

# The Impact of Board of Directors' Characteristics on Financial Performance: The Moderating Role of Voluntary Risk Disclosure in the Iraqi Banking Sector

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## ABSTRACT

This study investigates the effect of board of directors' characteristics on the financial performance of banks in Iraq, while also examining the moderating role of voluntary risk disclosure (VRD). Drawing on agency theory and legitimacy theory, the study explores how specific governance mechanisms namely board size, board independence, and frequency of board meetings influence key performance indicators: return on assets (ROA), return on equity (ROE), and Tobin's Q. VRD is conceptualized as a transparency tool that may enhance or weaken the effectiveness of board-level governance in shaping firm outcomes. The study employs a panel dataset of 34 Iraqi banks over the period 2010–2023 and applies multiple regression techniques to test the hypotheses. The results reveal that board size and board independence have a significant positive impact on financial performance, while board meetings exhibit a mixed findings with negative effect on Tobin's Q. Importantly, VRD is found to positively moderate the relationship between board characteristics and ROA but not ROE or Tobin's Q. These findings offer theoretical contributions to the corporate governance literature in emerging markets and provide practical implications for policymakers, bank executives, and regulators seeking to improve governance and performance in the post-conflict Iraqi banking sector.

**Keywords:** Financial Performance, Board of Director, Voluntary Risk Disclosure, Agency Theory, Legitimacy Theory

## INTRODUCTION

Following the global financial crisis of 2008–2009, the significance of corporate governance (CG) has emerged as a major concern for regulators, policymakers, and academics. Significant governance shortcomings were exposed by the demise of large financial firms like Enron, WorldCom, and Lehman Brothers, especially with regard to inadequate board supervision, inefficient monitoring systems, and a lack of openness in voluntary risk disclosure (VRD) (Ahmad et al., 2024). In addition to undermining investor confidence, these failures showed how important good governance procedures are for preserving organizational stability and improving financial performance (FP), particularly those related to the board of directors (BOD) (Badran & Chamoun, 2024; Saggat & Singh, 2017; Talpur et al., 2018).

By exercising strategic control, guaranteeing adherence to legal requirements, and monitoring managerial actions, the BOD plays a crucial part in the CG architecture. By balancing managers' and shareholders' interests, effective boards are supposed to reduce agency issues (Fama & Jensen, 1983). Although the results of various studies are still inconsistent and context-dependent, important board attributes like size, independence, and frequency of meetings have been empirically connected to firm performance (El-Halaby & Hussainey, 2016). For

example, a larger board may result in better decision-making and a wider range of expertise, but it may also be less effective and have coordination issues. Comparably, regular board meetings might suggest attentive supervision, but too many meetings might be a sign of internal inefficiencies or underlying governance problems (Buallay & Al-Ajmi, 2019).

The BOD's role is even more important in developing economies, especially in post-conflict settings like Iraq, where ownership concentration is common and there are no established regulatory institutions. High levels of state and family ownership, lack of enforcement of governance codes, and restricted disclosure practices are characteristics of the environment in which Iraqi banks operate. These contextual factors exacerbate conventional agency issues and cast doubt on BODs' ability to successfully affect FP (Shatnawi et al., 2021). Iraq's CG Code (CGC) was intended to improve accountability and transparency; however, its implementation has been uneven, particularly in relation to the way boards operate and their capacity to meaningfully monitor management (OECD, 2019).

VRD has surfaced as a potentially important moderator in this complex landscape of the relationship between CG mechanisms and firm performance. Based on legitimacy theory, VRD increases transparency, decreases information asymmetry, and communicates responsible governance to stakeholders by enabling businesses to communicate their exposure to internal and external uncertainties (Elshandidy et al., 2018). It is essential to disclose both required and optional information regarding financial, operational, and strategic risks in the banking industry, where risk is inevitable and trust is crucial. Iraq's VRD procedures are still lacking, though, as many banks do not follow international reporting standards or offer quantitative disclosures (The World Bank, 2022).

Theoretically and practically, VRD plays a crucial moderating role. Theoretically, by proving compliance with social norms and validating management choices, VRD can increase the efficacy of board supervision (Veltri et al., 2020). Openness in risk reporting can boost investor confidence, especially in unstable situations like Iraq where institutional gaps still exist. Without reliable and open VRD, it is conceivable that even a well-organized board could have little effect on FP (Elshandidy et al., 2018). On the other hand, the board's strategic and supervisory responsibilities are enhanced when risk information is sufficiently disclosed, which enhances the calibre of decision-making and financial results.

