance on the one hand and the concepts and methods of attracting investment to the country on the other hand, and then creating a practical framework that reviews the most important indicators. It reflects the development of corporate governance and investment flows in Iraq and compares them with Turkey, also analyzes the relationship between the variables of the study and compares the results for Iraq.

1.2.6 Research Methodology

The research methodology of this study will use multiple approaches to ensure consistency and logical understanding in the description and interpretation of research findings. Among these methods:

The descriptive approach: This approach will focus on explaining the basic concepts related to institutional governance, systems and principles related to it, and the concepts of foreign direct investment, its nature and policy.

The analytical approach: This approach will include the analysis of statistics according to time series, which will be used to reflect them the economic reality of Iraq and linking it to the research objectives. This will help to understand the positive role of applying corporate governance in attracting foreign direct investment.

1.2.7 Research Limits

Research framework has been limited by the following parameters:

1-Time: The chosen period is 1980 to 2020, according to the available data and also for the clarity of the situation of Iraq during this period.

2- Place: Case Study of Iraq.

3- Objective: This study is limited to the role of corporate governance in attracting foreign direct investment in Iraq.

CHAPTER TWO

LITERATURE REVIEW

2.1 CORPORATE GOVERNANCE

2.1.1 The Corporate Governance Concept

Despite the interest of academics, there is no single globally recognized definition of corporate governance. It has several definitions, each emphasizing a particular component. Academics and researchers classify corporate governance in narrow or broad terms, depending on multiple definitions. The basis of the limited perspective is shareholder happiness. Broader definitions expand the goal of corporate governance to include the satisfaction of stakeholders, including government, employees and suppliers. The definition of a concept is mostly related to the relevant theoretical point of view. For example, corporate governance can be viewed from the perspective of the shareholders, by considering the strategies used to maximize the wealth of the owners, or from the perspective of the organization, the management mechanisms used to manage and maintain the business operations (Bhagat, Sanjai), & Brian Bolton, 2008).

It's important to note that the phrase "corporate governance" has recently gained popularity from a variety of perspectives, including professional organizations, regulators, and academics. Moreover, the idea has gained popularity in both established and developing countries as a result of growing concern about corporate fraud and dishonest financial reporting. The concept of corporate governance is a subject of intense debate among academics and researchers. Researchers and academics classify corporate governance concepts in a narrow or broad sense according to various definitions. Narrow definitions are used to meet the interests of shareholders. On the other hand, broad definitions go beyond the scope of previous definitions and focus on addressing the interests of all stakeholders, including government, employees and customers (Afolabi & Dare, 2015).

Corporate governance is the set of processes by which external investors protect themselves against insider expropriation, and corporate governance is concerned with the way corporate financiers ensure that their investments are rewarded. The oversight

and oversight process aims to ensure that the company management works in the interests of the shareholders (Dalwai, Basiruddin, & Rasod, 2015).

Corporate governance is "the science and art of balancing the conflicting interests of all stakeholders. In other words, it is an attempt to balance power dynamics. Due to the integration and liberalization of financial markets, corporate governance has become increasingly important. The need for investment capital is increasing in both developed and developing countries. Policy makers now understand that good corporate governance is important for capital formation due to the free movement of funds The phrase “the term should be different from management” On the other hand, corporate governance is a global environment where laws, regulations and the most important tools are used to protect shareholders, increase competitiveness and provide access to capital. It is about good practices, it is about the day-to-day activities of the company such as management, production (Siddiqui, 2014).

According to Salman Afkhami-Rad (2014), corporate governance is about maintaining a balance between economic and social goals, between individual goals and community goals, and between individual goals and company goals... the interests of individuals, companies and society as far as possible. Corporate governance is a set of relationships between a company's board of directors, shareholders, and other stakeholders, known as “corporate governance. It also provides the framework by which the company's goals, methods of achieving them, and performance measures are set.

2.1.2 Importance of Corporate Governance

The value of corporate governance depends on how the economy progresses. Effective use of resources within the company and throughout the country is encouraged through effective corporate management. Both foreign and local investors are paying more and more attention to how the business is run and how it responds to their needs and expectations. Investors are more willing to pay more for well-managed companies that support ethics committee procedures, ensure information disclosure and financial transparency, and uphold shareholder rights. In addition, well-managed companies are in a better position to meet their social, environmental and economic obligations and support sustainable development (Al-Suwaidan, 2012).

Corporate governance standards can be improved by increasing the efficiency of financial and business operations, as well as decision making within and between the company's governing bodies. Strengthening corporate governance also strengthens the accountability framework, reducing the likelihood of company executives engaging in fraud or self-interest. An effective governance structure should help ensure compliance with applicable laws and regulations, as well as allow companies to avoid costly litigation (Dmytriyev, Freeman, & Hörisch, 2021).

According to Hussain, Zeitouni, and Al-Sariri (2021), there are several ways that corporate governance affects growth and development:

Increasing access to finance: The first is expanding companies' access to external finance. "Deeper, more advanced banking and capital markets have been found to be linked to better creditor and shareholder rights." This can then lead to more investment, growth and job creation.

The decrease in the cost of capital and the corresponding increase in the company valuation constitute the second channel. The quality of the corporate governance structure has a positive effect on business value by reducing the cost of capital. This increases the attractiveness of investments for investors and stimulates growth and employment.

Better operational performance is achieved through better management and resource allocation, the third channel. Ali (2018) states that corporate governance increases value by facilitating effective management. It provides improved asset allocation, business policies, and other efficiency improvements. In general, this creates wealth. Findings from a variety of past studies, including Salman Afkhami-Rad, (2014), Dallowai, Basiruddin & Rasud, (2015), Manuel Alfonso Garzón Castrillón, (2021), and others, show that organizations with good governance are more good and increase sales.

According to research, financial crises are less likely when there is good corporate governance. The effectiveness of corporate governance can also affect how companies behave during economic shocks, causing financial distress that affects the entire economy. This is crucial given that financial crises can have significant negative economic and societal effects. Developing Relationships with Other Stakeholders: A key component of excellent corporate governance is that company management must have positive relationships with all stakeholders. All types of companies must interact

with all their participants, including government officials, regulators and policy makers, as well as stakeholders, stakeholder representatives and non-stakeholder financiers (borrowers, bondholders and creditors). “Each monitors, corrects, inspires and has a different impact on management and the company. This benefits things like environmental protection, social relations and business (Afolabi and Dare, 2015).

2.1.3 Corporate Governance Systems

Companies use a variety of control systems to minimize problems arising from the conflicting interests of shareholders and management. The private sector uses internal control systems in financial markets, product and factor markets, legal systems, political and regulatory systems, and boards of directors. But in public, other methods are used. According to Eisenhofer (1999), the public sector needs these mechanisms in three different areas. These three categories include the distribution of decision-making power, performance appraisals, and incentive structures.

Contrary to previous research, Jurgen, Mark. (2012) believes that a firm's ability to separate management from control helps it keep agency expenses in check. While the oversight part is involved in monitoring decisions, they believe the management department is responsible for putting elections into action. As a result, the board monitors the performance of managers while implementing various options and fires second-tier managers. In addition, the board of directors is responsible to the shareholders. In terms of cost and efficiency, this type of governance is superior to other internal and external systems. In the following lines, a brief description of the characteristics of corporate governance will be discussed.

Although various studies have been conducted on the effectiveness of the board of directors in companies, no agreement has been reached in this area yet. The majority of this research found that external managers have a positive impact on company value. This theory is supported by Sardorbek & Juraboev (2021), which is evidence that external managers try to improve their reputation by cutting CEO salaries. The other view is that because management oversees their nomination or reappointment, external directors are not as independent as they seem in their own oversight. According to other research, external managers are more likely to fire underperforming CEOs than internal managers. Fan, Wei, and Xu (2011) show that a board of directors with a majority of outside directors provides greater benefits to shareholders when making decisions about

tenders, management buyouts, and approval of toxic pills. Corporate governance systems include:

2.1.3.1 Firm Size

According to previous research (Gulzar and Wang, 1999; Maria Maher and Thomas Andersson, 1999), the number of board members is a critical component of corporate governance. However, many other studies discuss the link between board size and business success. Jensen (1983) says that although determining the ideal number for any business can be difficult, seven to eight board members are the ideal number for each board.

According to Gillan and Stewart (2006), larger boards make it harder for the CEO to reach agreement, which reduces organizational efficiency. Gillan and Stuart (2006) are supported by Fan, Wei, and Xu (2011), who show that solid boards are difficult to arrange and freeride often occurs on larger boards. They believe that great councils struggle to maximize value in their elections.

On the other hand, other authors argue that a larger board will improve the company's performance. Because it is more difficult for a CEO to control more managers, advocates of large boards argue that larger boards can better oversee the performance of senior management. According to Houcine et al (2021), the CEO finds it difficult to combine the views of the board when making difficult choices that will affect shareholder wealth. The resource dependency argument is used by those who want larger boards. Under the principle of resource dependency, larger boards organize the larger pool of environmental information and connections that a company needs to expand. As Dmytriyev et al. (2021) have shown, large panels can monitor management efficiently.

Dmytriyev et al. (2021) support this reasoning by showing a significant correlation between capital structure and plate size. Ali, Amjad and Alim, Wajid and Ahmed, Jawad and Nisar, Sabahat, (2021) argue that companies with more board members have lower leverage or lower debt ratios. They believe that the boards of larger companies will put more pressure on managers to use less influence to further the company's success. In addition, Sardorbek & Juraboev (2021) shows that there is a positive relationship between board size and capital structure. Companies with larger

boards have lower debt-related costs because their financial operations are better monitored.

Contrary to the claims of proponents of large boards, research shows that quick strategic decisions can be made by smaller boards. According to Pietro Tamburini (2016), the importance of board size can be evaluated from two different aspects: resource dependence and strategic decision making. According to the results of their work on these two theories, larger councils are more effective in terms of resource dependency from a strategic decision-making perspective. Goodstein claims that smaller panels are more efficient than larger ones. A sample from 452 major US companies from 1984 to 1991 also reveals a negative relationship between board size and company value.

2.1.3.2 Board of Directors (CEO) members

Brown, Lawrence and Marcus Caylor in their research. (2004) found that the average board size is between six and eight members. This type of board is also accepted by Singaporean companies that report effective boards have seven or eight members. According to Singaporean companies, large meeting rooms are simpler for a CEO to manage.

CEO duplication says that the CEO and chairman of the board are the same person, while the absence of CEO duplication indicates that these positions are occupied by eminent individuals. According to Cadbury and Sir Adrian, according to scarce empirical data, CEO hypocrisy is the cause of disappointing performance and business failure. (2000). Three points are a summary of the findings of their study: (1) the rework situation is not important to the market; (ii) repetition has little impact on the firm's operational success; and (3) after controlling for other factors affecting company performance, there is little correlation between CEO hypocrisy and long-term performance. Various studies show that when the CEO controls the board, the board fails to fulfill its statutory responsibility for governance effectively (Pietro Tamburini, 2016).

Most publications claim that by making CEO behavior more visible, separating the CEO from the chairman can increase the success of the company. Crowther and Seif (2011) show that the CEO has the authority to initiate and implement new proposals for the use of company resources. A series of checks and balances are created

in the organization by preventing the insider from obtaining decision control and decision control authority over the same offer. As a result of these checks and balances, it becomes difficult for conscious managers to act opportunistically. Since boards of directors have the highest decision-making power in a company, they should not be under the influence of the CEO. When the Chairman of the Board serves as the CEO at the same time, the distinction between decision management and decision oversight is weakened because the Chairman has the greatest influence on Board decisions (Danoshana & Ravivathani, 2014).

Additionally, Core, Guay, and Rusticus (2006) show how the agency cost is reduced by separating management from control over the decision-making process. Control refers to the approval and monitoring of elections while management refers to the initiation and implementation of decisions. Fosberg (2004) argues that companies with a CEO-president dichotomy should be more likely to use an optimal level of debt in their capital structure than companies with only one CEO and one president.

When the same person has undue influence over the board and directors, various problems arise, such as less effort, more conflict, and less use of expertise and talent in the board and management.

In contrast, proponents of duality argue that duality improves job performance as it allows clear leadership for strategy development and execution. One manager who advocates this view argues that its absence will reduce their ability to exert effective leadership within the organization. This can happen by increasing the likelihood of conflicting management and board expectations (Alexander, 1993); By increasing the possibility of competition between the President and the CEO; By having two spokespersons, the President and the CEO; And by limiting innovation and entrepreneurship if the CEO believes the board will constantly question their decisions.

2.1.3.3 Structure of the Board of Directors

The primary function of the panels is monitoring. According to empirical studies, the degree of effective oversight of the board of directors is closely related to the level of independence of the board of directors. Therefore, the independence of boards is becoming more and more important, and the proportion of outside board members has a significant impact on the functioning of boards. External managers have sufficient incentives to supervise managers as they develop human resources and protect their

reputations. There is a negative correlation between the percentage of external board members and commitment to capital expenditures (Houcine, et al, 2021).

Additionally, they discover a positive correlation between board size and job performance and the proportion of outsiders on the board. The Companies Act and other related laws have increased the proportion of foreigners serving on boards in the New Zealand market. Various studies examine how external managers affect financial performance and costs of capital. However, the results of this research show contradictory and uncertain results about the relationship between external managers, job performance, and cost of capital. For example, Sardorbek & Juraboev (2021) argue that it is difficult to detect a link between external managers and performance when external managers and internal managers are optimally weighted or reduce agency difficulties to the same level. The involvement of external executives is supported by numerous studies in a variety of contexts, including CEO dismissal from underperforming companies, changing acquisition sequences, bidding situations, and management acquisition scenarios.

As proxy measures of equity amount, Ashbo et al. (2004) found a negative relationship between the cost of equity and the independence of the board of directors, the proportion of board members who own shares, the proportion of shares held by directors, and management power. According to Fama (1983b), the board of directors should have internal and external managers. Outsiders are involved in the company's strategic choices, and although insiders already have technical skills and a comprehensive understanding of the company, they can add value by providing complementary, relevant and useful information.

According to Gulzar and Wang (1999), external managers of American firms are more important than internal managers in terms of managing management control. Dalwai et al. (2015) suggested that by responding positively to the nominations of external managers, they could fulfill their responsibilities as market watchers. This can occur in the absence of prior stringent control procedures. According to Eisenhofer (1999), replacing an insider CEO with an outsider would reduce shareholder wealth while increasing the interests of shareholders. Therefore, it is widely believed that a solid foundation of independent directors makes boards of directors more successful in monitoring management.

