

THE IMPACT OF ENVIRONMENTAL DISCLOSURE ON FINANCIAL PERFORMANCE INDICATORS OF IRAQI INDUSTRIAL COMPANIES

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UNIVERSITI PENDIDIKAN SULTAN IDRIS

2023

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PERFORMANCE INDICATORS OF IRAQI
INDUSTRIAL COMPANIES

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THESIS SUBMITTED IN FULFILLMENT OF THE REQUIREMENT
FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

FACULTY OF MANAGEMENT AND ECONOMICS
UNIVERSITI PENDIDIKAN SULTAN IDRIS

2023



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ACKNOWLEDGEMENT

First, my deepest gratitude and appreciation go to the Almighty ALLAH, the Most Gracious, Most Merciful, for His providence and divine direction through my life. I express my profound gratitude to Prophet Mohamed (PBUH).

I express also my deep appreciation to my parents for their unlimited support, love, and sincerity to ALLAH during my life for my success. I will never forget their endless love and support. My acknowledgment is also extended to my brother and sisters.

I am greatly indebted to them for supporting and encouraging me with their best wishes. I would like to express my sincere thanks and appreciation to my main supervisor, Dr. Zuriadah Ismail, and Co-supervisor, Dr. Azam Abdelhakeem Khalid Ahmad. My gratitude to them can hardly be expressed in words. Without their encouragement, valuable suggestions, excellent guidance, and insightful comments on my research, this thesis would not have been possible.

I gratefully acknowledge their patience and understanding, open-door policy, and willingness to help. I would also like to thank Part of the company's employees for the interviews and for furnishing the information required for this thesis.

DEDICATION

In the name of Allah the most gracious the most merciful. I am very grateful to Allah who has provided me with the opportunity to do and complete this research. And also for giving me this amazing opportunity to do my Ph.D. in Malaysia, without his care and love I won't be here today.

I also want to extend my gratitude to my supervisor Dr. Zuriadah Ismail and Dr. Azam Abdulhakeem the one that without them I would not be completing this thesis today. they gave me the support, advice, and continued encouragement that I needed throughout the whole journey, they are amazing human beings and made my Ph.D. journey easy for me. Thank you Dr. Zuriadah Ismail for everything you have done, and the words do not describe the respect and appreciation I have for you.

I would like to gift this thesis to my father and mother, whom I am sure are proud of what I have accomplished and are looking down at me proudly. Also, I want to thank my friends Raad Naser, Hayder Ali, Hayder Zghair, and Mustfa Abdoun who supported me from the first day of my journey and believed in me, and gave me all the love and encouragement. Finally, I hope this work to be beneficial to the knowledge of accountancy and be a guide for anyone who needs it in their studies.



ABSTRACT

The main aim of this study is to determine the influence of environmental disclosure on financial performance of Iraqi industrial companies. This is because of the Iraqi Companies Law did not required for certain industries such as industrial companies to disclose their environmental information in annual reports. Furthermore, instability of the Iraq political system and exposure to a war also dedicated to less information disclosure practices in Iraqi companies. All these factors have been observed to significantly influences on the industrial company's performance. A Legitimacy Theory has been adopted to explore the relationship between environmental disclosure and financial performance, using quantitative approach and purposive sampling was utilized as the main research design. The data was collected from 25 manufacturing companies listed on the Iraq Stock Exchange (ISX) and the oil sector from 2015 to 2019. The data was analyzed through descriptive statistics, univariate statistics, regression analysis and content analysis of the companies' annual reports using Eviews. The main results showed environmental disclosure ($\beta = 0.265$, $p\text{-value} < 0.05$) positively influenced Return on Assets (ROA). Also, extended analysis showed a positive impact of environmental disclosure ($\beta = 0.0369$, $p\text{-value} < 0.05$) on Return on Investment (ROI). However, the finding also revealed that environmental disclosure ($\beta = 0.158$, $p\text{-value} < 0.05$) was positive and significant in affecting Return on Sales (ROS). It was found that environmental disclosure is fully affected ($\beta = 0.305$, $p\text{-value} < 0.05$), and had positive effects on Added Market Value (AMV). Nonetheless, environmental disclosure had a negative impact on Earnings Per Share (EPS) ($\beta = 0.496$, $p\text{-value} < 0.05$). These results suggest that a high-sensitive industry towards the environmental issues provide more disclosure to boost investors' confidence. The study's outcomes provide insights view-related environmental disclosure among the sensitive industries that relate to legitimacy issues in Iraq. Moreover, improving the quality of reporting would increase the company's reputation and strengthen its competitiveness. This contributes to the adoption of a developed checklist mechanism to measure the true level of environmental disclosure.