Despite its theoretical and practical importance, few empirical research have examined VRD's moderating impact in the relationship between BOD and FP, especially in emerging or post-conflict countries. The literature mostly ignores disclosure practices' effects on these linkages, concentrating instead on CG procedures' direct effects on performance. BOD characteristics have inconsistent empirical effects on FP, highlighting the need for more complex evaluations that account for moderating factors and contextual variables. This study empirically explores how board size, independence, and meeting frequency affect Iraqi banks' FP and VRD to address these issues. It highlights the conditional characteristics of board performance in transitional circumstances, which helps explain CG. It also provides Iraqi regulators and banks with vital information to strengthen financial resilience, stakeholder trust, and governance.

## LITERATURE REVIEW

### Theoretical Framework

A solid theoretical framework explains how independent, dependent, and moderating variables interact to guide empirical study. This study uses legitimacy theory and agency theory to explain how BOD impact Iraqi banks' FP and how VRD moderates the relationship among the variables. The agency theory by Jensen and Meckling (1976) explains conflicts between managers' (agents') and shareholders' (principals') interests. Modern corporations' division of ownership and control encourages managerial opportunism, which can manifest as resource misallocation, excessive risk-taking, or the pursuit of short-term gains at the expense of long-term sustainability. These scenarios require effective CG, particularly the makeup and activities of the BOD, to guarantee that managerial decisions serve shareholders.

This theory applies to Iraqi banks because to their concentrated ownership, poor administration, and low law enforcement. Many banks are state-owned or family-controlled, which exacerbates principal-agent (owner-manager) and principal-principal (majority-minority shareholder) conflicts. These factors make informal market-based controls less effective, necessitating stronger formal governance institutions like independent and active boards (The World Bank, 2023). The agency relies on the BOD to oversee administration, create strategic initiatives, and ensure legal compliance. El-Halaby and Hussainey (2016) and Aebi et al. (2012) found that larger, more independent, and more frequent boards improve FP. Regular meetings show board engagement in risk management and strategic decision-making, while board independence allows objective supervision and reduces managerial entrenchment. The BOD's internal structure and functioning are vital in Iraq, since weak institutional enforcement undermines external governance. By addressing agency issues and boosting performance, a good

board may fill institutional gaps (Kabbani & Zaneldin, 2021). This study employs agency theory to find out how the BOD as a governance mechanism can affect banking industry performance.

Agency theory explains internal control and interest alignment but not institutional legitimacy or stakeholder perception. By understanding VRD's moderating effect, legitimacy theory complements agency theory. To gain legitimacy in uncertain or changing settings, firms conform with stakeholder expectations and cultural standards. Researching VRD involves legitimacy theory. Violence and structural instability have left Iraqi banks' legitimate conduct below public expectations. To close this gap, banks can proactively provide risk-related information to demonstrate good governance, trustworthiness, and openness (Shahwan, 2015). Thus, VRD is a compliance instrument and reputational approach to restore trust and attract investment (Grassa et al., 2021).

How well the bank discloses risk exposures impacts board independence and meeting frequency. Transparent risk reporting enhances board oversight, minimizes information asymmetry, and reassures stakeholders about governance (Elshandidy et al., 2018). This moderating role is critical in Iraq, where disclosure law is new and stakeholder confidence is poor (CBI, 2023). Emerging economies need legitimacy and governance. Banks with good VRD and boards gain stakeholder support, lower capital costs, and investor trust (Gallardo-Vázquez et al., 2019).

This research integrates agency and legitimacy theories to investigate Iraqi bank governance and performance. Agency theory implies that internal governance systems, such as BOD, can enhance FP by reducing opportunistic behaviour and aligning executive actions with shareholder interests. Legitimacy theory pointed out that VRD cools stakeholder expectations and improves governance. These theories are solid for analysing how openness and institutional governance impact Iraqi bank FP. This dual-theory technique works well in post-conflict, institutionally weak settings that need external legitimacy and internal controls for long-term performance and financial sustainability.

### Conceptual Framework

Based on agency theory, this study suggests that the BOD and its constituents have a positive and noteworthy impact on FP (ROA, ROE, and Tobin's Q). Furthermore, according to legitimacy theory, this study suggests that VRD mitigates the impact of the BOD on the FP of Iraqi banks. The study's conceptual framework is depicted in Figure 1.