Different perspectives on external managers are offered by other studies. For example, Core et al (1999) discovered a positive relationship between internal managers and company success, as well as a statistically significant relationship between external managers and job performance. They conclude that better performance results from having more internal or external managers. Ali et al (2021), in their empirical research, found little evidence of a relationship between board composition and job performance. Reasons to resign and join a board of directors is another goal of Manuel Alfonso and Jarzon Castrillón (2021). They showed that as a CEO approaches retirement, more internal members join the board, perhaps to give the next CEO a wider range of options.

2.1.3.4 Board Diversity

Demand for companies has increased to increase the ratio of female directors from investment institutions and shareholders. They believe that having more women on boards will improve the decision-making process. One of the benefits of having a diverse workforce is that it encourages divergent thinking. Another thing is that it changes or expands the criteria used to evaluate strategic options. The third advantage of diversity is that it encourages people to reconsider the assumptions that underlie their reasoning. Siddiqui (2014) reinforces this claim by saying that boards with female executives have faster sales growth.

In this context, Al-Suwaidan (2012) discovers that the presence of female managers significantly improves business performance. They found that female managers were more likely to join monitoring committees and had better attendance records than male managers. Audit, nomination and corporate governance committees are especially important for women executives. They concluded that councils with more women had better observational results.

George and Mark. (2012) findings showing a positive relationship between gender diversity and company performance support previous research. Here is a list of the advantages of diversity over boards: 1) increased market awareness; 2) Encourage greater creativity and innovation; and 3) taking an active role in solving business problems.

The most common job of managers is to oversee management, although they also perform resource-intensive tasks. Managers will engage with the outside world to provide the organization with the necessary secure resources.

The board's environmental commitment provides four main advantages: 1) a variety of recommendations based on diverse experiences and backgrounds, 2) a link between the company's information channel and external organizations, 3) compliance from key external factors, and 4) legitimacy. Legitimacy is an important consideration in electing boards of directors, but it is not the only factor in electing female directors. In addition to serving on boards, female directors often serve on important board committees. Therefore, the outputs are not chosen only from legality (Bhagat, et al. 2008).

According to Siddiqui (2014), the proportion of women on boards is still low, so the current situation of board diversity is not satisfactory. In 2007, the proportion of female executives in the Fortune 500 list was 14.8%. The proportion of female managers in Australia, Canada, Japan and Europe is 8.7%, 10.6%, 0.4% and 8%, respectively. The current scenario for female executives is expected to change as boards and companies face increasing pressure to elect more female executives.

The British Ministry of Trade and Industry also reported that the effectiveness of the councils increased with the participation of women. Swedish authorities have committed to implement gender diversity as a legal requirement if companies do not have at least 25% female board members. As of January 2008 Norway has the highest percentage of female employees at around 40%. Also, in Spain, it has been made mandatory for companies to have 40% female managers on their boards of directors until 2015.

2.1.3.5 CEO position

The length of time a CEO holds in a position is called tenure. The company's performance is affected by the CEO's decisions. Therefore, the CEO will do better if he has more experience. A CEO with more experience will be more familiar with the markets, the company, its employees, and all the challenges associated with business operations. As a result, empirical data show that there is a conflict between influence and CEO authority. But the crucial issue is that a CEO can be motivated by a desire to increase his wealth and, as a result, be able to focus on personal gain. This may cause

a conflict of interest between the shareholders and the CEO. In particular, most studies believe that CEOs are interested in building an empire by spending their cash flows on ventures that yield below the cost of capital to expand their companies' reach and reach (Siddiqui, 2014).

According to Eisenhofer (1999), the relationship between CEO position and business success is much more nuanced than first thought. CEOs with short tenures may underperform because they do not have the experience and knowledge to identify and assess strategic risks, as well as because they are new and unproven. A longtime CEO builds a resume, learns more about the business environment, and develops the specific skills needed for the position.

According to Salman Afkhami-Rad (2014), the impact of learning and anchoring varies depending on whether the CEO is external, internal or established. Although the appointment of external CEOs A does not have any effect on the board, it is believed that it will take some time for them to form themselves. In this scenario, the company's performance declines as the CEO's tenure increases. When an internal CEO is appointed, he or she is likely to already have a connection to the board, meaning they can be established from the start of his tenure. However, it is thought that if the CEO is appointed, his internal powers will not be solidified and will adversely affect the board of directors.

2.1.4 Corporate Governance Models

The 'principal' or 'agent' dilemma is often associated with corporate governance. An "agent" relationship develops when the person who owns a business is different from the person who runs or controls it. For example, financiers or investors (managers) elect managers (representatives) to manage the company on their behalf. Investors may need specialized human capital for managers to generate returns on their investments, while managers may need investors' money if they do not have the resources of their own. In this case, there is a gap between ownership and control, or between financing and operating a business; For more information (Al-Suwaidan, 2012).

Before addressing the link between corporate governance, corporate performance and economic growth, it is useful to develop a framework for understanding how corporate governance affects business behavior and economic performance. The fact that there are so many different and sometimes contradictory perspectives on the nature

and purpose of a company is one of the prominent issues in the current debate on corporate governance. This discussion ranges from normative questions about what a company's purpose should be to positive issues about how organizations actually work. Therefore, it is useful to consider several commonly used philosophies or analytical approaches to understand this claim (Houcine, et al, 2021).

The term "corporate governance" has been used in a variety of contexts and the boundaries of this topic are highly variable. In the economic discussion of the impact of corporate governance on performance, there are two alternative organizational models, the shareholder model and the stakeholder model. Corporate governance, in its most intense definition (the shareholder model), is often used to refer to the formal framework for senior management's accountability to shareholders. Corporate governance can be used to describe the network of formal and informal relationships that affect a company in its broadest definition (stakeholder model). The shareholder approach also recognizes that business ethics and stakeholder communication can have an impact on the image and long-term success of a corporate entity. More recently, the stakeholder approach has focused on stakeholder contributions that can contribute to the company's long-term performance and shareholder value. Therefore, the distinction between these two models is not as sharp as it might seem at first glance, but rather a matter of focus (Al-Suwaidan, 2012).

The governance reform debate reflects a lack of agreement on the definition of corporate governance. When no agreement was reached, those involved in the reform process offered very different perspectives on the issue and a wide variety of remedies. Therefore, having a comprehensive understanding of the different paradigms can illuminate and enable our understanding of the many perspectives in this argument. Understanding relevant concerns can provide a basis for identifying strong corporate governance practices and making policy recommendations. Corporate governance models are:

2.1.4.1 Participant Model

The shareholder model states that the purpose of the company is profit maximization by using allocative efficiency, productivity and dynamism to maximize shareholder wealth. A company's market value (also known as shareholder value) can be used as the only criterion used to evaluate success in this model. It is therefore the responsibility of directors and directors to ensure that the business is run in the interests

of shareholders. The manager-agent relationship resulting from the division of beneficial ownership and executive decision making is the core issue of corporate governance in this model. Firm behavior deviates from the profit maximization model as a result of this segmentation (Dalwai, Basiruddin, & Rasod, 2015).

This is because when there is a separation of ownership and control, the interests and goals of principal (investors) and agent (managers) are different. Because directors do not own the company, they do not bear all the costs or take full advantage of their work. Thus, although investors are interested in maximizing shareholder value, they may need to increase managers' salaries, increase their market share, or be associated with certain investment projects, etc. may have other goals such as (Bhagat, et al, 2008).

Simply by signing the contract, the investor and management agree in advance to the manager's use of funds, dividend distribution, and other terms. In other words, investors can use a contract to precisely match their interests and goals with those of management. However, perfect deals are impractical because it is difficult to predict or explain every possible multiplication. Because the contracts are not completed, investors and managers will have to distribute their "residual control rights" in some way. The remaining control rights are the legal authority to make decisions in unforeseen circumstances or under unspecified contractual terms. Consequently, according to Swaidan (2012), "governance structures can be understood as a mechanism for making choices that are not specified in the initial contract."

According to Salman Afkhami-Rad (2014), one of the potential economic consequences of the subsequent seizure of leases by management is to restrict the resources that investors are willing to put forward to finance the business. This subject, which is often called the inactivation problem, has received a lot of attention in the literature. Opportunistic behavior has the primary disadvantage of promoting socially unproductive levels of investment that can directly affect economic growth. Therefore, according to the shareholder model, corporate governance should focus on finding ways to balance the goals of managers with the interests of investors, maintain the flow of external capital to companies, and ensure a return on investment by financiers.

The costs and delays caused by the separation of ownership from control can be reduced through an effective corporate governance system. To overcome management and oversight issues, there are generally three types of mechanisms that can be used:

One method seeks to encourage managers to perform effectively by aligning their interests directly with those of shareholders, such as executive compensation schemes and stock. options, direct follow-up by board management, etc. Another strategy is to strengthen shareholder capital so that shareholders have more incentive and power to oversee management. Protection and enforcement of shareholder rights, laws against insider trading, etc. This strategy supports the interests of investors through legal safeguards against management expropriation such as management expropriation (Dalwai, Basiruddin, & Rasod, 2015).

According to a critique of the shareholder approach, the analytical focus on how to solve the corporate governance problem is very limited. Aligning the interests of management and shareholders and facilitating the flow of external funds to companies are the main goals of the shareholder approach to corporate governance. However, there are other people who invest in the company besides the shareholders. It is the teamwork that makes an organization competitive and ultimately successful, involving contributions from a variety of resource sources, including investors, employees, creditors, suppliers, distributors, and consumers. Interactions between different business stakeholders will have an impact on corporate governance and economic performance. This reasoning suggests that a broader analytical framework that takes into account the incentives and disincentives faced by all stakeholders is needed to evaluate the advantages, disadvantages, and economic consequences of different corporate governance systems (Dmytriyev, et al, 2021).

2.1.4.2 Stakeholder Model

The stakeholder model looks at the company more broadly. The traditional stakeholder model states that, in addition to shareholders, an organization has a wider range of stakeholders to which it must respond. Other stakeholders may be contractual partners such as workers, suppliers, customers, creditors, and social components such as neighborhood residents, environmental people, local and federal governments, and the general public. According to this view, businesses should serve the public interest and be "socially responsible" organisations. This model states that in addition to financial success, performance is evaluated by a wider constituency regarding employment, market share, and expanding business relationships with suppliers and customers (Danoshana & Ravivathani, 2014).

The problem with the traditional corporate stakeholder model is that getting companies to meet these broad goals is difficult, if not impossible. Arguments against this view are given by Goergen and Marc. (2012) states: "The idea fails to provide clear instructions to help managers and executives prioritize and choose between socially beneficial uses of firm resources, and it does not provide a clear system of execution to ensure firms adhere to their level of social obligations: still few academics Legislators and other advocates of corporate governance reform support this concept as a result of these shortcomings.

However, the idea that companies have obligations to parties other than shareholders is worth examining in light of the potential impact of corporate governance on economic performance. What matters is how different stakeholders can influence the behavior and performance of the company and its economic progress. Any analysis of how corporate governance affects economic performance must take into account the incentives and disincentives faced by all players that can affect company performance. In light of this, the stakeholder model has recently undergone a revision focused on more accurate identification of stakeholders. In this context, the “new” stakeholder model defines stakeholders as contributors to the company's unique assets (Maria Maher and Thomas Andersson, 1999).

This revised definition of the stakeholder model is also in line with the firm's incomplete contract theory and the firm's transaction costs theory, both of which view the firm as a "contracted bond". Under the "new" stakeholder model, the best companies are committed to their suppliers, customers and employees. Therefore, the shareholder model is a logical consequence of this new stakeholder approach. Finding ways to promote active collaboration among stakeholders on wealth creation, job creation and the sustainability of financially sound companies becomes a corporate governance concern in this environment; For more information (Goergen and Marc, 2012).

However, at any time contracts are not finalized, company specific costs are required, and problems of opportunistic behavior and delays arise. As noted earlier, one effect of opportunistic behavior is that it often leads to underinvestment. An example of this is the agent-agent relationship covered by the shareholder model. Under the stakeholder model, under-invested in all employees, suppliers, etc. For example, employees may be reluctant to invest in a company's human capital if they cannot reap the benefits of the investment but have to bear the opportunity costs of doing so.

Companies may also be reluctant to devote resources to employee training, if employees decide to leave the company after receiving more human capital, they will not be able to realize the benefits after bearing the costs. In addition, suppliers and distributors may invest less in company-specific projects such as custom components or distribution systems. Finding ways to reduce the potential for expropriation and opportunism and to encourage more effective levels of investment and resource allocation becomes a concern of corporate governance in this wider environment (Eisenhofer, 1999).

According to the stakeholder model, the effectiveness of different governance systems in promoting long-term investment and commitment among many stakeholders is essentially what corporate governance requires. For example, Gulzar and Wang (1999) argue that the main challenge of governance is to design specific incentive systems, protection and conflict resolution processes that will promote the continuity of corporate partnerships that are effective in the context of self-interest. opportunism." In this broader perspective, a critique of the stakeholder model or the concern of those involved in the reform process is that managers or managers may use "stakeholder" rationales to excuse substandard job performance. The shareholder model has the advantage of giving managers clear instructions on how to set priorities and creating a system for measuring the effectiveness of a company's management team or the profitability of the business. On the other hand, the advantage of the stakeholder model is that it places a strong emphasis on addressing the problems of underinvestment arising from opportunistic behavior as well as fostering active collaboration among stakeholders to sustain the long-term well-being of the company (Manuel Alfonso & Jarzon, 2021).

2.1.5 Corporate Governance Principles

While creating these principles, the conditions specific to our country were taken into account, especially with the "Economic Cooperation Organization and Development Corporate Governance Approaches" dated 1999. The regulations of different countries were analyzed and the principles were widely accepted and recommended. Researchers have conducted various studies in the field of corporate governance. These studies underline that there is no single corporate governance model that works in every country. For this reason, the model to be developed must be suitable

for the conditions specific to each country. That is, cultural and legal factors have an impact on corporate governance standards (Salman Afkhami-Rad, 2014).

According to Houcine et al. (2021), corporate governance practices enable actions to be taken. The principles of fairness, openness, accountability and responsibility are the cornerstones of all global approaches to corporate governance.

2.1.5.1 Equality

According to Fan et al (2011), "Equality means that company management treats shareholders and stakeholders equally in all operations, thereby seeking to eliminate all potential conflicts of interest."

All shareholders have the same rights. They have the right to sell their shares, register their shares, attend general shareholder meetings, elect directors, receive regular corporate updates and participate in the profits of the company (Danoshana and Ravivathani, 2014).