KESAN PENDEDAHAN ALAM SEKITAR TERHADAP PETUNJUK PRESTASI KEWANGAN SYARIKAT INDUSTRI IRAQ

ABSTRAK

Kajian ini bertujuan untuk menentukan pengaruh pendedahan maklumat alam sekitar terhadap prestasi kewangan syarikat perindustrian di Iraq. Ini adalah kerana maklumat berkaitan alam sekitar tidak perlu didedahkan dalam Laporan Tahunan syarikat menurut Undang-undang Syarikat di Iraq. Ketidakstabilan sistem politik dan risiko kepada peperangan menyumbang kepada kurangnya pendedahan maklumat dan prestasi kewangan lemah oleh syarikat di Iraq. Kajian ini menggunakan Teori Legitimasi untuk meneroka perkaitan antara pendedahan maklumat alam sekitar dan petunjuk prestasi kewangan dan menggunakan pendekatan kuantitatif serta persampelan bertujuan sebagai reka bentuk kajian. Data dikumpul daripada 25 syarikat yang terlibat dalam sektor perindustrian yang disenaraikan di Bursa Saham Iraq (ISX) dan terlibat dalam sektor minyak dari tahun 2015 hingga 2019. Data dianalisis menggunakan statistik deskriptif, statistik univariat, analisis regresi dan analisis kandungan laporan tahunan syarikat menggunakan perisian Eviews. Dapatan kajian menunjukkan pendedahan maklumat alam sekitar ($\beta = 0.265$, nilai $p < 0.05$) mempengaruhi Pulangan atas Aset (ROA) secara positif. Manakala, analisis lanjutan menunjukkan kesan positif pendedahan maklumat alam sekitar ($\beta = 0.0369$, p -value < 0.05) terhadap Pulangan atas Pelaburan (ROI). Walau bagaimanapun, kajian ini juga mendedahkan bahawa pendedahan maklumat alam sekitar ($\beta = 0.158$, nilai $p < 0.05$) adalah positif dan signifikan dalam mempengaruhi Pulangan atas Jualan (ROS). Didapati bahawa pendedahan maklumat alam sekitar memberi kesan sepenuhnya ($\beta = 0.305$, p -value < 0.05), dan mempunyai kesan positif ke atas Nilai Pasaran Ditambah (AMV). Walau bagaimanapun, pendedahan maklumat alam sekitar memberi kesan negatif ke atas Perolehan Sesaham (EPS) ($\beta = 0.496$, nilai- $p < 0.05$). Keputusan kajian ini menunjukkan bahawa industri sensitif terhadap isu persekitaran akan menyediakan lebih banyak pendedahan maklumat bagi meningkatkan keyakinan pelabur. Oleh itu, hasil kajian ini memberi maklumat jelas tentang pendedahan maklumat alam sekitar dalam kalangan industri sensitif terhadap isu alam sekitar dipengaruhi oleh isu-isu legitimasi di Iraq. Selain itu, menambah baik kualiti pelaporan maklumat meningkatkan reputasi syarikat serta mengukuhkan daya saingnya. Ia juga menyumbang kepada penggunaan mekanisme senarai semak yang telah dibangunkan untuk mengukur tahap sebenar pendedahan maklumat alam sekitar.