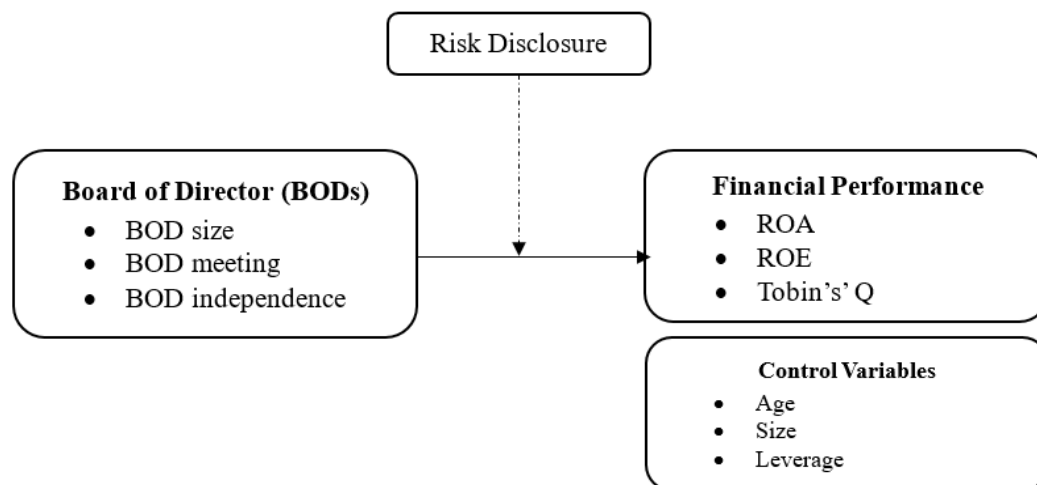


Figure 1. Conceptual Framework

### BOD and FP

CG is crucial to institutional resilience and financial stability, especially in the banking industry, where stakeholder scrutiny, regulatory requirements, and risk exposure are high (Abbas & Frihatni, 2023). The most essential CG structure for managing, monitoring, and analysing the organization's financial and strategic path is the BOD (Abdelkarim & Zuriqi, 2020; Rahim et al., 2023). Due to inadequate transparency rules, concentrated ownership, and insufficient regulatory enforcement, Iraqi banks' FP depends on board effectiveness (OECD, 2019).

BOD tasks include protecting shareholder interests, setting long-term firm goals, overseeing CEO activities, and enforcing internal and external rules. These commitments are complex in post-conflict economies like Iraq, where financial institutions operate in shaky governance environments with significant institutional and operational risk. In this setting, board effectiveness is strategic for stakeholder confidence, investment, and business value, not

only legal (Hassan et al., 2024). Monitoring management behaviour, lowering agency costs, and influencing corporate performance are BOD duties. This study uses agency theory to investigate the relationship between three key board attributes (size, frequency of meetings, and independence) and FP metrics (ROA, ROE, and Tobin's Q) in Iraqi banks.

### ***Board size and FP***

A bank's board size, which is the total number of directors on the board, is frequently seen as a stand-in for the range of resources, expertise, and abilities that can be used to inform decision-making (Alfraih, 2016; Javaid Lone et al., 2016). Theoretically, by increasing monitoring capabilities and bringing a range of expertise to intricate banking operations, a larger board can enhance firm performance. This opinion is somewhat supported by empirical data, which indicates that larger boards may increase firm value and improve performance outcomes, especially in regulated industries like banking (El-Halaby & Hussainey, 2016).

The relationship is not one-way, though. Aebi et al. (2012) highlights the inefficiencies of overly large boards, including difficulties with coordination, delayed decision-making, and diminished accountability. An ideal board size is essential for maintaining strategic flexibility and preventing bureaucratic inertia in the banking industry of Iraq, where board structures are still developing and governance frameworks are applied unevenly. Iraqi regulations need three to nine board members (OECD, 2019). However, the compliance of banks varies. More networks, knowledge, and competence on larger boards can improve monitoring and decision-making (Fama & Jensen, 1983). Albitar (2015) in Jordan, Alfraih (2016) in Kuwait, and Rodrigues et al. (2017) in Portugal support the positive association between BOD size and financial success in established and emerging nations. Das et al. (2015) in Bangladesh and Warrad and Khaddam (2020) in Jordan agree. However, research shows declining returns for large boards.

In sectors that demand rapid decision making, the responsibility and coordination issues might emerge due to larger board size (Fama & Jensen, 1983). Aebi et al. (2012) found that banks with larger boards performed worse during the global financial crisis due to slower and less effective governance actions, making this relevant. In Iraq's financial sector, which lacks effective legal enforcement, strong ownership concentration, and governmental dominance, larger boards may provide experience and outside monitoring. Iraqi banks may benefit from a larger board structure over coordination costs as they navigate institutional instability and governance change. Therefore, this analysis suggests that board size improves financial success.