2.1.5.2 Transparency

"Transparency aims to disclose financial and non-financial information about the company to the public in an accurate, comprehensive, clear and easy to understand manner, on time, with the exception of trade secrets and confidential information, and to obtain it easily from anywhere. cheap cost." Good governance is a partnership between disclosure and transparency. "They demonstrate the quality and reliability of financial and non-financial information that management provides to lenders, shareholders and the general public" (Goergen and Marc, 2012).

According to Brown et al. (2000), openness and transparency are important for the following reasons:

High standards of openness and transparency, according to empirical data, can significantly affect the cost of financing.

Decision makers in a company feel more confident when they have access to timely and accurate information that enables them to make wise business decisions that will positively impact growth and profitability.

External decision makers, such as shareholders, investors, and lenders, who must choose where to spend their capital and at what risk, are also affected by the information.

Decision makers and other parties should be able to determine whether and to what extent a company complies with the law based on the information you provide.

A company's performance in terms of environmental and ethical standards and its relations with the communities in which it operates are better understood by the public when information on these issues is disclosed.

By preventing fraud and corruption, adequate disclosure, clarity and oversight enable companies to compete on the basis of their best products and services and differentiate themselves from companies that do not adhere to good governance.

Research has shown that openness and transparency also increase the liquidity of the stock market.

2.1.5.3 Liability

According to Ali (2018), accountability is defined as the duty of the board of directors to respond to the shareholders and the company as a whole. It is often used with ideas such as responsibility, blame, guilt, and other words to provide explanation.

According to Core et al (2006), “Shareholders everywhere are reexamining their relationship with company executives or their corporate governance systems. Each country has a unique corporate governance brand that reflects its own legal, regulatory and tax systems. The rulers who ruled separated from each other, and the question of how the rulers should be held accountable arose.

2.1.6 Corporate Governance Theories

The following sections examine these theories and explain how to apply them to corporate governance practices.

2.1.6.1 Agency Theory

Large companies, especially publicly traded ones, often have an organizational structure that essentially separates ownership and control between managers and agents. In a contractual arrangement, owners (managers) select managers (representatives) to run the business in their best interests and pay them in the form of

money (for example, salaries and bonuses) for their work. Because of the conflict of interest between the directors and the shareholders, there may be a conflict of interest in this relationship. Using agency theory, the potentially problematic relationship between principals and deputies was conceptualized and studied by Cadbury, Sir Adrian. 2000).

Monitoring expenses, bond expenses, and excess losses are included in the agency fee. Expenses paid by shareholders to monitor the behavior of managers are known as control costs. Bond costs are monetary or non-monetary expenses incurred when procedures or structures are put in place to enable directors to act in the best interests of shareholders or otherwise compensate them. According to the agency theory, shareholders and managers have an agent-agent relationship, where the owners appoint managers to run the business in their own interests and these people get paid for their work (Bhagat, et al, 2008).

Managers face the problem of negative selection because they cannot accurately identify the skills or abilities that the agent claims to have at the time of contracting (i.e., hiring). As a result, they may not be able to select the best candidate or determine whether the representative is duly performing the relevant duties. First raised by Crowther and Seif (2011), the problems of representation of moral risk arise when managers do not make the necessary managerial effort to achieve the best interests of the manager. As the manager may not be fully aware of this, he asks for information to monitor and measure the degree of work in order to properly reward the work.

The agency theory suggests that because non-executive directors are assumed to be independent and self-interested, the board plays an important role in monitoring and supervising CEOs in terms of corporate governance mechanisms (board size, CEO repetition and absent). -executive directors). The external knowledge and skills and oversight roles of non-executive directors can help increase the value of companies. Resource dependency theory also enables non-executive managers to do better work because of their contribution to decision making (such as investment choices and strategic planning) and network values with other stakeholders and the external environment (Fan, et al, 2011).

Thus, while the presence of non-executive board members (independence of the board) is expected to have a causal and positive relationship with the company's

performance through agency theory and resource dependency theory, Audit theory emphasizes that knowledgeable managers can control management more effectively than others. Because executives have a better understanding of company operations. Additionally, according to supervisory theory, the monitoring function of non-managerial managers is often hindered by their part-time or ceremonial status, which minimizes their influence on decision-making. Therefore, the agency hypothesis argues that unlike agency and resource dependency hypotheses, non-managerial managers are more likely to have a detrimental effect on job performance (Goergen & Marc, 2012).

In short, agency theory suggests that agents are less likely to act consistently in the best interests of their clients, given the separation of ownership from control in the contemporary business world. To mitigate this conflict of interest, shareholders will need to oversee directors through internal corporate governance procedures. This will encourage rational managers to fulfill their task of maximizing shareholder value and improving business performance. This underlying structural aspect should be supported by deliberate measures to monitor and audit managers, with corporate governance processes identifying potential problems and praising managers for good behavior and performance. Representation costs are expenses incurred as a result of residual loss, tying and tracking management (Sardorbek & Juraboev, 2021).

2.1.6.2 Agency theory

Instead of the financial (financial) tools of agency theory, control theory focuses more on psychological and social control techniques. According to the first, members of the organization have a good group identity that encourages trustworthy behavior. Pietro Tamburini (2016) acknowledges that managers need some common sense to run the company efficiently for shareholders and that financial gain is not always the only reason for management behavior. Separate ownership is not seen as a weakness in the theory of control, as collaborative behaviors are seen as hidden/internal behaviors of managers who are exposed to a variety of reasons besides financial gain.

According to the oversight idea, agents are prevented from acting against the interests of shareholders due to concerns about their reputation and career advancement, so agent fees should naturally be kept to a minimum. Internal managers make informed decisions because they have a deeper understanding of day-to-day business operations within organizations. Therefore, they are preferred to NEDs according to the management philosophy, as they have a more accurate understanding of the company's

performance. Non-executive board members suffer from the same lack of knowledge as the board as a whole. With fewer internal directors, boards of directors have less insight into the state and direction of the company, leaving them dependent on information provided by management and unable to make decisions without consulting managers. Audit theory argues that external boards alone are less likely to improve organizational performance than boards with a higher percentage of internal managers, because they have less managerial control and less trained reasoning (Gulzar and Wang, 1999).

2.1.6.3 Resource Dependency Theory

The resource dependency hypothesis takes a more materialistic view and focuses less on organization. It mostly focuses on how easy it is for companies to access resources such as finance and information. According to the resource dependency theory, corporate governance arrangements such as the board of directors have an impact on how easy it is for companies to obtain the resources they need for their success. Because of the wider range of skills and knowledge they can offer, greater contact with the outside world, and overall improved reputation, the resource dependency theory highly favors non-executive board members (Houcine, et al, 2021).

According to Afolabi and Dare (2015), the diversity of board size and the background of external members are critical factors in controlling a company's future capital requirements or managing environmental contingencies. Board diversification will help the business thrive by allowing the organization and its surrounding environment to benefit from the exchange of resources. In addition, they argue that the involvement of external managers will increase the effectiveness of the organization's initiatives by providing new ideas to the business, which will ultimately increase its financial success.

Consequently, resource dependency theory argues that a company's board structure reflects the company's operating environment, that is, managers are selected based on their ability to facilitate access to necessary resources. As a result, it should be possible to determine the extent to which the company trusts its board of directors. For example, having financiers on the board may indicate that the company is seeking cheap access to capital, which means it is planning large investments or is experiencing financial difficulties. In general, a diverse board with various links to external resources can be expected to have greater access to these resources, increasing the performance

and value of the organization. According to consensus practitioners and scholars, the appropriate governance structure, even for companies competing in the same market segment, is determined by the environment of a particular company's operations (Manuel Alfonso and Garzón Castrillón, 2021).

Research conducted in emerging economies has shown contradictory results, with data focusing on the link between a firm's success and corporate governance processes to be inconclusive. Governance structures may provide the best investor protection in one state and less effective in another. Because of different legal frameworks and varying degrees of effectiveness of enforcement mechanisms, different countries have different levels of ownership intensity, which is likely to affect management control and ultimately corporate performance. Also, sometimes experienced external "friends" may be preferred over "independent" managers. Based on the aforementioned concerns for the growing market, this study will focus more carefully on assessing the impact of ownership structure and board of directors in Jordan on company performance (Afolabi and Dare, 2015).

2.1.7 Corporate Governance in Iraq

Iraq is a federal state consisting of 18 governorates. Fifteen provinces are administered by provincial governments, while three provinces are administered by the Kurdistan Regional Government (hereinafter referred to as the Kurdistan Regional Government). Iraq's GDP reached $207 billion in 2019, with an annual GDP growth rate of about 8.12% from 1999 to 2019. Iraq's GDP represents 0.28% of the global economy.

The country's largest oil reserves are located in the Basra Governorate, the disputed Kirkuk Governorate and the Kurdistan Autonomous Region (Blanchard, 2009), and Iraq is the world's fourth-largest oil exporter (exporting approximately 4 million barrels per day out of 4.5 million barrels). produced in 2019) is today responsible for 6 percent of world oil exports and 9 percent of total global reserves. It also has the world's fifth largest proven oil reserves.

Iraq's largely state-run economy is dominated by the oil sector, which provides more than 90% of government revenues and 80% of foreign exchange revenues. Oil exports in 2019 averaged 3.8 million barrels per day from Southern Iraq compared to 2015.

It should be noted that with a population of more than 32 million, Iraq is located in the heart of the wider Middle East and borders six different countries (Magiolini, 2013), and with such a population the public sector absorbs more. more than 40% of the population. In total employment, on average elsewhere in the world, around 90 percent of jobs are provided by the private sector. Foreign direct investment and private capital flows are very low in Iraq. According to the latest estimates, total domestic credit to the private sector reached 9.4% of GDP in 2019, the lowest in the region. The sector is small and predominantly dominated by public banks used for directed and arbitrage loans. And not as a source of finance for the private sector.

2.1.7.1 Capital market in Iraq

The capital market in Iraq is concentrated in the Iraqi Stock Exchange (ISX), which was established in 2004 with the Law No. 74 to provide services to the private sector. The stock market is young and underdeveloped. However, it can provide exporters with access to both permanent and long-term sourcing.

Capital The banking sector is dominated by seven public banks, collectively owning 86% of the banks' assets and 69% of their loans, by issuing title deeds and corporate bonds to domestic and foreign corporate and individual investors. Currently, there are 46 active banks in Iraq, 7 of which are state banks. State banks account for the bulk of assets and loans. There are also 36 private banks, most of them relatively small (ISX, 2016), and in addition to banks and remittances, a large number of companies are traded on the Iraqi stock market and in various sectors, including investment and services. industry and insurance. In addition to the industrial and agricultural sectors, the hotel sector, the tourism sector and the communication sector. Similarly, market brokers buy and sell investors' securities for their own account. Currently, there are 45 companies licensed by ISC, which are predominantly regulated by the Iraqi Stock Exchange (ISX). In addition, the financial sector includes the following companies:

• Seven state banks dominate the banking sector, owning 86% of the banks' assets and 69% of their loans. Currently, there are 46 active banks in Iraq, 7 of which are state banks. State banks account for the bulk of assets and loans. There are also 36 private banks, most of them relatively small.

• The Postal Provident Fund accepts public deposits and reinvests them in various areas. It has 640 branches spread over various governorates.

• Foreign exchange companies were established in the eighties and are supervised by the Central Bank of Iraq.

• Money transfer companies are non-bank financial institutions operating in line with the Central Bank of Iraq's 2008 instruction numbered 93.

• Financial investment companies are companies subject to Financial Investment Company No. 5 rules of 1998, whose main activity is to channel investors' savings into Iraqi securities, including stocks, bonds, treasury bills and fixed deposits.

• Companies that make small and medium-sized loans and are subject to supervision in accordance with the Central Bank of Iraq's Instruction No. 3 of 1999.

In the governance index, Iraq ranked 115th out of 180 countries with a score of 47.34. This position is due to the fact that Iraq suffers from bribery, widespread corruption, and weak infrastructure and finances in the country.

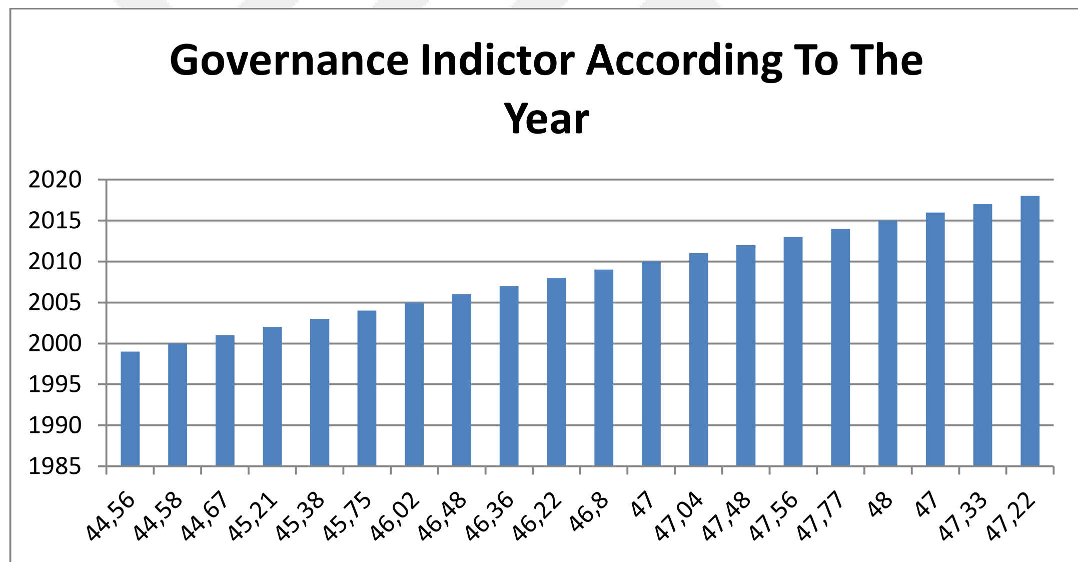

Figure 1 Governance Index in Iraq

We note from the above figure that the decline in Iraq’s classification in relation to the countries of the world from 1999 to 2018 in relation to the governance index and thus the increase in the value of the governance index, which indicates the spread of corruption and bribery more, where the value of the governance index in 1999 was equal to 44.56, and in 2018 it was equal to 47.22.

2.1.7.2 Corporate Governance (Board size and composition, Ownership Concentrations)

Board size and composition

The average number of board members for the companies included in the sample listed on the Iraq Stock Exchange (ISX) is about 7 members with a standard deviation of 1.324 for the 112 companies listed on the Iraq Stock Exchange, each of which has a board of directors with at least 5 members and ten members Board of Directors max. The council, which includes a maximum of 10 members, belongs to one of the companies operating in the tourism services sector, which was established in the eighties and is listed on the primary market in the Iraq Stock Exchange.