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LIST OF ABBREVIATION

AMV	Added Market Value
CER	Company Environment Responsibility
ED	Environmental Disclosure
EMA	Environmental Management Accounting
EPA	Environment Protection Agency
EPS	Earnings Per Share
FP	Financial Performance
GEF	Global Environment Facility
GRI	Global Reporting Initiative
GRI	The Global Reporting Initiative
IFAC	The International Federation Of Accountants
INOC	The Iraq National Oil Company
OPEC	Organisation Of Petroleum Exporting Countries
ROA	Return On Assets
ROI	Return On Investment
ROS	Return On Sales
SER	Social-Environmental Responsibility
IAS	International Accounting Standards
ISIS	Islamic State in Iraq and Syria



LIST O APPENDIXES

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CHAPTER 1

INTRODUCTION

1.1 Introduction

This study aims to examine the impact of environmental disclosure on financial performance, and level of environmental disclosure of Iraqi industrial companies. The issue statement, which serves as the foundation for this research, is presented in this opening chapter. The study's conceptual framework, research questions, objectives, and hypotheses, as well as the scientific and practical importance of this study in Iraq, are all presented here. The key terms and variables of the report, such as financial performance, and environmental disclosure, was clarified in this chapter, followed by a summary.



1.2 Background of the Study

The notion of environmental responsibility came to the fore during the 1980s when the world began to notice the depletion of natural resources at an increasing rate due to the fast-paced growth of industrialization since World War II (Sable, 1987). With a growing knowledge of environmental challenges and the financial costs associated with them, it is becoming increasingly important for businesses to incorporate environmental activities into their overall business plan. Organisations are becoming more mindful of the importance of natural resource management and optimal use in order to achieve a strategic edge (Hart, 1995). In this respect, a growing body of environmental responsibility literature argues that businesses can reap long-term comparative benefits by reducing their negative environmental impacts (Clarkson et al., 2011).



term. Successful handling of environmental issues is becoming a major strategic issue, according to Hansen., Mowen, and Guan, (2007) meeting sustainable market objectives and addressing environmental concerns are not mutually exclusive.” Clarkson, Overell, and Chapple, (2011) offer scientific data to back up their claim about corporate accountability in relation to different environmental problems that concern the community and the environment. To fix these issues of environmental depletion, considerable environmental expenditure is needed (Sindhi and Kumar, 2012). In fact, since the 1960s environmental concerns have been exceedingly relevant in the conduct of industry and companies (Nemetz, 2014). Air pollution and environmental change, destruction of natural ecosystems, water degradation, and erosion, and deforestation are all examples of environmental problems caused by using oil and other natural resources (Jorgenson et al., 2010).





Consequently, environmental disclosure can help manufacturing businesses improve their financial performance while still serving to characterize the social and the environmental responsibilities along with the effects of their operations (Jenkins and Yakovleva, 2006). For millennia, mankind has been concerned with the natural world and the effect of human activities on the environment. With the global movement towards industrialization, the international community becomes ever more interested in finding solutions through international policy and legislation about how to utilise the natural ecosystem to support the needs of the current generation without jeopardising future generations (Buss, 2007).

In this regard, there are several explanations for the growing anxiety about environmental disclosure concerns, where the steady rise in the volume of environmental knowledge could be due to shifting societal attitudes about corporate success and obligations (Mohamed and Ibrahim, 2014). In addition, management sees itself as accountable for the company's social and environmental success, as well as its financial performance. Furthermore, not only in terms of Financial Performance but also the social and the environmental performance, their responsibility to a diverse range of stakeholders is critical (Unerman, J. and Deegan, 2011). Most companies discover that they are responsible for fulfilling the demands of various stakeholders such as customers, employees, environmental groups, shareholders, suppliers, and the government (AL-Shaer, 2014). Thus, when a company volunteers to disclose their environmental information to stakeholders, it will enhance their competitive advantage and their financial performance (Chinander, 2001; Daily, Bishop, and Massoud, 2012). The government should also enforce legal requirements and regulations on business activities that raise environmental concern from society and the stakeholders.