*H<sub>1</sub>: FP is significantly impacted by board size.*

### ***Frequency of Board Meetings and FP***

Board meeting frequency is another indicator of governance vigilance. Regular board meetings could improve FP in uncertain periods by tightening monitoring of financial operations, controlling executive choices, and responding faster to emerging hazards (Buallay & Al-Ajmi, 2019). Board meeting frequency might represent risk awareness and strategic alertness in Iraq, where political and institutional uncertainties are widespread. However, too many meetings may not necessarily lead to effective monitoring. High meeting frequency may indicate internal misalignment or organisational suffering, not proactive governance (Hutchinson et al., 2015). Therefore, while regular board participation is usually good for financial success, each bank's contextual dynamics must be considered. Eldaia and Hanefah, (2022) note that while more meetings may increase administrative costs, they improve board vigilance and performance monitoring. Warrad and Khaddam (2020) observed similar ROA and ROE in Jordanian banks, however Nahar et al. (2016) discovered a strong association between board involvement and market performance (Tobin's Q). In this study, the following is hypothesized:

*H<sub>2</sub>: FP is significantly impacted by the frequency of board meetings.*

### ***Board Independence and FP***

Board independence which is the existence of non-executive directors who are not actively involved in day-to-day management and have no significant connection to the company. Independent directors are supposed to act in the best interests of minority shareholders, use objective judgment, and question executive decisions when needed. However, the idea of board independence encounters institutional opposition in Iraq since the autonomy of external board members is restricted by the state and family ownership of many banks (IMF, 2023).

In corporate boards, independent directors are essential watchdogs, especially when it comes to improving transparency and reducing agency issues. Agency theory states that independent board members, who are not involved in day-to-day management of banks, can offer objective oversight, challenge managerial choices, and safeguard minority shareholder interests (Fama & Jensen, 1983). It is anticipated that their presence will improve strategic governance and lessen the possibility of self-serving managerial behaviour. There is conflicting but generally positive evidence for this relationship in the literature. Albitar (2015) discovered that board independence significantly improved company performance in emerging markets. However, Rodrigues et al. (2017) found a

negative effect, indicating that too much independence could result in excessive risk aversion or a lack of firm-specific knowledge. In this study, board independence is proposed to have a significant effect on FP of banks in Iraq.

*H<sub>3</sub>: FP is significantly impacted by board independence.*

### **Disclosure of Risk as a Moderating Factor**

Although the board's operational and structural characteristics are crucial, it is becoming more widely recognized that the bank's VRD policy moderates their impact on FP. VRD, which has its roots in legitimacy theory, serves as a communication tool that banks use to signal transparency, defend their business practices, and foster stakeholder trust in unpredictable situations (Elshandidy et al., 2018). Transparent risk communication is an essential addition to board governance in Iraq, where information asymmetries are fostered by underdeveloped investor protections and weak judicial systems (Central Bank of Iraq, 2020; Transparency International, 2024).

Strong VRD increases the power of board composition in affecting financial results. For example, if the bank does not sufficiently disclose its risk profile, a well-functioning and engaged board may not have much of an impact. VRD in governance procedures, either voluntary or required, improves the board's ability to lead and monitor financial strategy. Researchers (Abraham & Cox, 2007; Ntim et al., 2013) found that VRD decreases agency costs, helps investors make informed decisions, and shows markets and regulators that the board is acting fiduciarily. Strong board oversight and thorough risk reporting make banks more resilient, attract more capital, and perform better financially than peers that only use structural governance measures without supplementary disclosure practices. Mollah and Liljebloom (2016) found that governance systems in multinational banks greatly affected risk-taking and performance, suggesting that disclosure may condition these impacts. (Raouf & Ahmed, 2021) indicated that bank governance procedures affect stability, especially when transparent, whereas Elamer et al. (2019) indicated that VRD improves bank performance and stakeholder confidence in MENA. Therefore, this study hypothesized that VRD moderates the effect of BOD on FP.

*H<sub>4</sub>: VRD moderates the effect of BOD on FP.*

## **METHODOLOGY**

This study adopts a quantitative research methodology to examine the effect of the BOD on the FP of banks in Iraq, and the moderating role of VRD. Additionally, the model controls for key variables that may influence FP, including bank size, bank age, and leverage, to ensure the robustness of the analysis. A deductive research approach is adopted in line with the positivist paradigm, which supports hypothesis testing through empirical analysis. The design is cross-sectional, relying on secondary data collected from annual reports and financial disclosures of Iraqi banks listed on the Iraq Stock Exchange (ISX) for the period between 2010 and 2023. The focus on this time frame corresponds with the formal implementation of Iraq's CG code. In addition, the period after 2008-2009 witness major improvement in the code of CG and the laws of banks in terms of governance and disclosure. The target population comprises all commercial and Islamic banks listed on the ISX. According to the Central Bank of Iraq, 34 banks were operating during the study period. These banks were selected based on the availability of data related to BOD characteristics, VRD practices, and FP metrics.