Table 1 Board Size

	N	Minimum	Maximum	Mean	Std. Deviation
Board Size	**112**	**5**	**10**	**6,75**	**1.324**

Most of the companies (48%) listed on the Iraq Stock Exchange (ISX) have seven members on their boards of directors. Firms with seven or fewer members on their boards represent 55% of the sample, while 18.5% of firms have eight to ten members on their boards. This finding is consistent with Iraqi Companies Law No. 21 of 1997, 103 and 104, which states that the board of directors of mixed joint stock companies must consist of seven members and that the board of directors of private joint stock companies must: consist of no less than five and no more than nine members. Moreover, this result is also consistent with the number of corporate boards of directors in Middle Eastern countries.

Table 2 Board Sizes of the Companies within (ISX)

Board Size	(Frequency n)	(%) Percentage
5	**34**	**30.3**
6	**13**	**11.6**
7	**47**	**40.9**

8	10	10.2
9	7	6.2
10	1	0.8
Total	112	100.0

Table 3 Representation of Board of Directors

Board Representation	N	Minimum	Maximum	Mean	Std. Deviation
Percentage of Insiders	112	0.00	19.00	0.6534	0.3245
Percentage of Outsiders	112	0.00	0.70	0.1345	0.4245
Percentage of Independent Members	112	0.00	0.12	0.0013	0.0644
Percentage of State Members	112	0.00	0.56	0.1165	0.2345
Percentage of Female Members	112	0.00	0.57	0.0454	0.1214
Percentage of Foreign Members	112	0.00	0.46	0.0154	0.0455

The average representation of insiders in the total sampled companies was 65.34%. There are a number of companies that do not have knowledgeable directors on their boards of directors; However, in one of these companies, every manager is an insider, and the company without any insider members is in the service industry (tourism and hotels), while companies with more than 5 insider members account for 20.9% of the sample and the largest number of the informed members among these companies is 9. This company of 9 internal members operates in the telecom services industry.

Table 3. shows how 79.5% of the companies within the sample listed on the Iraq Stock Exchange (ISX) are privately owned, including individually owned companies representing 47.3%, family-owned companies representing 16.9% and institutionally owned companies representing 15.3% while publicly owned companies represent only 20.5% of the stock market.

Table 4 Ownership Concentrations of Companies within the (ISX)

Industry		Frequency (n)	(%)Percent
Public		**23**	**20.5**
Private	**Individual**	**53**	**47.3**
	Family	**19**	**16.9**
	Institutional	**17**	**15.3**
Total		**112**	**100.0**

Table 4 shows the descriptive statistics of ownership concentration. The ownership concentration for each company listed on the Iraq Stock Exchange (ISX) is around 76%. The lowest rate is 34% and the highest rate is 100%. The average concentration of ownership is highest among private firms (81%) and lowest among state-owned firms (55.8%).

Table 5 Descriptive Statistics of Ownership Concentration

	N	Minimum	Maximum	Mean	Std. Deviation
State Ownership (%)	**23**	**45.24**	**43.33**	**54.243**	**9.43454**
Private Ownership (%)	**53**	**48.12**	**100.00**	**81.34**	**14.42353**
Family Ownership (%)	**19**	**44**	**96.34**	**74.22**	**16.2454**
Institutional (%) Ownership	**17**	**34**	**100**	**70.12**	**15.45345**
All	**112**	**46.00**	**100.00**	**74.23**	**15.53465**

2.2 FOREIGN INVESTMENTS

2.2.1 The Concept, Nature And The Policy Of The Investment

In this section, the concept of investment, its types and tools, then the policy that governments follow to embody their investment plans, which is expressed as investment policy within the framework of macroeconomic policy will be discussed.

2.2.1.1 The Concept and Nature of Investment.

There are many concepts related to investment and the following investment definitions are common (Devrim, Ercan & Serdar, 2007):

1- Investment: Allocating capital to acquire new means of production or to improve existing ones in order to increase production capacity (4). It is also new capital formation in kind to increase production capacity.

2- Investment also indicates that you are sacrificing resources now in order to generate income that is worth more than the initial expenditure over a long period of time in the future. That is, it is the sacrifice of certain financial values (amounts) to obtain something of value." The future is more ambiguous.

3- This last definition refers to the essential elements accompanying the investment process, namely:

Expecting greater values in the future, which means expecting a return on investment. This expected return is uncertain, meaning it is accompanied by a certain degree of uncertainty. The element of uncertainty underlies the distinction between investment and saving.

There are those who define investment as "An economic activity that gives up some of the consumption today and looks forward to increasing production in the future. It includes tangible physical capital (buildings, equipment and stored goods) and intangible investments". Education or 'human capital', research and development and health.

4- Investment is anything that is spent to get more returns in the future by "owning an asset in the hope that a future return will be made". The investment can be in a real asset or a financial asset. This is what Ezekiel Olajemmega Oyrugpa (2018) adopts when distinguishing between the two meanings of investment:

A - Investment in economic terms: In economics, investment usually means the acquisition of physical assets. This is because economists view the employment or investment of money as a contribution to production and production that adds or generates interest in the form of goods and services. This production has many material, human and financial elements. Therefore, if money is an element of production, it should be in the form of creating a new production capacity or expanding an existing production capacity.

B - Investing in financial management: Management often sees investment only as the acquisition of financial assets. In this sense, investment includes stocks, bonds, deposits, etc. becomes a financial investment in various papers and instruments such as That is, in financial terms, investment consists of "any expenditure that creates an income or economy over a long period of time and is thus compensated within a few years". In other words, it is the withholding of current balances in order to obtain a return in the form of income or capital increase in the future (Emina and Sanel, 2018).

According to this concept, “An investment process requires that the expected value to be earned as income in the future is at least equal to the current income allocated to the completion of that transaction (investment).)

5- Defining investment in international agreements.

Laws regarding the definition of the term investment can be divided into two groups: the first concerns the cross-border movement of capital and other resources and defines the term from a narrow perspective. The second relates to legislation mandated to protect foreign investment and as such gives a broader and more comprehensive definition to the term investment. Perhaps the most obvious example of this is the ASEAN Investment Promotion and Protection Agreement, as this definition states that investment “includes all types of assets”. It includes a list of five investment groups that include securities and real estate, stocks, bonds, mortgages, monetary claims with monetary value, intellectual property, and concessions (Neil, Mary, John & Colin, 2004).

Such a definition opens up the host country's economy to any economic activity - and the host country may be reluctant to open all sectors to foreign investment and therefore requires the inclusion of a term denoting this restriction, as in a general definition. service trade agreement that invests exclusively in the service sector.

For this reason, a number of investment treaties seek to limit and narrow the scope of investment. Among the most important methods adopted in this regard are the following (Asiedu, 2002):

Limiting the definition to investments established under the laws of the country hosting the investment.

Setting a time limit to exclude investments that come into effect before a certain date, such as the date of signing or the effective date of the investment contract.

2.2.1.2. Financial instruments for investment

In addition, many investment-related financial instruments (Chen, Ding, & Xu, 2014):

1- Shares: A share is a document given to the person who owns a share in the capital of a company and grants the rights granted to each partner. We distinguish two types of shares: common and preferred.

A- Ordinary shares: Ordinary shares represent a certificate of ownership with par value, book value and market value. The face value is the value on the stock coupon, usually specified in the Articles of Association.

The book value is represented by the equity value, which does not include preferred shares, but includes reserves, retained earnings and issue premiums, as well as the par value of the share divided by the number of shares issued. ordinary shares. Finally, the market value is the value at which the share is sold in the capital market, and this value can be greater or less than the book value (Thaer, Haboush, Badi' Al-Anazi, 2019).

The ordinary shareholder receives his share of the profit that the company decides to distribute and has the right to vote in the general assembly of the partnership.

B- Preferred shares: Preferred shares give the owner special rights such as the priority of obtaining the profit arising from the liquidation and increasing the profit.

Like common stock, it has three values: face value, market value, and book value, but the latter is calculated by dividing the face value and premium share premiums divided by the number of shares issued, which is the book value of the preferred stock

on the balance sheet of the institution in which these shares are issued. Does not include visible reserves and retained earnings.

2- Bond: A promissory note is a document proving that the holder has a certain right in the ownership of a good or the opportunity to benefit from certain services, or that he is indebted to a natural or legal person.

A bond is also defined as a long-term debt document that gives the holder the right to receive returns at periodic intervals or on the maturity date... Lending when due, as well as the right to receive the principal amount held by the holder.

Bonds, bearer bonds, nominal bonds, minimum bonds, government bonds, mortgage bonds, etc. It can be divided into two categories according to the issuing authority:

A-Government-issued bonds: They are called government bonds and refer to "medium and long-term debt instruments issued by the government to provide additional resources to cover the budget deficit or face inflation".

B- Bonds issued by economic institutions: Bonds issued by commercial institutions are considered as a contract or agreement between the company (borrower) and the investor (lender). According to this contract, the second party lends the first party an amount, which in turn undertakes to return the principal and the agreed interest on certain dates.

The contract may include other terms in favor of the lender, such as pledging certain fixed assets to secure payment or imposing restrictions on the issuance of other bonds thereafter. The contract may also include terms in favor of the borrower, such as the right to recall the bond before maturity (Rick, Wilson & Daniel, 2012).

2.2.1.3 Investment Components

The above investment components are suitable for microeconomic analysis purposes. For the purposes of macroeconomic analysis, there are three main investment components that can be distinguished (Halilbegovic, Halaba, Ilguen, 2017):

Fixed capital formation represents the investment expenditures made by business sector companies to set up factories and purchase capital goods such as machinery and equipment.

Change in inventory representing the demand for these companies' product stock

Real estate investment represents investment expenditures for the construction of residential buildings.

2.2.2 Investment Climate

In this section, we will describe the investment climate, then present its most important economic and non-economic components and conclude by presenting the most important indicators used to measure the climate level under consideration.

2.2.2.1 Defining the investment climate

The investment climate is defined as a set of policies, indicators and instruments that directly or indirectly affect investment decisions.

The investment environment can also be defined as a comprehensive concept that expresses the whole of the conditions and conditions that constitute the environment in which the investment process takes place, and the positive or negative impact of these conditions and conditions on the chance of success. on the movement and trends of investment projects and thus investments. Political, economic and social conditions, legal conditions and administrative regulations (Al-Obaidi and Farhat, 2012).

From the previous two definitions, it can be said that the investment environment is the whole of natural, political, economic, legal, regulatory, social and cultural conditions that directly or indirectly affect the investment activity environment and current decisions positively or negatively. and potential investors (domestic and foreign).

2.2.2.2 Components of the investment climate.

The importance of the investment climate stems from the effect of attracting or removing domestic and foreign investments. Because this climate includes all the elements that the investor deems necessary for the success of their investments and suitable for carrying out their activities now and in the future. The investment environment includes all policies, indicators and instruments that directly or indirectly affect investment decisions, including the economic, environmental and legal systems that affect the direction of investment decisions in any country, as well as other

macroeconomic policies, which are financial, monetary and commercial policies. country. National Economy (Narah, Karima, 2014).

The investment climate consists of a group of factors that determine the suitability of the political, economic, investment and legal environment and the degree of its attractiveness to attract and localize investment and achieve increased trading rates in open markets. raising the rate of economic growth and pushing towards sustainable development that connects societies. raising welfare and living standards. Climate components, economic components and social, legal, political etc. can be divided into non-economic components such as in this section, only the economic component of the investment environment will be discussed (Sudarat, 2006).

2.2.2.3 Economic components of the investment climate

It includes a number of elements that indicate the level of performance of the national economy, the most important of which are (Yung-Chin, Jenifer, & Roger, 2004, 18-22):

1- Economic policy: Economic policy is analyzed with three sub-policies in terms of investment environment: fiscal policy, monetary policy and foreign trade policy.

A- Fiscal policy: The fiscal policy of the state is considered one of the most important economic instruments due to its impact on economic changes. It affects actual demand and thus activity and employment levels and the general level of prices and others.

One of the consequences of this policy is a balance sheet, deficit or surplus on the balance sheet, but an excessive deficit that is undesirable for the investment climate, leading to a significant increase or sharp rise in the inflation rate. at the rate of inflation. Economic recession and depression. The longer fiscal policy maintains a deficit rate in the government's general budget that does not lead to high inflation rates and does not lead to deflation and the great recession, the more attractive it is for investment, thus the deficit, investment growth. In every way.

B- Monetary policy: Monetary policy refers to a planned change in the money supply to affect aggregate demand in the desired direction, and monetary policy can be expansionary or contractionary. Regarding the investment climate, monetary policy should at least control both the exchange rate and inflation.

Since sudden fluctuations in exchange rates make feasibility studies difficult, they adversely affect the investment environment. The investor may also experience an unexpectedly high loss over which he has no control. Inflation rates have a direct impact on management policies, the size of profits and thus the movement of capital (Osamelden, 2014).

In addition to the deterioration of the investment environment, it also affects the production costs that multinational companies are interested in, high inflation rates in the host country and its reflections on market profitability. The more expansionary the monetary policy, the more attractive it will be for investment, and vice versa, using appropriate monetary instruments, and it is important that it is in line with the change in the volume of economic activity required and characterized by stability.

C- Foreign Trade Policy: This policy contributes to the improvement of the investment climate while promoting exports and encouraging export-oriented investment, and seeks to remove or alleviate restrictions hindering international trade characterized by flexible, low and transparent customs duties. Few and easy-to-apply procedures, free from bureaucratic complexities.

2- Degree of economic openness: the direction of the economy to deal with the outside world, which means that there are no restrictions on the movement of trade exchange or elements of production, which gives good economic efficiency in steering them and its absence is free from imbalances (factors of production) in these markets.

The higher the degree of openness, the better the investment climate and vice versa. It is possible to use some economic indicators that reflect the behavior of the economy in the previous and future periods and are among these indicators (Cohen, 2007).

A- Ratio of exports to gross domestic product: A high ratio means that the gross domestic product depends on it, which indicates economic openness and vice versa. A decrease in this ratio indicates the absence or closing of the economic opening that contributes to a weak investment climate.

B- Degree of concentration of exports: A high degree of concentration means that this economy is dependent on a limited number of goods exported to a few countries, and this exposes the country's economy to severe shocks that are far from the will of

the state. And as a result, restrictions on the movements of the elements of production, which foreign capital tries to avoid.