For instance, a policy known as the Energy Policy Act 2005, which has been adopted by the US government, offers incentives for companies on environmental issues. The enforcement of legislation allows the energy programmers to be eligible for a tax deduction (De Villierset , et al., 2011). Meanwhile, regulations that are still on hold in the UK suggested that public listed companies should disclose their annual report in an ethical, social, and environmental risk-free way (Kramer, 2006; Bosch-Badia, Montllor-Serrats, and Tarrazon, 2013). In general, businesses react to environmental challenges by weighing the financial hazards connected with them (Molina-Azorín et al., 2009). Furthermore, the United Kingdom is on track to reduce carbon dioxide emissions by 34% between 2020 and 2050, with the aim of achieving an 80% reduction in greenhouse gases (Worthington and Britton, 2006). The United Nations conventions on environmental concerns conducted in Copenhagen and Durban in late 2009 for negative externalities in industry indicate support for environmental challenges (Ekins, 2010; Jacobs and Swink, 2011).

According to Rodríguez and et al, (2007), stakeholder behavior in purchasing or dealing with companies is gradually changing to becoming more sensitive to the social and natural environment. This then leads to the negative perception of the companies for not considering the environmental issues as part of their business activity. In addition, a drastic change happened to the politico-legal system to directly limit environmental degradation. Most global leaders, for example, have made specific pledges to reduce carbon dioxide pollution in a staggered manner. The US has pledged to reduce emissions by 17% in 2020, 30% in 2025, 42% in 2030, and 83% in 2050 ((Rodríguez and et al, 2007). A large sample of European corporations was analysed to assess the amount and kind of details disclosed. Annual reports and research from





around 110 organisations were examined for the years 1988 to 1989, based on a checklist of 54 things identified in an earlier study by (Xiao et al., 2005) reviewing information contained in reports from each nation. According to the findings, most businesses have mentioned some environmental detail in their publications, with German reports having the largest degree of disclosure, followed by Swedish reports (Tagesson, Blank, Broberg, and Collin, 2009). In developed countries, with growing environmental consciousness, voluntary social and environmental programs requiring simple and low-cost technologies and processes can be implemented (Valentine, 2012).

This enables businesses to increase manufacturing productivity, resulting in significant environmental footprint decreases compared to costs, allowing businesses to collect "low-hanging fruits" and thereby maximize short-term corporate financial performance without increasing retail prices to customers (Darnall et al., 2008). If corporate environmental efficiency increases, less advanced technologies may become common in business, requiring businesses to spend heavily on more dramatic process improvements, including modern production equipment, in order to minimize their environmental footprint (Craig and Dibrell, 2006). This entails a significant rise in environmental prices, *ceteris paribus* profits, because customers are unable to pay more for green goods, resulting in a future decrease in company Financial Performance (Manrique and Martí-Ballester, 2017). In addition, some of these countries have had negative results which affected the continuation of sustainable development and disclosure of costs in companies' subject to legislation and laws since 2009.





The financial statements of industrial companies in Iraq were not clear regarding the disclosure of environmental issues (Hamad, 2013), so the action is per contra to the environmental legislation, which aims to protect the environment and create sustainable development. This was due to a lack of accounting standards that need to be adhered to for measuring and disclosing environmental issues which are necessary for the interested parties, either internally or externally (Ahmed Malik, 2013).