The BOD is a central governance mechanism hypothesized to influence FP. The characteristics of the BOD are measured using a composite index that includes: Board size, board independence, board meeting frequency. These components are adopted from prior literature as shown in Table 1 and aligned with Iraq's CG code. The second variable which is the dependent variable is the FP and it is operationalized using two accounting-based indicators such as ROE and ROA. The third indicator is the Tobin's Q. Measurement of the variables are adopted from prior literature as shown in Table 1. The moderating variable is VRD and it is measured using an index as shown in Table 1. Control variables include bank size, bank age, and leverage.

**Table 1.** Measurement of the Variables

Variables	label	Definition of measurement	Unit of measurement	Reference
<b>Dependent variable: FP</b>				
ROE	ROE	net income divided by shareholders' equity	Ratio/ percentage	(Almutairi & Quttainah, 2016)
ROA	ROA	Net Income (after interest and tax)/Total Assets	Percentage	(Ashraf et al., 2021)
Tobin's Q	TQ	Market value of equity and book value of total liabilities to book value of total assets	Percentage	(Guo et al., 2015)
<b>Independent variables</b>				
BOD Size	BODS	Measured by the number of board member	Number	(Alfraih, 2016; Javaid Lone et al., 2016).
BOD meeting	BODM	Number of meeting per year	Number	(Buallay & Al-Ajmi, 2019)

Variables	label	Definition of measurement	Unit of measurement	Reference
Independent Directors	IND	Proportion of independent director to the board size	Percentage	(Ashfaq & Rui, 2019).
<b>Moderator variable</b>				
VRD	VRD	An index measured by actual disclosed items divided by possible disclosed items	Yes/No	(Agyei-Mensah & Buerterey, 2019)
<b>Control variables</b>				
Leverage	LEV	The ratio of total debts to total assets of each firm.	Percentage	(Meng & Yin, 2019)
Bank size	BS	Natural log of total assets	Number	(Ashraf et al., 2021)
Bank age	BA	Number of year since bank establishment	Number	(Talpur et al., 2018) (Buallay & Al-Ajmi, 2019)

## RESULTS

### Descriptive Statistics

The descriptive statistics offer fundamental insights into the features of the variables used in this study. Three primary metrics are used to assess banks' FP: Tobin's Q, ROE, and ROA. Although the standard deviation of 7.98 indicates significant variation among banks, the mean ROA of 2.89% indicates a moderate level of asset profitability. While the maximum ROA of 18.67% indicates that certain banks are doing well in terms of asset utilization, the minimum ROA of -3.80% indicates possible inefficiencies or losses. With a mean of 3.26% and a higher standard deviation of 12.67%, ROE paints a similar picture, suggesting even greater variability in returns to equity holders. Notably, the maximum ROE is 5.85%, while the minimum is -5.70%, indicating negative shareholder returns for certain banks. The market generally undervalues the banks' assets, according to Tobin's Q, which has a mean of 0.89, below the cutoff value of 1. Significant variations in market perception and valuation among the sample banks are also suggested by the wide range of Tobin's Q values, which range from 0.60 to 1.85.

Board effectiveness, independence, size, and frequency of meetings are indicators of a board's characteristics. With a minimum of three and a maximum of thirteen members, the average board size is roughly 8.23, indicating variation in governance structure that may be impacted by institutional policies or regulatory frameworks. The low average of 16.27% for board independence shows that independent directors make up a comparatively small percentage of board members in Iraqi banks. This calls into question the board's capacity to provide objective oversight and protect the interests of shareholders. The highest recorded frequency of board meetings was 18, with an average of 7.42 meetings per year. This implies that some boards may interact more sparingly, while others may be actively involved.

The mean level of VRD is 0.38. This suggests a general lack of transparency in risk-related communications, with banks in Iraq disclosing less than 40% of the risk items. This finding highlights possible flaws in investor protection and regulatory compliance, which is crucial given the significance of transparency in the banking industry, particularly in emerging markets. The mean value of bank size, expressed in USD, is \$71.7 million with high standard deviation. The difference in asset holdings between Iraqi banks is highlighted by the maximum value of \$1.99 billion and the median of \$26.2 million. The mean of leverage is 32.99%, reflects moderate gearing levels in the banking industry. The average age of banks is around 24.6 years, though some have been in business for more than 80 years. This implies a blend of recently founded and established organizations, which could affect strategic decision-making and governance maturity.