3- Strength and growth of the local economy: The rate of economic growth is considered one of the most important economic indicators that investors rely on when making investment decisions, and most economic analysts think that the emergence of emerging economies is behind it. High growth rate because these economies have proven their ability to achieve and maintain high growth rates. For a long time . Among the factors taken into account when measuring the economic power of a country are the following (Moran, 2015):

- The amount of natural resources available in the country.

- The degree of competition in the local market on the one hand, and the ability to withstand foreign competition on the other.

- The extent of the efficiency of the financial and banking system and the extent and quality of the services it provides.

Technological progress level. Availability of qualified and qualified staff of people with graduation levels and different specializations.

4-Costs and infrastructure: In addition to the inflation rate, the foreign investor is interested in three basic cost elements: raw materials, labor and taxes on profits.

When determining the value of raw material and labor costs, it must be taken into account whether they are available in the host country or can be imported from abroad. In the latter case, a new element is taken into account for these costs, the exchange rate of the currency of the country hosting the investment and how stable or volatile it is. Multinational companies are attracted after devaluation or when they forecast inflation in host countries (Yung-Chin, Jenifer, & Roger, 2004).

Also, due to the instability of a country's exchange rate, the difficulty of conducting economic feasibility studies for investment projects, and unexpected exchange rate losses that the investor cannot control or influence, it does not encourage the flow of foreign investment into that country. Profit taxes are handled in terms of their weight, transparency and clarity of calculation rules and payment procedures, without adversely affecting the liquidity of the project. Inflation rate affects production

costs and sales prices, and then the profitability of the investment project." Frey and Schneider, in their study of 54 developing countries, stated that there is a negative relationship between high inflation rates and foreign direct investment. It is an indicator of the weakness of the economy in the host country and then represents risks for investors in the form of anticipating undesirable policies regarding infrastructure as the investor is concerned with the availability and quality of public facilities. The services they provide, the sea, land and air transportation network, its breadth and availability, and the availability of advanced communication tools, energy and other complementary and facilitating structures for the productive and commercial activity of the investment project (Al-Hadi, Suleiman Omar, 2015).

2.2.3 The Nature of Foreign Investments

Many developing countries have sought ways to attract foreigners, on the basis that developing countries are faced with many economic, social and environmental development problems and want to determine a development strategy that will ensure their sustainable development by removing themselves from the circle of underdevelopment. investment.

The growth of foreign investments and the continuation of its flow to developing countries depend on the suitability of the dominant investment environment, which is defined as a comprehensive concept that expresses the conditions and general conditions that constitute the environment in which the investment process takes place (Kotler, Donald and Irving, 1993).

It includes political, economic and social situations and conditions, legal conditions and administrative regulations.

Foreign capital is also defined as the investment coming from abroad as a capital owner, capital owner and shareholder when an institution or company established in another country's economy establishes investment projects in a country's economy.

Foreign investment occurs in the form of establishing a company in a foreign country or purchasing all or part of the company. The company represents branches of production, marketing, sales or any type of manufacturing or service activity, and its activities are dispersed in many foreign countries.

Foreign investment occurs in two ways:

(a) Foreign direct investment.

(b) Indirect foreign investment (portfolio).

2.2.3.1 Foreign Direct Investment (FDI):

This is investment tracked by an enterprise's watchdog and takes the form of an investor establishing a venture, buying all or part of a venture in the host country. companies, not individual investors.

The International Monetary Fund (IMF) defines investment as a set of different operations that affect the market and management of a foreign business in a country other than the parent company's. The standard set by the International Monetary Fund is direct investment when a foreign investor owns 10% or more of the capital stock of a business enterprise. And also from the number of votes in it and this share is enough to give the investor a vision in the management of the institution. The World Trade Organization (WTO) defines foreign direct investment as activity that occurs when an investor in one country (home country) owns or has the intention to manage or own assets or assets in another country (host country). (Fendi, Muhannad Ibrahim and Turki Bushra Khaled, 2013).

However, the Organization for Economic Co-operation and Development (OECD) has defined foreign direct investment as investment that is based on establishing sustainable relations with institutions, especially that has a real impact on the management of institutions. The United Nations Conference on Trade and Development (UNCTAD) also defined foreign direct investment as an investment that uses foreign funds in the assets and fixed assets of a particular country on the basis of long-term relationships with an investor in another country. reflects an investor's permanent and controlled interest in a project residing in an economy belonging to a country other than his own (Alesina, & Dollar, 2000).

2.2.3.1.1. Importance of foreign direct investment

Foreign direct investment is of great importance in the host country economies and its importance is represented in several points (Emina, Sanel, 2018):

Knowing that the impact of investment on employment depends on many factors, including the method of investment, it helps create job opportunities that reduce unemployment in the host country as well as combat poverty and some forms of

underdevelopment. The entry into new areas and different locations leads to an increase in employment. If the required amount of work depends only on the method of acquiring and owning an existing activity, then this may reduce the required workforce, but this depends on the negotiations with the investor (Halilbegovic, et al, 2017).

- Foreign direct investment helps to revive the local economy by improving the ability to interact with the global economy and participate in the international production process, which leads to an increase in the efficiency of the country's economy. global economy. and its contribution to the international production process.

Foreign direct investment contributes to the development of the export sector in developing countries, where one of the most important purposes of attracting foreign capital is the creation of productive projects aiming to produce productive goods and services with high added value in all fields of agriculture, industry and service. In addition to its contribution to increasing productivity and production, which provides a competitive advantage for exports and is acceptable in global markets, it helps to increase the average income per capita and improve the standard of living by leading to an increase in national income.

- Since FDI is one of the most important external factors for financing development in developing countries, it contributes to closing the savings and investment gap and is better than other financial resources that shape the country, such as loans. In addition to the aid determined according to the political relations between the countries, to bear great financial burdens. Donor and recipient countries (Al-Obeidi, Farhat, 2012).

Foreign direct investment increases interest in research and development activities in the host country. It also contributes to the transfer of advanced technology and modern management and marketing skills to the host country, which contributes to improving work efficiency and increasing productivity.

Foreign direct investment affects the balance of payments through the inflow of foreign capital, which makes it a good source to raise solid money and raise physical capital in the host country.

Investment is a component of efficient demand and a means of adding to accumulated wealth, as it leads to the preservation or increase of capital, and therefore plays the main role in meeting the growing demand.

Foreign direct investment contributes to the fulfillment of its mandate by improving the infrastructure of the host country. High tax resources of the state due to taxes imposed on investors such as customs duties and profit taxes (Joseph, Alba, Donghyun Park, & Beiming Wang, 1999).

2.2.3.1.2. Disadvantages of foreign direct investment:

Although investment has many advantages for a foreign investor, it also has many disadvantages, including economic and political risks (Asiedu, 2002).

Political risks:

The investor in the host country of the investment may face many political risks, including risks affecting the operation, risks affecting property and life, and risks affecting financial transactions such as money transfers.

We often see that any change in the regime and subsequent change in the economic and political orientations of the new regime, as well as riots, affect foreign direct investment in the host country.

Economic risks:

Economic risks include two types of risks, financial and commercial risks.

Commercial risks:

They include:

Country.

Competition risks: Among the reasons why the investor invests outside his own country, he wants to avoid local competition and thus ensures that the host country is independent of all kinds of competition elements, as in his own investments. country. .

In addition, the fact that the foreign investor may face the discriminatory measures implemented by the host country against the foreign investor in favor of the domestic investor makes competition difficult for the foreign investor.

Import restrictions: Situations where the government may impose restrictions because it considers some of the goods and materials used by foreign investors to be a local alternative regardless of the import quantity, quality or price. . Due to the increase in the unit cost of the goods sold, it causes the foreign investor to decrease the production and return negatively (Chen, et al, 2014)

Financial risks

It includes:

Preventing the investor from transferring earnings abroad: This causes the foreign investor to be restricted, forced to reinvest their earnings in the same country,

Double taxation on transferred earnings: Since the absence of legislation and laws between the investor's country and the investee country adversely affects the investor's earnings, for example, twice income tax is charged on the investor's earnings, once in the investor country. when he transfers his investments and once any profits to his country of origin.

-Risks of foreign investment for the host country:

Foreign investment projects in the country focus only on consumer and service goods, as they generate a lot of money quickly and, therefore, we note that they do not serve the investing country, because they are reluctant to make the relevant investments. strategic and heavy industries serving the country. The intervention of the governments of foreign direct investment exporting countries in the management and direction of companies negatively affects the exit of these companies from the control of the host country.

The host country is concerned about losing control of some important national industries such as finance, transportation, transportation, automobile, oil and electronics (Fendi, et al ,2013).

Some see foreign direct investment exploiting the peoples of third world and developing countries to deplete their natural resources and wealth, as well as exploiting cheap labor and working in inhumane conditions out of proportion to them.

In the long run, tax exemptions affect the balance of the state budget, as taxes are the main component of government revenues, increasing the expenditure side and reducing the state revenue side.

Some foreign investors return their capital gains to their home country rather than inject them back into the host country's investments, resulting in an imbalance in the host country's balance of payments for investment.

The fact that some foreign companies cause significant environmental problems such as air and water pollution and encroachment of agricultural lands negatively affects the country where the investment is made, increases the negative externalities that need to be addressed and carries significant costs.

The intervention of some foreign companies in the political life of the country where the investment is made in order to make political decisions in line with their own interests and purposes.

2.2.3.3 Types of Foreign Direct Investment

Foreign direct investment is divided into several types according to the goals that the foreign investor wants to achieve, and a summary of these types is given below (Moran, 2015, 40-44):

1. Investment in natural resource exploration: It is one of the most common types in developing countries. Many companies seek to exploit natural resources such as raw materials that many developing countries benefit from, especially in oil and gas and many other extractive industries, and this type encourages increased exports. imports of raw materials and surplus capital goods, intermediate production inputs and consumables.

2. Market-seeking investment: This type of investment dominated the manufacturing sector in developing countries during the implementation of the import substitution policy in the 1960s and 1970s. This species is considered for export from the exporting country for investment purposes and rather than being present in the host country due to import restrictions. The most important reason for making such an investment is that the transportation costs in the host country are high and therefore it makes investing in that country more convenient than exporting. Since this type of investment does not

replace exports, it does not affect production, but rather has positive effects on consumption and indirectly on trade (Sudarat, 2006).

It contributes to high growth rates for investment by increasing the capital balance in the host country and has trade-expanding effects in production and consumption by increasing the host country's exports and imports of production inputs. . And goods imported from exporting countries for investment in it.

3. Performance Research Investment: This type of investment occurs when foreign investment companies focus part of their activities in the host country in order to increase profitability.

High wage levels in industrialized countries have prompted some of these firms to invest in many developing countries. This type of investment is characterized by expansionary effects on the host country's trade, leading to diversification of its exports, in addition to its expansionary effects on consumption through imports of many production inputs.

4. Investing in the pursuit of strategic assets: This type of investment occurs when companies invest in research and development in a developing or developed country with the desire to maximize profitability. This type of investment has an expanding effect on trade in terms of both production and consumption. It is also considered as the export of skilled labor from developing countries and increases the export of services and equipment from the source country for investment (Joseph, 1999).

2.2.3.4 Forms of Foreign Direct Investment

Foreign direct investment is classified in various ways as follows (Devrim Dumludağ, et al. 2007):

1. Joint venture: This type of investment is most common for the influx of foreigners for political and social reasons, two or more parties are permanently located in two different countries, so investment is in decline. in foreign investment. Help strengthen party control and national ownership by creating a new class of entrepreneurs (investors).

2. Foreign direct investment owned entirely by foreign companies: It is one of the most preferred company types. As the company opens branches in Turkey for production and

marketing or any other productive activity, it guarantees full control over production and marketing.

3. Assembly operations projects or operations: This type of investment takes the form of an agreement between the foreign party and the host country. According to this agreement, the relevant country provides the foreign party with the components of a particular product to make it into a final product.

4. Mergers or acquisitions: These transactions have increased in recent years, becoming a significant source of foreign direct investment due to mergers or acquisitions of other companies, and are therefore referred to as holding companies or subsidiaries.

2.2.3.5 The determinants of attracting foreign direct investment

It is the factors that determine the demand of foreign investors for any investment project, some of which are political, some of which are economic, legal and social factors, and which together form the investment environment in any country.

Factors and variables play a large role in the foreign investor's decision as they are numerous and intertwined, so in many cases some of them are difficult to count or quantify, especially since some of them are behavior related. The foreign investor itself may be governed by different political, social or cultural motives, some of which may be related to the advantages of the host country or the investment climate it has that makes it a country. can attract or issue foreign funds. Among the main determinants of FDI inflow are the following (Rick, et al, 2012):

1- Economic determinants: Availability of usable natural resources and the possibility of their production are an important factor for investment, and the exploitation of these resources is linked to the need to provide certain competencies and trained workforce at low cost, and these resources should be indispensable. Accompanied by an stimulus package that will help create a sound economic environment expressed by economic policies in terms of gross national product growth rate, per capita income rate, inflation rates, market size and economic liberalization. Privatization, degree of market competition and production costs. In addition to the existence of structural structures of the economy such as roads, communication and electricity services as an attractive feature for investment, countries where these services are available are considered attractive countries for investment (Moran, 2015, 38-41).

2- Political determinants: Represents the current political system in the country, in which the political stability of any country greatly affects attracting foreign investment. The foreign investor makes the decision to accept or reject the project not based on the market size or yield, but also on the country's degree of political stability. It provides stability, freedom and guarantees human rights because it is a fundamental requirement to create an attractive political environment for investment and includes the presence of government agencies, which reduces the time required to obtain a license to create projects, fight financial corruption and operate with transparency. As well as planning, implementation, follow-up and promotion to attract foreign investments. Investors prefer democracies because they are stable and others are subject to change (Rick, et al, 2012):

3- Legal and legal determinants: In addition to non-economic risks such as nationalization and confiscation risks, laws and regulations guaranteeing incentives, exemptions, tax and customs related laws to the investor. -economic risks. The right to transfer profits to any country. Therefore, countries compete to pass laws that encourage investments that outweigh the incentives offered by countries. The other is provided that these incentives do not lead to loss of national resources and gain the sovereignty and prestige of the host country.

4- The state of the market and the degree and nature of the competition prevailing in it: It is represented in the volume of demand for the products of investment projects affected by the market and the possibility of expansion especially in areas where commodities are present. is promoted. Same investment project area. In particular, it concerns the promotion of commodities, as it entails exorbitant costs and this affects the flow of foreign investment, in addition to the numerous risks of intense competition. Therefore, unlike developed countries, investors tend to invest in developing countries due to the lack of investment opportunities and competition (Moran, 2015, 42).