In addition, to develop public awareness on the issues related to the environment and hazards, companies' environmental issues have become an important matter to society and gain the attention of external parties. As well as work on the application of environmental accounting in industrial companies in Iraq because of its feasibility and benefits of a large return for companies (Chinander, 2001; Hussein., 2015).



affect the decision made by the management to unveil the information linked to the physical environment in annual reports (Frost and Wilmshurst, 2000; Alshbili, Elamer, and Beddewela, 2018). Furthermore, since Iraq is not separate from the rest of the planet, and environmental issues are described as transboundary phenomena with global implications (Reda, 2015), Iraq must also brace for various types of environmental problems. While environmental issues in Iraq are a major concern, the country's rapid population growth and rural migration have heightened the country's awareness and sensitivity to the problem. That had to do with the environment, as well as the emergence of complex and diverse manufacturing processes, especially in the oil industry (Ammar Mohammed Hussein, 2018; Hammoud and Hammadi, 2016). As a result, in order to maintain their financial performance, these businesses must adhere to environmental standards and rules.





Besides, the low financial performance of industrial companies negatively affects the level of the company's performance because financial performance is a standard by which a company's financial condition over a period of time is calculated (Naz et al., 2016). In other words, it is a method to increase sales, profitability, and value by controlling existing and future properties, borrowing, equity, profits, and expenditure. Its key objective is to provide shareholders and stakeholders with full and up-to-date knowledge to assist them in making decisions (Cristina et al., 2014).

In addition, the decrement of financial performance and increment of corporate failure in both global and local views, especially in Iraq corporations, has been a debatable issue that needs to be highlighted. In fact, stakeholders of companies are becoming more concerned about their financial performances (Ahmed Malik, 2013; Reda, 2015). Meanwhile, Iraqi industrial companies are losing their credibility with consumers because of pressure from the financial markets (Norlia Mat Norwani, Anmar Adnan Khudhair and Azam Abdel Hakeem Khalid Ahmed., 2019). People have become uncertain and hesitant to invest in these companies owing to unstable economic growth. To address this issue, industrial companies are convinced that environmental disclosure will enable them to rebuild their credibility and earn back the people's trust (Al-Shaer et al., 2015).

Various complex activities are practiced by these companies. However, these activities are substantially intricate for the public who are unfamiliar with field operations. As a result, environmental disclosure has become critical for businesses to illustrate their respect for society by holding activities that the public may perceive as demonstrating the corporation's concern (Amiruddin, 2016).





However, Quental, Lourenço, and Da Silva, (2011) elaborated that the enhancement of the people's awareness may result in considerable pressure on companies to look good and perform well. Therefore, the current study addresses the issue of environmental and its influences, particularly on environmental standards of intra-organizational corporate practices. Flammer (2015) explained that environmental disclosure can lead to optimum financial status. That's why this study looks at solving the issue regarding the decrease of financial performance in industrial companies in the Iraqi stock exchange and oil sectors through the effect of environmental disclosure on the company's financial issues.

1.3 Problem Statement

The research gap is that many studies related to environmental issues did not address the problem of poor financial performance in the Iraqi industrial sector, so the researcher used independent variable (environmental disclosure) to address poor financial performance in addition to measuring the level of environmental disclosure which contributes significantly to rationalizing environmental expenditure, which That would improve the financial situation in these companies. Thus study focuses on establishing whether there is a relationship between environmental disclosure and financial performance in Iraqi industrial companies.

The problem of poor financial performance and the level of environmental disclosure remains unsolved. Thus, this study seeks to use and increase the environmental disclosure to solve the problem of weak financial performance in Iraqi companies (Anmar, Norlia, and Azam, 2019). Measuring the level of disclosure in Iraqi industrial companies, and developing an environmental indicator that can be followed





in the future by the industrial sector to increase the level of environmental disclosure, this study contributes to the diversity of the sample between the oil sector and the Iraq Stock Exchange. The spread of hazardous materials through the destruction of industrial and military targets has undermined the government's ability to effectively monitor and manage contaminated sites (Zwijnenburg and Postma, 2017). Oil companies are also a source of pollution owing to inadequate governance and weak control measures. In fact, recent conflicts have turned oil and gas facilities into major sources of health and environmental risk. "Both militant groups and local people have tapped refineries, tanks, pipelines, and oil fields for their income potential. Airstrikes by the US-led coalition targeted the oil industry to deprive ISIS of oil revenue.