### Diagnostic Analysis

A number of diagnostic tests were carried out prior to regression analysis. To lessen distortion, outliers were found and winsorized at the first and 99th percentiles. Skewness and kurtosis were used to evaluate normality; the majority of variables stayed within allowable ranges ( $\pm 2$ ). Variance Inflation Factors (VIF) were used to assess multicollinearity; all of them fell below the 5-point cutoff, suggesting that there were no significant multicollinearity problems. Table 2 shows the results of assessing normality and multicollinearity. The Wooldridge test, which measures autocorrelation, revealed no significant autocorrelation ( $p > 0.05$ ). The Breusch-Pagan test was used to assess heteroskedasticity, and robust standard errors were employed to address any minor heteroscedasticity that was discovered in certain models.

**Table 2.** Assessing Normality and Multicollinearity

Variable	Skewness < $\pm 1.96$	Kurtosis < $\pm 3$	Tolerance > 0.10	VIF < 10
Board Size	.294	-.723	.919	1.088
Board Independence	.229	-1.153	.667	1.498
Board Meeting	1.671	2.139	.615	1.626
VRD	1.381	-.094	.704	1.420

Variable	Skewness <math>\pm 1.96</math>	Kurtosis <math>\pm 3</math>	Tolerance > 0.10	VIF <math>< 10</math>
Return On Assets	-.338	.914	-	-
Return on Equity	-.568	1.290	.853	1.172
Tobin's Q	1.035	.847	.748	1.336
Bank Size	.879	-.170	.906	1.104
Leverage	.893	.459	.824	1.213
Bank Age	1.068	.187	.895	1.117

Hausman test was used to choose between fixed and random effects. For the three dependent variable which include ROA, ROE, and Tobin's Q, the test's significance ( $p < 0.05$ ) validated the fixed-effects model's suitability. Therefore, this study tested the hypotheses using fixed effect model.

### Regression Analysis

Using ROA, ROE, and Tobin's Q as performance metrics, Table 3 shows the regression results. With F-statistics significant at the 1% level ( $p$ -value = 0.000) and strong overall fit across all models, the models are able to account for a sizable amount of the variation in FP. With governance and control variables explaining between one-third and almost 40% of the variation in performance, the R-squared values, which range from 0.355 (Tobin's Q) to 0.393 (ROA), indicate moderate explanatory power.

**Table 3.** Results of Direct Effect Hypotheses

Independent Variables	Return on Assets	Return on Equity	Tobin's Q
Constant	.2396**	.4704**	.9253***
Board Size	.1384***	.1983***	.2443***
Board Meeting	.0398	-.0224	-.2390**
Board Independence	.0951**	.0686*	.0623
Bank Size	.8959***	.1040	.3911***
Leverage	-.0812	.3444***	-.1729**
Bank Age	-.8249***	.1221	-.3842**
F (6, 419)	18.94	16.67	14.88
Prob>F (P-value)	0.000	0.000	0.000
R-squared	0.393	0.367	0.355

In terms of the first hypotheses which is related to the effect of board size on FP, all three performance metrics namely, ROA ( $\beta = 0.1384$ ,  $p < 0.01$ ), ROE ( $\beta = 0.1984$ ,  $p < 0.01$ ), and Tobin's Q ( $\beta = 0.2444$ ,  $p < 0.01$ ) show a positive and statistically significant impact from board size. This result is consistent with agency theory and empirical data that larger boards provide more oversight and a wider range of expertise, which eventually improves financial results and decision-making. The robustness of this relationship is confirmed by the constant significance across all models. For the second hypothesis, the frequency of board meetings was suggested to have a positive effect on FP. Board meetings have yielded mixed and only marginally significant results. For ROA, the coefficient is positive but not significant ( $\beta = 0.0398$ ), for ROE, it is negative and not significant ( $\beta = -0.0224$ ), and for Tobin's Q, it is significantly negative ( $\beta = -0.2390$ ,  $p < 0.05$ ). This could be due to the notion that the market may interpret frequent meetings as a sign of ineffective governance or a reaction to internal problems, as evidenced by the negative impact on Tobin's Q. On the other hand, holding too many meetings could result in more administrative work without producing value that is comparable.

Board independence is not significant for Tobin's Q ( $\beta = 0.0624$ ), but it has a positive and significant impact on ROA ( $\beta = 0.0951$ ,  $p < 0.05$ ) and ROE ( $\beta = 0.0686$ ,  $p < 0.1$ ). These results provide some evidence in favour of Hypothesis H3, which postulated that board independence would improve FP. Although the findings support the theoretical function of independent directors in reducing agency issues, investors might not consider independence on its own to be a powerful governance signal in this situation given its lack of significance in market-based performance (Tobin's Q).