2.2.3.6 Foreign investment in Iraq

Development of FDI inflows to Iraq: According to the World Investment Report, FDI inflows from -4.8 billion dollars in 2018 reached -3 billion dollars in 2019. As of 2018, the latest estimates of the stock of FDI have fallen to US$10.1 billion, representing about 5.3% of the country's GDP. Since 1999, the flow of foreign direct investment into Iraq is close to zero and increasing until 2012, then from 2013 the flow of foreign direct investment has been negative due to major security problems, weak

institutions and lack of investment. Iraq has had a hard time attracting foreign capital to govern. However, hydrocarbons are still used in foreign companies, and most foreign direct investment is used in the oil industries. Besides the petroleum industry, cement production, construction and public works also present interesting investment opportunities. The main investors in Iraq are the USA and the European Union. From Figure 1, we see that the volume of foreign direct investment in Iraq in 2003 did not exist due to the Second Gulf War and the occupation of Iraq by the US and allied forces, and the volume of foreign direct investment emerged. After the relative stability of the security situation in Iraq for the world (0.0001%) and for developing countries (0.0003%), it seems to be rising (90) million dollars and steadily rising to (972) million dollars and (0.0005). %) for the world and (0.0018) for developing countries. The volume of foreign direct investment, which was -412 million dollars in 1999, increased gradually after the Iraq war in 2003 and reached approximately 500 million dollars, reached 1.6 billion dollars in 2011, and started to decline again after 2013. rate (0.0011) for the world (0.0024). good in the system. Given Iraq's conditions and the current economic reality in Iraq, most of the investments were directed towards the oil sector, as it was directly tied to the oil sector, particularly the extractive industries.

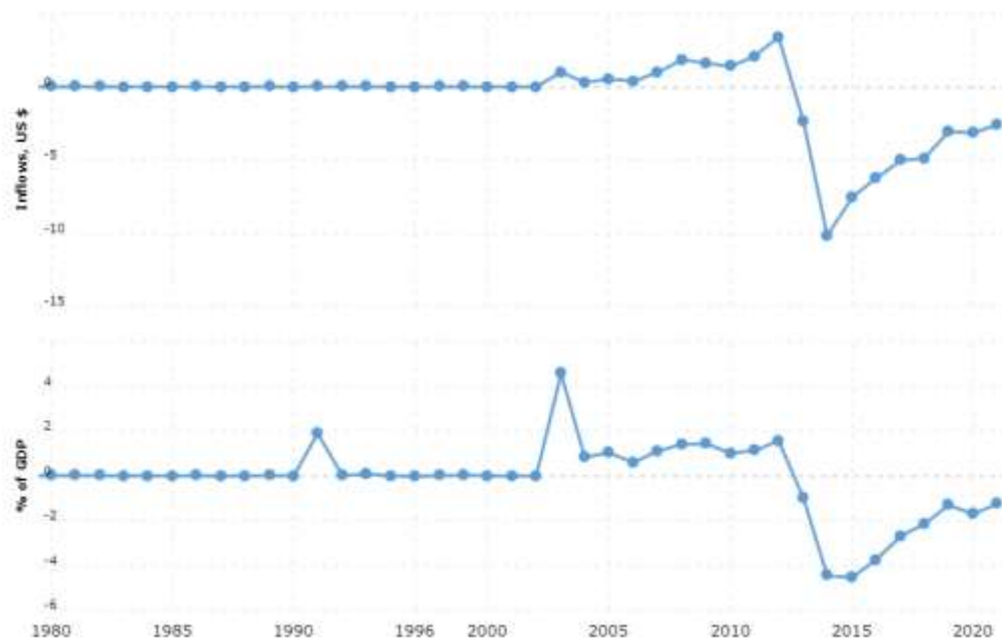

Figure 2 Foreign investment in iraq from 1980 to 2020

It could be seen from Figure 2 that the volume of foreign direct investment in relation to the gross domestic product in Iraq remained constant between 1980 and 1990, when it increased between 1990 and 1995 by 20% of the GDP and remained constant as a percentage of the GDP until 2003 when it increased with a degree of 40%, then it decreased again until the year 2015 due to the security and political events in Iraq, only to rise again until the year 2020. In 2019, the value of foreign direct investment in Iraq amounted to $242.4 million, while the value of direct foreign investment has fluctuated over the past 13 years from $490,000,000 in 2012 to $7,900,000 in 2007. For Iraq, the average the value is -0.26%, in 2014 the minimum is -4.34%, and the 2012 maximum is 1.56%. The new 2019 number is -1.29%. The global average for 2019 is 4.17% according to 97 countries. See global rankings for this indicator or compare patterns over time using our country comparison tool. In 2014, the volume of foreign direct investment in Iraq amounted to $242 million, which is approximately 0.7% of the total Arab investment for the same year, according to UNCTAD. By the end of 2014, FDI balances amounted to about $2 billion, equivalent to 0.8% of the Arab total for the same period (Dakhil, Alaa, Salal, Miami and Shabib, Mayeh, 2018). For the period from January 2003 to May 2015, Iraq's investment abroad according to the foreign direct investment markets database.

Figure 3 GDP of Iraq from 1980-2020

In Figure 3, we notice an increase in the gross domestic product of Iraq between 1980 and 1990, when it reached about 200 billion dollars, then it decreased again after 1990 due to the Iran-Iraq war and the depletion of Iraq's economic resources until 2003, when it returned to rise after the US invasion of Iraq, and in 2018 it reached about $227 billion, an increase of 21% over 2017, and decreased in 2020 by $20 billion, reaching about $207 billion

CHAPTER THREE

CORPORATE GOVERNANCE AND FOREIGN INVESTMENTS

3.1 The Relation Between Corporate Governance And Foreign Investments

Liberalization in economy and trade as a result of globalization has led to liberalization of capital circulation between markets. However, competition among global market participants has increased and cross-border financial flows have expanded. With this expansion, businesses that want to directly benefit from foreign countries' economies have chosen to establish businesses in those countries or make direct investments (FDI) as a significant partner in the capital of an existing business. Thus, foreign direct investments constituted the key point of global economic integration. In this context, FDIs made with the aim of permanent profit in an economy other than the country of residence represent stable and long-term relations between economies.

FDI flows in the world are concentrated in developed countries due to the development of financial markets and their economic stability before the 2000s. With the 2008 financial crisis, countries changed their policies; It has directed its investments to developing countries, taking into account criteria such as raw materials, cheap labor, proximity to the target market, and low production and transaction costs. In fact, while FDI inflows in developing countries were 114.7 billion dollars annually between the 1990-2000 period, it increased almost 6 times and reached 665.1 billion dollars in 2011, when the effects of the global crisis began to pass. Looking at today's statistics, it is seen that 45% of FDI inflows, which are 1.5 trillion dollars in the world, belong to developing countries (United Nations Conference on Trade and Development [UNCTAD], 2020).

One of the most important reasons for developing countries to implement policies encouraging FDI in recent years is the contribution to economic growth by closing current account deficits. Also, during an economic crisis faced by the receiving country, foreign investors making FDI are less likely to flee than other types of capital inflows, such as short-term loans and portfolio investments. This is because it has subsidiaries in the country it invests in and is more involved in the country's business environment. Thus, investments with FDI in times of crisis make the country less vulnerable to rapid

capital outflows (Busse and Hefeker, 2007). In addition to these reasons, it is to increase employment, to bring new technologies to the country, to provide management and information flow with know-how, to promote the economic and political power of developed countries, and to bring natural resources that cannot be utilized due to insufficient technology and infrastructure to the economy (Karagöz, 2007).

After the 1990s, the international literature has started to mention that the factors affecting the economic growth and FDI flows of the countries are not limited to the structural and economic activities of the country. The fact that the quality of institutions in a country plays an active role in the economic growth and development of the country and increases the FDI flow to the country in this direction draws attention to the importance of examining the indicators that affect the governance quality of institutions (Bénassy Quéré, Coupet, & Mayer, 2005; Clague, Keefer, Knack, & Olson, 1999).). The scope of corporate governance quality includes the ability of institutions in the country to carry out their activities efficiently and effectively within the framework of social interaction, the power used in the management of institutions to improve institutional conditions and their success in solving the problems that arise in these matters.

The World Bank identifies good corporate governance as one of the factors that accelerate economic development, affect the investment climate and form the basis of a competitive market. As making cross-border investments is a long-term decision for foreign investors, the rule of a fair legal system in the country and clear expression of government policies provide assurance for investors. Lack of a good governance structure, unfair sanctions and discriminatory treatment not only deter new investors, but also reduce the efficiency and quality of investments already made. The International Development Association also states that countries with quality institutions are more successful in reducing instability and poverty in the economy. According to Sachs (2003), institutions are one of the factors underlying all economic reforms. In addition, improving the legal framework in a country and by country institutions encourages foreign investors to transfer capital, as it provides confidence in protecting investors (La Porta, et al, 1997).

In recent years, the quality of institutions in countries has attracted the attention of researchers, since it is assumed by international organizations that the governance quality of institutions in a country has a strong structure and that the country has a

global competitive market economy by increasing FDI flows that accelerate its long-term growth and development plans. However, while there are many studies in the literature examining the relationship between FDIs and macroeconomic indicators, studies investigating the relationship between FDIs and institutional indicators are limited. In addition, since the methods of measuring the quality of corporate governance vary, there is no consensus in the findings obtained in the literature and this situation increases the necessity of researching the said effect even more. In this study, the World Bank governance indicators are used, similar to Globerman and Shapiro (2002), one of the pioneering studies examining the relationship between corporate governance and FDI flows. Within the scope of the literature review, it is observed that the World Bank governance indicators developed by Kaufmann, Kraay, and Zoido-Lobaton (1999) are used in few studies as a quantitative measure of the quality of institutions. It is thought that this study will contribute to the literature and the policy makers and investors of countries that want to derive social and economic benefits from foreign investments, by looking at the impact of macroeconomic variables and corporate governance variables on FDI together and including a wide-ranging panel data set.

3.2 The Relationship Of Corporate Governance To Attracting Foreign Direct Investment In The Framework Of The Literary Review

In the literature, the results obtained in studies examining the relationship between corporate governance indicators and FDI differ and there is no consensus.

Globerman and Shapiro (2002) examined the relationship between net FDI inflows and corporate governance indicators in 114 countries during the 1995-1997 period using the Least Squares method (Least Squares). Researchers have combined each institutional variable into a single index and named this index as government infrastructure. The findings of the study revealed that there is a significant positive relationship between the corporate governance index and net FDI inflows.

Demirtaş and Akçay (2006) investigated the effect of institutional and macroeconomic variables on FDI stocks in 54 developing and 17 developed countries. In the study, 9 different models were created with the EKK method for the years 1995-2002. The first model created aims to determine only the macroeconomic determinants of FDI, while in other models, the effects of both macroeconomic variables and each institutional variable are examined separately. According to the findings of the study, freedom of expression and accountability on FDI, labor cost and per capita Gross

Domestic Product (GDP) variables are meaningless, inflation and corporate tax are negative, other institutional indicators such as political stability, bureaucracy efficiency, regulatory quality, rule of law anti-corruption and openness ratio have a positive effect.

Busse and Hefeker (2007) analyzed the relationship between per capita FDI and corporate governance indicators in 83 countries for the 1984-2003 period using fixed effects and the Arellano Bond Generalized Method of Moments (GMM). The studies of the researchers differ from other studies in the literature in two aspects. They took into account the 12 risk components published by the International Country Risk Guide (ICRG) as corporate governance indicators and formed the data set period by averaging every four years. In the fixed effects model estimations, the variables of government stability, investor profile, internal and external turmoil, law and order, democratic accountability, bureaucratic quality have a significant and positive effect on FDI, but socioeconomic conditions, corruption, the effect of the military on politics and religious and ethnic tensions. does not affect it. The results of the study differ in the estimation results of the Arellano Bond GMM method. With this method, the researchers found the variables of corruption and ethnic tension to be significant and positive, and the investor profile variable to be statistically insignificant.

Daude and Stein (2007) investigated the effect of institutional quality on FDI flows from 34 source countries, mostly developed countries, to 152 host countries for the period 1982-2002. In the study, in which the panel data model was applied, it is stated that not all institutional quality indicators have the same importance in choosing the country to invest in. Regulatory quality and government effectiveness variables have positive and significant effects on FDI flows, while expropriation risk, democratic accountability, corruption and law and order have no significant effect on FDI flows.

Aiming to investigate the determinants of FDI in 8 countries in Latin America for the period 1996-2008, Amal et al. (2010) used the panel data method in their study. As a result of the analysis, it was determined that only the political stability variable had a positive effect on FDI stocks. It was found that the effectiveness of government variable had a negative effect, while other institutional quality variables were found to be statistically insignificant. Another finding of the study is that FDI stocks are negatively affected by the inflation rate and not affected by the exchange rate.

Fukumi and Nishijima (2010), aiming to explain the relationship between FDI and institutional quality in Latin America and the Caribbean, with the panel data method, analyzed annual data for 19 countries for the 1983-2000 period. In the study, which used ICRG data as an institutional quality criterion, a positive and significant relationship was found between the level of institutional quality and FDIs entering the countries. In addition, according to the researchers, GDP per capita and inflation rate have a statistically insignificant effect on FDI inflows, while the level of exports has a positive significant effect.

Buchanan, Le, and Rishi (2012), who brought corporate governance indicators into a single index with the principal component analysis method, analyzed the 1996-2006 period data with panel data fixed effects and random effects models to investigate the effect on FDIs. In the study, it was determined that the created governance index had a positive and significant effect on FDI. In addition, trade and domestic investment volumes used as independent variables were also found to be significant on FDI.

Karim, Zaidi, Ismail, and Abdul Karim (2012) analyzed the relationship between institutional quality and FDI inflows for the period 1984-2009 in Malaysia with the help of the Autoregressive Distributed Lag Bound Test (ARDL). As a result of the study, it was determined that FDI inflows were positively related to the quality of bureaucracy and government stability variables in the short run, and negatively correlated with the level of corruption in the long run. No relationship was found between the other institutional variables of the study and FDI inflows.

Esew and Yaroson (2014) investigated the effect of institutional quality on attracting foreign direct investment flows in Nigeria between 1980 and 2011. Vector Error Correction Model (VECM) was used to examine the relationship between variables. In addition to institutional indicators, control variables such as trade openness, inflation, financial development and human capital development were also used as independent variables in the study. As a result of the analysis, it was found that the decrease in corruption and the increase in political stability in the country, financial development and trade openness had a positive effect on FDI inflows, while high inflation had a negative effect.