As well, Financial information is employed to assess firm performance to forecast a firm's prospects. Annual reports are used by financial analysts, investors, creditors, managers, and executives who make decisions based on the analysis. Previous conflicts have left Iraq with an environmental pollution problem." Consequently, it reflected negatively on the financial performance of these companies later (United Nations Environment Programme, 2017). It is predicted that the research problem lies in the weakness of the financial performance of Iraqi companies and the lack of determination and measurement the level of environment disclosure, that applicable accounting scheme and weaknesses and shortfalls in environmental awareness (Yaacoub and Dhairab, 2017). Adequate environmental disclosure and conformity with corporate environmental standards have a positive impact on finance metrics, according to the findings (Nwaiwu and Oluka, 2018; Okoye, Ebubechukwu, and Agweda, 2016). The financial performance of Iraqi companies has become a debatable issue among stakeholders (Harash, Al-Tamimi, and Al-Timimi, 2014).





Ghali and Habeeb (2018) explained that although the financial performance of companies in other countries is improving, that of Iraqi companies remains below expectation. In particular, Iraqi companies have to comply with the needs of the International Accounting Standards (IAS) which considered one of the things that contributed to the poor performance when not followed. For example, three of the largest corporations in Iraq, namely, Eastern Beer, Kirkuk for Construction Materials, and Nineveh for Food Industries, are performing poorly because of partial compliance with IAS (Al-Saffar and Abbas, 2017). Companies that adopt high environmental standards internationally indicate their financial performance will be at a high level, both at the level of the stock market value and return on equity and assets (Hassan, 2014).

Thus, important reasons for the fall of many industrial companies are due to the lack of disclosure in the environmental statements and reports and the failure to show real data and information that reflect the financial situation of the company (Almarah et al., 2019). This may result in the existence of information asymmetry among managers and owners. From the standpoint of the stakeholder principle, the unevenness of information tends to occur among the directors and priority stakeholders of the companies (Nwanji and Howell, 2007). This would then consequently lead to various negative effects such as the absence of confidence in presenting the accounting information, particularly with environmental issues and the decision-making of stakeholders concerning their relationship with the company. This situation puts pressure on companies in both emerging and advanced capital markets to disclose not only their financial status, but also their performance in dealing with environmental, social, and ethical issues (Goll and Rasheed, 2004).





Furthermore, companies have to respond to the interests of different parties to enhance their confidence in the market and this leads to improving the financial performance of companies (Song et al., 2017). Ammar Mohammed Hussein, (2018) considers the importance and need for disclosure of environmental issues because of its significant impact on the users of financial reports for evaluating the performance of Iraqi industrial facilities and improving company performance. In addition to the aforementioned reasons, oil price fluctuations may have a detrimental impact on the profitability of Iraqi businesses (Al-Maryani, 2015; Jedi and Nayan, 2018).

Consequently, to address the problem of poor financial performance in companies, the researcher used environmental disclosure in this study in line with previous ones. Companies could use environmental disclosure to legitimise practices that have the potential to harm the natural ecosystem (Bernhut, 2002; Mousa and Hassan, 2015; Cho and Patten, 2007). Environmental image has been improved as a result of disclosure in annual reports and been affected by the introduction and evaluation of environmental policies (Eltatib, 2012; Hasseldine, Salama, and J.S. Toms, 2004).

In other words, there are certain qualitative gains from environmental knowledge sharing, such as enhancing the company's reputation, that is challenging to quantify (Adams and Zutshi, 2004; Bernhut, 2002). By sharing environmental knowledge, a corporation will draw investors' interest, encourage them to continue investing, and keep current shareholders committed to the company (Tze San et al., 2015).