For the moderating role of VRD, the study created the interaction between BOD and VRD and examined the three dependent variables. Table 4 shows the results of testing the VRD as a moderating variable.

**Table 4.** Result of Testing the VRD as a Moderator

	ROA	ROE	TQ
C	.77***	.290**	.303**
BOD	0.161**	.064	.142**
VRD	0.063	.339***	.103
BOD*VRD	0.289***	.077	-.006
BS	.30***	.106	.394***
LG	-.11**	.230***	-.147**
BA	-.195***	-.142	-.261
R-square	0.437	.453	.415
F statistic	33.36***	25.29	14.75***

As shown in Table 4, the interaction term  $BOD \times VRD$  in the ROA Model is positive and statistically significant ( $\beta = 0.289, p < 0.01$ ). This result strongly suggests that VRD has a positive effect on the link between board characteristics and ROA. The interaction term in the ROE is positive but not statistically significant ( $\beta = 0.077$ ). The effect's direction is positive, which means that VRD could be helpful, but it is not statistically significant. This suggests that VRD does not substantially influence the board–ROE relationship, potentially due to equity returns being more affected by market expectations, leverage, or dividend policy than by internal governance transparency. In terms of Tobin's Q, the interaction effect is negative and not significant ( $\beta = -0.006$ ), which is interesting. This indicates that VRD does not significantly influence the relationship between board characteristics and market-based valuation (Tobin's Q). The absence of significance and the negative trend may indicate that the market either does not regard BOD governance and risk transparency as synergistic or considers disclosure as standard compliance rather than a performance-enhancing element.

## DISCUSSION

This study sought to examine the influence of BOD attributes specifically, board size, board independence, and the frequency of board meetings on the FP of Iraqi banks, emphasizing the moderating effect of VRD. The results make both theoretical and practical contributions, especially in a place like Iraq, where there has been a conflicts and instability. The results provide robust support for the initial hypothesis, demonstrating a positive and statistically significant correlation between board size and all three indicators of FP: ROA, ROE, and Tobin's Q. This is in line with agency theory, which indicates that bigger boards can provide better oversight, a wider range of skills, and strategic advice (Fama & Jensen, 1983). The finding aligns with prior research in both developed and emerging markets (Albitar, 2015; El-Halaby & Hussainey, 2016), indicating that in contexts such as Iraq—characterized by concentrated ownership and weak external governance mechanisms, a larger board may provide compensatory benefits by strengthening internal control mechanisms.

Conversely, the second hypothesis, which suggested a beneficial impact of board meeting frequency on FP, is only partially supported. The coefficient for board meetings was not statistically significant for ROA and ROE, and was significantly negative for Tobin's Q. These mixed results are similar to the nuanced arguments in the literature, which pointed out that frequent meetings could mean either proactive governance or, on the other hand, inefficiencies and internal crises (Buallay & Al-Ajmi, 2019; Hutchinson et al., 2015). In Iraq, where governance processes are still changing, having meetings often might not mean better performance. The market might even see them as reactive instead of strategic actions.

The results show that board independence has a positive and significant effect on ROA and ROE, but not on Tobin's Q. This partial support for the third hypothesis indicates that independent directors can improve internal performance by reducing agency conflicts, although their impact may be less apparent in market-based assessments. This may be due to the limited freedom of independent board members in Iraqi banks because of long-standing family or state ownership structures (IMF, 2023). This reinforces the notion that although independence apparently enhances governance, its actual efficacy may be constrained in the absence of authentic empowerment and institutional support.

In terms of VRD's moderating role, the results show that it has a positive and significant moderating effect on the link between BOD characteristics and ROA. This corroborates the legitimacy theory, which posits that transparent risk reporting bolsters stakeholder trust and the perceived credibility of governance practices (Elshandidy et al., 2018). But the interaction effects were not important for ROE and Tobin's Q. The negligible moderation in ROE indicates that equity-based returns might be more affected by market sentiments, macroeconomic factors, or capital structure rather than transparency alone. In the same way, the fact that there is no moderation effect on Tobin's Q could mean that investors in the Iraqi market do not yet fully understand voluntary VRD as a sign of better governance (Central Bank of Iraq, 2020; Transparency International, 2024).

These results underscore the intricacy of CG within precarious institutional contexts. Board size and independence are strong internal factors that affect performance. However, the effectiveness of governance practices depends on external factors like how well regulations are enforced and how the disclosed information are seen by stakeholders. The beneficial moderating influence of VRD on ROA indicates that, even in contexts characterized by limited institutional maturity, focused initiatives aimed at disclosure can augment the efficacy of internal governance mechanisms. Overall, this research enhances the literature by demonstrating that in a post-conflict, institutionally unstable environment such as Iraq, specific board attributes especially size and independence can enhance FP. However, their effectiveness is heavily dependent on the existence and perceived reliability of VRD practices.