Artan and Hayaloğlu (2015) aimed to explain the relationship between the 12 components included in the political risk index, which is an indicator of institutional

quality, and the FDI relationship in 29 Organization for Economic Co-operation and Development (OECD) countries for the years 1990-2012. The political risk components of the study are government stability, socioeconomic status, investment profile, internal turmoil, external turmoil, corruption, military influence on politics, religious tensions, law and order, ethnic tensions, democratic accountability and bureaucratic quality variables. According to the research analyzed with the panel data method, an improvement in the institutional structures of OECD countries increases the FDI inflows to these countries. Governance and attracting foreign investment in Iraq (Daoud Suleiman Mouloud,2011),

Corporate governance increases the efficiency of resource use, maximizes the value of the company, and strengthens its competitiveness in the markets, enabling it to attract local and international financing sources for expansion and growth, which makes it capable of creating new job opportunities, while ensuring the stability of financial markets and banking devices, which leads to achieving efficiency. required economic development.

3.3 The Importance Of Corporate Governance For The Iraqi Government

The importance of corporate governance for the Iraqi government is shown by the following:

1- Commitment to applying governance is one of the basic criteria that investors consider when making investment decisions, especially in light of the current global economic system that is characterized by globalization and intensifying competition between companies for investment. Therefore, companies that apply governance have a competitive advantage to attract capital. Funds for those that do not apply governance through the confidence of investors in them.

2- The application of corporate governance helps managers and the board of directors to develop a sound strategy for the company and to ensure that merger or acquisition decisions are taken based on sound foundations.

3- Maximizing the share value of the company and strengthening the competitiveness of companies in the global financial markets, especially in light of the development of new financial tools and mechanisms and the occurrence of mergers or acquisitions from a major investor.

4- Governance emphasizes the responsibilities of management, enhances its accountability, improves accounting, administrative and financial practices, and emphasizes transparency, which helps to quickly detect manipulation, financial fraud and administrative corruption, take the necessary measures in this regard, and treat its causes and effects before they aggravate and affect the life of the company.

5- Compliance with corporate governance standards would produce more trained and knowledgeable board members for companies, whether those companies are public or private.

6- The principles of corporate governance are an effective tool for combating corruption and ensuring that board members are aware of the needs imposed by their changing environment and the long-term interests of shareholders.

7- Corporate governance improves corporate citizenship responsibility in its practical aspect; Companies are interested in the impact of their activities on the communities in which they operate and beyond, and as a result, administrative practices become more sensitive and responsive to the needs of society in developing countries.

8- On the legal level, jurists are interested in corporate governance frameworks and mechanisms because they work to fulfill the rights of multiple parties in the company, especially with the major companies in recent times. Therefore, the governing legislation and regulations governing the work of companies regulate the relationship between the concerned parties in the company and the economy as a whole.

The National Development Strategy (2010-2014) issued by the Iraqi government, in a special chapter on governance, showed the importance of governance, as it considered it the basic requirement for achieving any progress in all fields, including the economic one, leading to the welfare of society and achieving justice among citizens (Al-Naimi, 2011, 37).

3.3.1 The role of corporate governance in attracting and supporting investment

The importance of governance is evident in increasing investment through its principles, including providing protection for the rights of shareholders in companies and defining the rights of property owners, and its importance appears in this field in the development and encouragement of investment by establishing rules that lead as a

result to increasing shareholders' confidence in the economic unit, because investors are a necessary condition And the cornerstone of all economic units, and this is done through transparency in dealing with them, protecting their interests and reassuring them about their money invested in the company is a priority for economic units, because this leads as a result to raising the unit's share prices in the market and supporting its competitive position, which leads to attracting investments (Daoud Suleiman Mouloud ,2011). And avoid slipping into accounting and financial problems, in a way that works to strengthen and stabilize the activity of companies operating in the economy, and prevent collapses in banking systems or local and global financial markets and help achieve economic development and stability, by establishing a number of performance standards in a way that works to strengthen the economic foundations in the markets and detect cases Manipulation, administrative corruption and mismanagement, which lead to gaining the confidence of dealers in these markets and work to stabilize them and reduce severe fluctuations in them and in a way that works to achieve the desired economic progress (Al-Obaidi, 2008, 144).

On the other hand, governance leads to the development of financial markets by protecting investors. Financial markets and other intermediaries help bring investments and savings together through the existence of creative solutions to financial problems that may be exposed to financial markets. Porta La considered that investor protection is linked to the efficiency of governance, which allows With the development of financial markets and the efficient allocation of capital through companies, the important result of analyzing the financial markets' need for investor protection appears to be rooted in the legal structures in each country (Daoud Mouloud, 2011). Marginal improvement does not result in a necessary degree of investor protection. Corporate governance works to control the company's performance by contributing to preventing or limiting the commission of violations and illegal actions through its commitment to the laws and regulations governing the company's business and its commitment to ethical and environmental responsibility, which increases the degree of confidence in its financial statements, which affects the behavior of investment decisions and thus Trading its shares in the financial markets. As it plays an important role in providing confirmation of the extent to which all employees in companies adhere to ethical responsibilities regarding the application of its rules, and this results in a tangible impact on the credibility of accounting disclosure and thus on stock trading in the markets (Khudair, 2009).

There are several ways in which corporate governance can help companies and economies attract investments to strengthen the basis of long-term economic performance and competitiveness in Iraq, as follows: (Sullivan, et al, 2003)

1- The demand for transparency in corporate operations, in accounting and auditing procedures, in procurement processes, and in all businesses, leads to corporate governance attacking the supply side in corruption operations and relationships, as corruption leads to exhaustion of corporate resources and erasing their competitiveness, and to alienating investors away. about her.

2- The corporate governance procedures work to improve the company's management by assisting managers and boards of directors in developing sound strategies for the company, ensuring that mergers and acquisitions are not carried out except for sound and convincing reasons that the company needs, and ensuring that salary and bonus systems reflect performance. It is these procedures that help companies to attract investments on favorable terms and to enhance and improve their performance.

3- Following the standards of transparency in dealing with investors and creditors leads to the establishment of a strong system of corporate governance that helps prevent periodic crises in the banking system, even in countries where most of the shares of their companies are not traded in stock exchanges, and helps to take the next step. To ensure that there are ways to deal with failures and failures of companies. This provides fair dealing for all stakeholders, including employees, company owners and creditors.

4- Recent studies have shown that countries that have stronger protection for minority interests through corporate governance also enjoy more massive and more liquid financial markets. Comparisons also appear between countries that base their laws on legal traditions. Those countries with weak regulations are in which most companies are owned or controlled by a few ruling investors rather than a pervasive ownership structure. Hence, in countries that are trying to attract small investors whether they are local or foreign - corporate governance is very important for them in terms of obtaining the hard currency hoarded by potential investors. (Badran Lafi Sultan Al-Badrani ,2008).

5-Instilling corporate governance significantly enhances public confidence in the integrity of the privatization process, and helps ensure that the country achieves the best

return on its investments, which in turn leads to increased employment and economic growth.

6- The need for corporate governance in developing economies goes beyond solving agency problems, as developing and emerging economies always face issues such as lack of property rights, abuse of minority shareholders' rights, breach of contracts, plundering of assets, self-dealing, and most of these actions are not subject to punishment. This is due to the lack of legislation and the necessary political-economic institutions – for democracy and markets to function. Without the presence of these institutions and legislation, there will be no simple effect of governance, and therefore the implantation of governance in the economies of developing and emerging countries requires the development and establishment of democratic legislation and institutions based on the market (Burhan, Ibrahim, 2008).

3.3.2 The role of governance in Iraq in reducing the problem of information asymmetry to support investment decisions

Know the case of information asymmetry is the case in which information is available and known to one party, but the second party does not have such information, and this situation leads to market inefficiency because most investors will be unable to access the information they need in the decision-making process. In light of the contractual relationship between the principal and the agent of the agency theory, there is a state of information asymmetry, as communication will be inefficient between the principal and the agent (http://www.investorwords.com), and information asymmetry affects many financial decisions such as dividend policies , financing, capital formation decisions, voluntary disclosure of information, management's retention of ownership in new share issues, and optional selection of external auditors (Bushra Khudair, 2009).

As the efficiency of the market is achieved only in the case of similar information among all parties dealing in it, so that the effect of the information on prices and trading volumes is complete and rapid, and as long as there is inefficiency, this means that some parties can achieve extraordinary profits at the expense of other parties that do not have information Achieving these extraordinary profits will, of course, cause damage to the market, as it will result in the withdrawal of some dealers from it for fear of making losses, and this will lead to market shrinkage, low liquidity and high transaction costs, which leads to a negative impact on the national economy (Khudair, 2009, 75).

Disclosure of policies related to management ethics, the environment and policies towards other public obligations. Ethics means a set of rules and principles that determine what is right and wrong behavior. Therefore, management ethics is a set of standards and principles that govern administrative behavior and related to what is right or wrong. Management represents guidelines for managers in decision-making, and its importance increases in proportion to the effects and results of the decision. Influential and important in the behavior of managers, despite the existence of codes of ethics. Information about the members of the Board of Directors separately and about the senior executives, including their remuneration policy, information about their qualifications, the selection process, and their membership in the Board of Directors of other economic units, because it indicates experience and potential pressures faced by a member of the Board of Directors, and it discloses the degree of connection between the boards of directors Administration (Suad Ghazal, 2006).

The need to enhance the credibility of disclosure of important information related to majority ownership of shares, and disclosure related to members of the Board of Directors and executive managers. All of this information is disclosed in a fair manner among all shareholders and stakeholders in a timely manner and without delay, as the members of the Board of Directors are allowed to obtain all information related to the economic unit at the time and in the form they specify.

The Board shall establish mechanisms and systems that guarantee the respect of the economic unit for the laws and regulations in force, and its obligation to disclose information to the shareholders, creditors and other stakeholders. In all cases, respect for the laws and regulations, as well as the disclosure of this information, must be based on objective criteria. And the. Dissemination of information with the aim of summarizing the policies and practices of the economic unit with regard to the preparation and dissemination of financial and non-financial information about the economic unit, which includes the timing of the issuance of these lists that will be disclosed to the relevant parties (Sabiha Barzan Al-Obeidi, 2008).

By reviewing previous studies, we find that many studies have found that corporate governance has an important role in attracting foreign investments. Based on what has been mentioned in the light of the literature review, it can be said that good corporate governance may not be the main driver of economic growth, but it is necessary for the overall operation of the economy. National and international investors

will be completely loyal in Iraqi companies if they follow all standards of corporate governance practices and the government provides corporate governance principles and fights corruption in the administrative and production bodies in Iraq. With the privatization and commercialization of government companies in Iraq, the size of companies has become much larger, so the expectations Various stakeholders are also increasing which can only be achieved through good corporate governance in Iraq.

CHAPTER FOUR

METHODOLOGY

The Role Of Corporate Governance In Attracting Foreign Direct Investment. Case Study Of Iraq (1980-2020)

In the methodology chapter, light will be highlighted on the basic ideas of the appropriate statistical analysis for this study, and reference will be made to how to design the research, the methodology used in the study, and the results of the statistical analyzes that were used in this study to reach the study of the relationship between corporate governance and Foreign Direct Investment at the level of Iraq.

4.1. Interpretation of variables :

The governance variable is expressed by a set of indicators are Gross domestic product (GDP), Inflation, Transparency International Corruption Perception Index, and Index of economic freedom (LE), There are also many variables such as (justice, trust and efficiency). But only Variables that can be measured and whose data are available were used. The foreign direct investment represents the second major variable.

4.2. Model Of The Study

This study relied on an approach similar to the co-integration approach, which is the test approach associated with the ARDL (Auto Regressive Distributed Lag) model proposed by Pesaran, Shin and Smith (2001) in order to study the relationship between foreign direct investment and Gross domestic product (GDP), Inflation, Transparency International Corruption Perception Index (Transparency), and Index of economic freedom (LE) in Iraq in the period between 1980 and 2020. The statistical program STATA was used. In this chapter, the study methodology and model equations will be presented first, then the results reached by the researcher will be presented. Where the researcher will conduct a unit root analysis, then an analysis to determine the appropriate degree of delay and analyze the short and long-term relationship between the variables of the study through the application of the ARDL model. Whereas, the ARDL model equation for this study is:

Equation (1) $$\mathrm{FDI}_t = \alpha_0 + \alpha_1 \mathrm{GDP}_t + \alpha_2 \mathrm{Inflation}_t + \alpha_3 \mathrm{Transparency}_t + \alpha_4 \mathrm{LE}_t + \varepsilon_t$$

Where the dependent variable is Foreign direct investment (FDI), the independent variables are Gross domestic product (GDP), Inflation, Transparency International Corruption Perception Index and Index of economic freedom (LE).

Equation 2 for the long-run relationship between variables of the study

Equation 2

$$\Delta FDIT_t = \xi_0 + \xi_1 FDI_{t-i} + \xi_2 Inflation_{t-i} + \xi_3 Transparency_{t-i} + \xi_4 GDP_{t-i} + \xi_5 LE_{t-i} + \varepsilon_t$$

Equation 2 for the short-run relationship between variables of the study

Equation 3

$$\Delta FDI_t = \Upsilon_0 + \Upsilon_1 \sum \Delta FDI_{t-i} + \Upsilon_2 \sum \Delta Inflation_{t-j} + \Upsilon_3 \sum \Delta Transparency_{t-k} + \Upsilon_4 \sum \Delta GDP_{t-M} + \Upsilon_5 \sum \Delta LE_{t-N} + \phi ECt - i + \alpha t$$

In equation two ξ, represent long-run coefficients, while in equation three Υ represent short-run coefficients are (αt) represents the error term.

4.3. Results of The Analyses

The results section includes all the results of the analyzes carried out by the researcher to test the relationship between the variables, as the following variables were used in the study

Table 6 Variables Type

Variables	Type
Foreign direct investment (FDI)	Dependent
Gross domestic product (GDP)	Independent
Inflation	Independent
Transparency International Corruption Perception Index (Transparency)	Independent
Index of economic freedom (LE)	Independent

Unit root Test

In this model, panel unit root tests were performed using ADF test suggested by Maddala Wu.

Table 7 Unit Root Tests

ADF	Level	P value	First Difference	P value
FDI	1.978	0.2963	6.525	0.00**
GDP	1.001	0.7528	5.938	0.00**
Inflation	0.924	0.7800	9.224	0.00**
Transparency	2.629	0.0872	7.650	0.00**
LE	1.659	0.4524	6.525	0.00**

The results in Table 7, where the unit root test was conducted, indicate that all the variables in the ADF test are not stationary at level I (0), where the p value is more than 0.05 . By conducting the ADF first different test, it can be noticed from the results that all the variabels are stationary where the p value is less than 0.05.