In addition, the main purpose of environmental disclosure is to address the poor financial performance of the sample used in this study which represents ISX and the Oil Sector companies (Kiende Gatimbu and Masinde Wabwire 2016) Environmental disclosure has a favourable impact on mean financial performance, according to findings. Firms can participate in environmental disclosure because it contributes to improved financial performance (Abubakar et al., 2017; Tze San et al., 2015).

1.4 Research Questions

The following are the research questions for this study:

- 1- What is the level of environmental disclosure of Iraqi industrial companies?
- 2- Is there impact of the environmental disclosure on return on assets of Iraqi industrial companies?
- 3- Does environmental disclosure has impact on return on investment of Iraqi industrial companies?
- 4- How effect environmental disclosure on return on sales of Iraqi industrial companies?
- 5- To what degree does Iraqi industrial companies' added market value suffer as a result of their environmental disclosure?
- 6- What effect does environmental disclosure have on earnings per share of Iraqi industrial companies?

1.5 Objectives of Research

The study's objective is to determine the effects of environmental disclosure on financial performance. Below are the study's objectives:

- 1- To determine the level of environmental disclosure of Iraqi industrial companies.
- 2- To identify the impact of environmental disclosure on return on assets of Iraqi industrial companies.
- 3- To investigate the impact of environmental disclosure on return on investment of Iraqi industrial companies.
- 4- To investigate whether environmental disclosure on return on sales of Iraqi industrial companies.
- 5- To study whether environmental disclosure on added market value of Iraqi industrial companies.
- 6- To see how environmental disclosure, have on earnings per share of Iraqi industrial companies.

1.6 Research Hypotheses

The following are the hypotheses developed based on the review of literature:

- H₁.** There is a positive impact of Environmental disclosure on return on assets of Iraqi industrial companies.
- H₂.** There is a positive impact of Environmental disclosure, which could be concealed, on return on investment of Iraqi industrial companies.
- H₃.** There is a positive impact of Environmental disclosure on return on sales of Iraqi industrial companies.
- H₄.** There is a positive impact of Environmental disclosure on the added market value of Iraqi industrial companies.
- H₅.** There is a positive impact of Environmental disclosure on the earnings per share of Iraqi industrial companies.

1.7 Conceptual Framework

This section shows the conceptual framework developed based on the reviews of the past literature related to the connection of environmental disclosure and financial performance as well as the motives behind the informational disclosure related to the environment to the public. In general, a conceptual framework is a collection of concepts attained from the reviews, which have been depicted in the form of a map to highlight the scope of the study. It is a guide to most research as it outlines the possible actions in regards to the idea or analysis of a project (Novak, 2007). Normally, the framework revolves in a circle to show the connection between the concepts and this connection can be determined based on the use of linking words or phrases. Cepeda and Martin, (2005a) defined a conceptual framework as an output of the written or visual skills. It explains, either graphically or narratively, the approaches, the crucial elements to be monitored, the significant causes, connotations, or variables, and the assumed relationships between them.

This can be seen in the previous studies that provide conclusive supporting evidence (Cepeda and Martin, 2005). Thus, conceptual frameworks present the connection between the environmental disclosure of companies and their performance in terms of finance, as shown in Figure 1.1. This study sets the company's environmental disclosure as the independent variable, which was be elaborated on comprehensively in the second chapter. In addition, the financial performances of the companies that are within the industrial sectors are reported to be influenced by environmental factors (Orlitzky et al., 2000). The indicator of the financial performance of this study consists of the Return on Sales (ROS), the Return on Investment (ROI) , Return on Assets (ROA), Earnings Per Share(EPR) and Added Market Value(AMV).

In addition, related past literature depicted the variables that mediate between the environmental disclosure and financial performance. Some sub-items look at the relationship between environmental disclosure and financial performance. It also employs the theory of accountability to support the connection between environmental disclosure and some of Indications of financial performance, as well as the legitimacy theory to promote the connection between environmental disclosure and financial performance generally. Several theories are used as underlying hypotheses to support the Conceptual Framework.