## IMPLICATIONS

By combining agency theory and legitimacy theory in the framework of a developing, post-conflict economy, this study makes a significant theoretical contribution to the discussion of CG and FP. The results show that certain board characteristics, specifically board size and independence, have a positive impact on FP, which strongly supports agency theory. This supports the central claim of agency theory, which holds that managerial accountability can be improved and agency conflicts can be reduced by well-designed internal governance systems. The study highlights the significance of board structure in the alignment of managerial behaviour with shareholder interests, particularly in environments where external governance systems are weak or ineffective, by confirming that larger and more independent boards are associated with improved ROE and ROA.

The study further enhances legitimacy theory by empirically assessing VRD's moderating influence on governance and performance. VRD enhances board qualities' positive effect on ROA, making transparency vital for legitimizing organizational success. This is important in Iraq, where institutional and political instability may impair stakeholder confidence. In addition to communication, legitimacy theory views VRD as a strategic strategy for developing trust and legitimacy in governance operations. These findings suggest that disclosure practices and governance structures should be studied more theoretically, especially in economies with weak formal institutions. This dual-theory study helps explain how external legitimizing acts and internal governance systems affect transitional financial results.

Policymakers, regulators, and banks in weak governance contexts like Iraq will benefit from the study's practical consequences. Board independence and size consistently improve FP, demonstrating the need for stricter CG standards. The Central Bank of Iraq and other regulators should ensure banks meet minimum board composition criteria, especially for independent directors. These initiatives can increase investor confidence and financial success by improving board supervision and strategic decision-making.

The results show how important an independent and adequately sized board is for bank executives and board members. The negative link between meeting frequency and market-based success suggests that effectiveness is not exclusively decided by number, even though many meetings are often considered as a sign of rigorous control. Thus, boards should prioritize quality and strategy above quantity when meeting. The moderating impact of VRD shows that openly communicating risk exposures might boost good governance. Banks should strengthen their disclosure practices, align them with global norms, and go beyond regulatory compliance to actively convey responsibility and reliability to stakeholders.

This study presents governance metrics that investors and other stakeholders may use to assess banks' financial health. VRD improves board performance and shareholder trust in the bank's governance. Development organizations and foreign partners in post-conflict or institutionally weak nations can use these results to support governance reform, capacity-building, and stricter disclosure standards to strengthen the financial system.

## CONCLUSION

With an emphasis on the moderating function of VRD, this study aimed to investigate the relationship between the FP of Iraqi banks and the attributes of their boards of directors. The study examined panel data from Iraqi banks, drawing on theories of legitimacy and agency. The findings support the idea that larger boards lead to better oversight and strategic capacity by showing that board size has a consistently positive and statistically significant impact on all three performance indicators: ROA, ROE, and Tobin's Q. Although its impact on Tobin's Q was not statistically significant, board independence was found to have a positive impact on ROA and ROE, suggesting that internal governance structures may not always result in higher market valuation. Board meeting frequency had a mixed effect; it was negatively correlated with Tobin's Q and not significantly correlated with ROA or ROE, indicating that too many meetings might be a sign of inefficiencies rather than proactive governance.

The study confirmed the significance of VRD in bolstering governance effectiveness by identifying a significant interaction between board characteristics and the moderating role of VRD in explaining ROA. Tobin's Q and ROE, on the other hand, did not significantly interact, suggesting that disclosure might not be enough to affect every aspect of FP. These results demonstrate the significance of contextual factors in influencing governance outcomes and support the theoretical applicability of both agency and legitimacy perspectives.

The study has a number of shortcomings in spite of its contributions. The analysis may not be applicable to other contexts with distinct institutional frameworks because it is limited to Iraqi banks. Additionally, the study used secondary data, which might not adequately represent the subtleties of VRD procedures or the qualitative

elements of governance. This study also ignored governance criteria including gender diversity, CEO duality, and audit committee performance that may explain more variation in the FP.

Future study might build on these findings and compare institutional environments by analysing different rising or post-conflict economies. Longitudinal research on governance changes and transparency practices can also reveal how durable and important these mechanisms are. Qualitative study with regulators and board members may reveal board dynamics and the challenges of effective governance in unpredictable circumstances. Such initiatives can help future research understand how VRD and governance frameworks affect institutional legitimacy and financial resilience in global banking systems.

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