Within the scope of these results, it is noted that the series is stationary at first difference which allows us to apply the ARDL test.

Table 8 Determining the Lag

Lag	LR	AIC	SC	HQ
0	NA	43.7751	43.9928	43.8519
1	243.31*	38.5585*	39.8567*	39.011
2	44.482	38.6997	41.0943	39.5439
3	84.802	37.7531	41.2421	38.987
4	61.996	37.4343	42.0064	39.0465*

Before conducting the ARDL model tests to study the relationship between the study variables, the researcher conducted a test to determine the optimal Lag. It was found that the optimal lag is 1 for all study variables.

ARDL Limit Test

In the ARDL extended test used to determine whether there is cointegration between FDI and , the model was chosen.

Sam et al. The cointegration test (2019) according to the extended ARDL bounds test, which is applied to avoid degenerate situations in the classical ARDL approach, will be applied to the F-test, which considers the first lag times of the variables.

At this stage, the obtained F test statistics will be compared with the upper and lower critical values, and if the F test statistic is found to be higher than the upper limit critical value, the null hypothesis will be rejected, that is, there is co-integration between FDI and the variables that represent corporate governance (Gross domestic product (GDP), Inflation, Transparency International Corruption Perception Index and Index of economic freedom (LE)).

Table 9 Extended ARDL Limit Test Results

Significance level Lower limit Upper limit	Lower limit	Upper limit
10%	1.66	3.54
5%	3.32	4.83
1%	4.13	6.76
Calculated F value	15.40	

According to the results presented in Table 4, the value of the F statistic (15.40) is greater than the upper critical value (6.76) with a significance value of 1%. Accordingly, the null hypothesis is rejected, and it is seen that macroeconomic fragility and economic growth move together in the long run.

After determining that the variables are interrelated, it will be determined how and in what direction each of Gross domestic product (GDP), Inflation, Transparency International Corruption Perception Index and Index of economic freedom (LE) affects FDI in the long run.

Table 10 Long-run ARDL Results

Variable	coefficient	Standard error	t-statistics	Prob.
GDP	0.00038	0.0001439	2.67	0.011**
Inflation	-0.36414	0.2464	-1.48	0.148
Transparency	-0.12607	0.1888	0.67	0.509
LE	0.65176	0.1695	3.84	0.000**
C	-14.5507	13.4773	-1.08	0.287

Notes: Dependent variable = FDI. **, represent significance at 5%,.

We can conclude from Table 10 above that there is a positive and significant impact of gross domestic product (GDP), and economic freedom (LE) on the FDI in the long run. We can also notice that there is a negative but not signtificant impact if Inflation, and Transparency International Corruption Perception Index on the FDI in the long run. Based on the obtained results we can say that an increase in Gross domestic product (GDP), of 1% , increases FDI by 0.00038%, and an increase in economic freedom (LE) , of 1% , increases FDI by 0.65176. In addition we can say that a decrease in inflation of 1% each increases FDI by 0.36414%. in the long-term.

Table 11 Short -run ARDL Results

Variable	coefficient	Standard error	t-statistics	Prob.
ΔFDI	0.5357	0.136	3.93	0.001**
Δ GDP	0.0002695	0.00018	1.50	0.004**
Δ Inflation	-0.6993	0.243	-2.87	0.008**
Δ Transparency	-0.0991	0.141	-0.70	0.490
ΔLE	0.5392	0.277	1.94	0.062
C	15.948	12.586	1.27	0.216
ECT(−1)	−0.8314	0.152	−5.469	0.000**
Dependent variable = FDI				
R2		0.8181		
P > F		= 00000		
Durbin Watson		1.856		

We note by studying the short-term relationship between the variables of the study that all corporate governance variables affect foreign direct investment in Iraq in the short term, as the results have proven that Gross domestic product (GDP), has a positive and significant impact on the foreign direct investment, but Index of economic freedom (LE) variable affect Positively, but not significantly on the foreign direct investment in the short run.

In addition , it we note that Inflation, has a negative and significant impact on the foreign direct investment in the short run. but Index of transparency variable affect negatively, but not significantly on the foreign direct investment in the short run.

Looking at the ECT error correction term (–1), we note that the error correction index is negative, significant and the coefficient was −0.8314, between 0-1, as expected. Accordingly, it is seen that 83% of the short-term deviations are corrected in the next period and reach equilibrium within a maximum of two years.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1.Conclusion

Corporate governance is defined as setting basic regulations for work and applying systems in business in order to achieve economic growth, organize business and make companies able to compete, grow, survive and continue.

Regulatory corporate governance principles help reduce the knowledge asymmetry between international investors and the host country. As a result, corporate governance procedures must be examined while investigating the determinants of foreign investment. Adverse selection and negative externalities are eliminated through good company management.

The research includes corporate governance, and it will be studied through the economic variables associated with it, such as gross domestic product, inflation, and the index of transparency and economic freedom in Iraq.

It is noted that Iraq enjoys a low percentage of foreign direct investment, as Iraq does not mainly apply the principles and concepts of corporate governance, does not focus on foreign direct investment, and does not appear to be in a hurry to integrate corporate governance into business models. Developed countries are trying to improve their position in terms of foreign direct investment, while some countries are unable to improve or maintain their previous positions.

Several studies have been conducted to examine the factors affecting the volume of foreign direct investment in Arab countries. However, the majority of them did not take into account the impact of corporate governance on foreign investment in Iraq in their forecasts. Therefore, this research examines the relationship between the level of corporate governance and foreign direct investment through the inclusion of the following economic variables as variables that reflect the corporate governance, which are the gross domestic product, inflation, the index of transparency and economic freedom.

This study relied on the ARDL model to study the long- and short-term relationship between corporate governance and foreign direct investment, where the level of stability of the study variables was first studied, then the most appropriate

degree of delay was determined in order to study the relationship between the variables, and the long and short-term relationship was studied according to the equations of the model.

The study basically concluded that that there is a positive and significant impact of gross domestic product (GDP), and economic freedom (LE) on the FDI in the long run. We can also notice that there is a negative but not signtificant impact if Inflation, and Transparency International Corruption Perception Index on the FDI in the long run. We note by studying the short-term relationship between the variables of the study that all corporate governance variables affect foreign direct investment in Iraq in the short term, as the results have proven that Gross domestic product (GDP), has a positive and significant impact on the foreign direct investment, but Index of economic freedom (LE) variable affect Positively, but not significantly on the foreign direct investment in the short run.

In addition , it we note that Inflation, has a negative and significant impact on the foreign direct investment in the short run. but Index of transparency variable affect negatively, but not significantly on the foreign direct investment in the short run.

Which indicates that corporate governance has an important impact in the short and long term on foreign direct investment. The application of corporate governance principles in Iraq will stimulate companies to work and foreign capital to move to Iraq and invest.

The results of this study are consistent with the findings of many studies, such as Bhagat, Sanjai, and Brian Bolton. (2008) Chen, Ding, and Xu, (2014) Afolabi, and Dare, (2015) Dalwai, Basiruddin , & Rasod, (2015) and Desbordes, and Wei, (2017).

5.2.Recommendations

Through the findings, the researcher recommends the following:

The Iraqi government should pay attention to applying the principles of corporate governance in all its public and private institutions, in a way that contributes to reducing corruption and administrative waste and allows attracting foreign direct investment.

Economic growth, low inflation rate, transparency and economic freedom are factors related to corporate governance, as the application of corporate governance principles will enhance economic growth and increase transparency and economic

freedom, and this will consequently affect the foreign investor's desire to establish projects in Iraq.

It is important to study the projects in which it is required to increase foreign investment, to issue laws, to simplify procedures, and to exempt from fees and taxes in order to attract foreign investment to these projects.

The positive relationship between the level of transparency and foreign direct investment shows the importance of adopting the Iraqi government to apply the principles of governance to promote economic growth.

The positive relationship between the index of economic freedom and direct foreign investment shows the importance of the Iraqi government's economic openness and allowing the freedom to practice all economic activities, which will reflect positively on the Iraqi economy and foreign direct investment in Iraq.

This study was carried out in Iraq between 1980 and 2020, as it reached results that require generalization of more studies in the same field in other countries or in the same country in different time periods, so the researcher recommends conducting many studies on the relationship of corporate governance to foreign direct investment.

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APPENDICES

Appendix no A Dickey-Fuller for unit root obs (40)

```
. tsset year, yearly
        time variable:  year, 1980 to 2020
                delta:  1 year

. dfuller fdi

Dickey-Fuller test for unit root                   Number of obs   =        40

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -1.978            -3.648            -2.958            -2.612
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.2963

. dfuller gdppercapitaconstant

Dickey-Fuller test for unit root                   Number of obs   =        40

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -1.001            -3.648            -2.958            -2.612
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.7528

. dfuller inflation

Dickey-Fuller test for unit root                   Number of obs   =        40

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -0.924            -3.648            -2.958            -2.612
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.7800

. dfuller transparency

Dickey-Fuller test for unit root                   Number of obs   =        40

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -2.629            -3.648            -2.958            -2.612
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0872

. dfuller economicfreedom

Dickey-Fuller test for unit root                   Number of obs   =        40

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -1.659            -3.648            -2.958            -2.612
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.4524

.
```

Appendix no B Dickey-Fuller for unit root obs (39)

```
. dfuller d.fdi

Dickey-Fuller test for unit root                   Number of obs   =        39

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -6.525            -3.655            -2.961            -2.613
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

. dfuller d.gdppercapitaconstant

Dickey-Fuller test for unit root                   Number of obs   =        39

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -5.938            -3.655            -2.961            -2.613
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

. dfuller d.inflation

Dickey-Fuller test for unit root                   Number of obs   =        39

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -9.224            -3.655            -2.961            -2.613
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

. dfuller d.transparency

Dickey-Fuller test for unit root                   Number of obs   =        39

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -7.650            -3.655            -2.961            -2.613
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

. dfuller d.fdi

Dickey-Fuller test for unit root                   Number of obs   =        39

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -6.525            -3.655            -2.961            -2.613
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

. dfuller d.economicfreedom

Dickey-Fuller test for unit root                   Number of obs   =        39

                               ---------- Interpolated Dickey-Fuller ---------
                  Test         1% Critical       5% Critical      10% Critical
               Statistic           Value             Value             Value
------------------------------------------------------------------------------
 Z(t)             -7.771            -3.655            -2.961            -2.613
------------------------------------------------------------------------------
MacKinnon approximate p-value for Z(t) = 0.0000

.
```

Appendix no C varsoc fdi gdp per capital constant inflation transparency economic freedom maxlag(4)

```
. varsoc fdi gdppercapitaconstant inflation transparency economicfreedom , maxlag(4)

   Selection-order criteria
   Sample:  1984 - 2020                        Number of obs      =        37
```

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-804.84				7.1e+12	43.7751	43.8519	43.9928
1	-683.185	243.31	25	0.000	3.9e+10	38.5505	39.011	39.8567*
2	-660.944	44.482	25	0.010	4.8e+10	38.6997	39.5439	41.0943
3	-618.543	84.802	25	0.000	2.3e+10*	37.7591	38.987*	41.2421
4	-587.545	61.996*	25	0.000	2.7e+10	37.4349*	39.0465	42.0064

```
   Endogenous:  fdi gdppercapitaconstant inflation transparency
                economicfreedom
    Exogenous:  _cons
```

Appendix no D sum fdi gdp per capital constant inflation transparency economic freedom

```
. sum fdi gdppercapitaconstant inflation transparency economicfreedom
```

Variable	Obs	Mean	Std. Dev.	Min	Max
fdi	41	2.943334	5.827159	-4.541592	23.53729
gdppercapi~t	41	12933.75	9734.127	2517.581	23414.22
inflation	41	39.56098	8.54122	23	56
transparency	41	51.7561	5.003901	43	60
economicfr~m	41	51.34146	14.10073	22	72

Appendix no E regress fdi gdp per capita constant inflation transparency economic freedom

```
. regress fdi gdppercapitaconstant inflation transparency economicfreedom
```

Source	SS	df	MS
Model	656.949491	4	164.237373
Residual	701.281856	36	19.4800516
Total	1358.23135	40	33.9557837

Statistic		Value
Number of obs	=	41
F(4, 36)	=	8.43
Prob > F	=	0.0001
R-squared	=	0.4837
Adj R-squared	=	0.4263
Root MSE	=	4.4136

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
gdppercapitaconstant	.0003836	.0001439	2.67	0.011	.0000918	.0006755
inflation	-.3641438	.2464331	-1.48	0.148	-.8639332	.1356456
transparency	-.1260725	.1888546	-0.67	0.509	-.5090874	.2569424
economicfreedom	.6517697	.1695915	3.84	0.000	.3078221	.9957172
_cons	-14.55045	13.47735	-1.08	0.287	-41.88379	12.78289

Appendix no F ARDL fdi gdp percapital constant inflation transparency economic freedom ARDL(1,1,0,0,3) regression

```
. ardl fdi gdppercapitaconstant inflation transparency economicfreedom

ARDL(1,1,0,0,3) regression

Sample: 1984 - 2020                               Number of obs     =         37
                                                  F(   9,     27)   =      13.49
                                                  Prob > F          =     0.0000
                                                  R-squared         =     0.8181
                                                  Adj R-squared     =     0.7574
Log likelihood = -87.316675                       Root MSE          =     2.9997
```

fdi	Coef.	Std. Err.	t	P>|t|	[95% Conf.	Interval]
fdi						
L1.	.5357402	.136183	3.93	0.001	.2563158	.8151646
gdppercapitaconstant						
--.	.0002695	.00018	1.50	0.146	-.0000997	.0006387
L1.	-.0003959	.0001892	-2.09	0.046	-.0007841	-7.76e-06
inflation	-.6993062	.2439983	-2.87	0.008	-1.199949	-.198663
transparency	-.0991409	.1415993	-0.70	0.490	-.3896786	.1913968
economicfreedom						
--.	-.5392527	.2774999	-1.94	0.062	-1.108636	.0301302
L1.	.7920592	.3745628	2.11	0.044	.0235198	1.560599
L2.	-.7607365	.3777698	-2.01	0.054	-1.535856	.0143831
L3.	.9419296	.2746785	3.43	0.002	.3783359	1.505523
_cons	15.94822	12.58625	1.27	0.216	-9.876631	41.77307