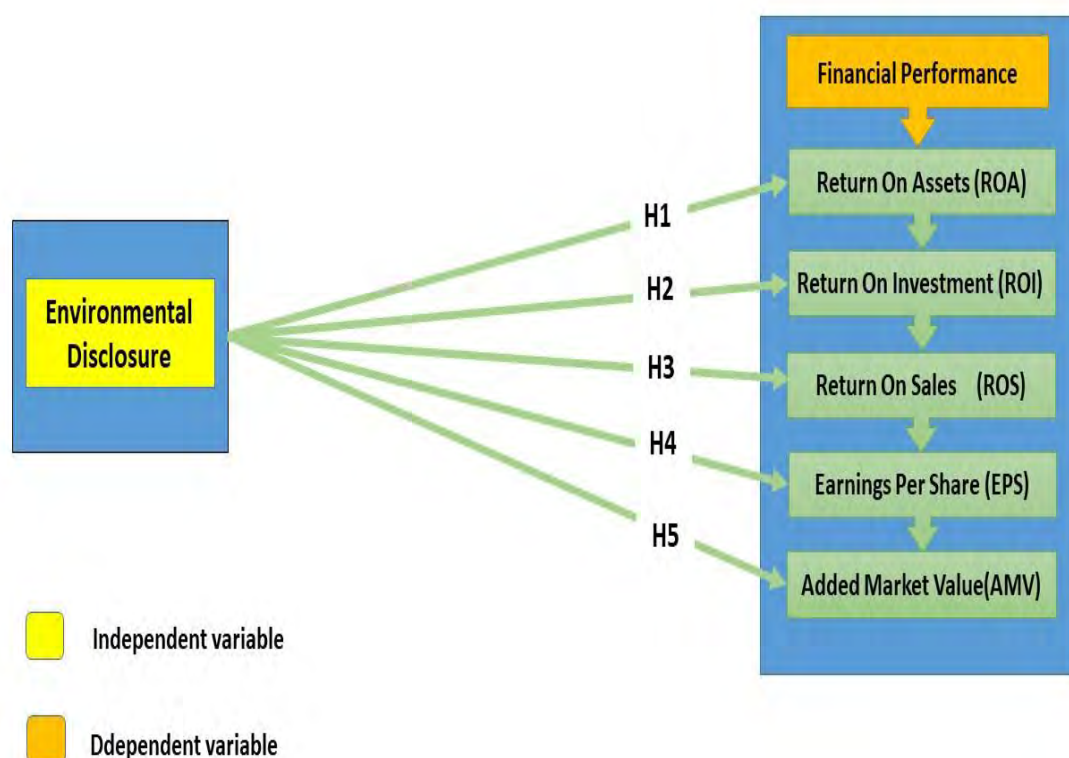


Figure 1.1. Conceptual Framework



1.8 Significant of Study

The significance of this study comes from the conviction of many researchers which includes this researcher, that it is necessary to have environmental disclosure by companies. This is not only enhancing the practice of the current situation but also aims for the companies to feel the impact of the disclosure and the barriers that prohibit it. The researcher must highlight the environmental issues forcing the companies to strategize their progress to fulfill the legislation set by the government to avoid violations. This study also aims to contribute a significant outcome by identifying the nature and the extent of disclosing the information related to the environmental disclosure in the Iraqi oil companies and industrial companies in ISX. Furthermore, it is done to discover the amount of awareness that the polluting managers and the employees pay to environmental matters, particularly the environmental disclosure. This study aims to attract accounting experts in the field of the oil industry and specialized accounting organisations. In drawing more attention to the matter of environmental issues in developing countries, particularly Iraq, there are several requirements that have been acknowledged in studies.

From the side of practical significance, this research focused on the environmental issues that surround the community. The practical importance of the research is to assist industrial companies in measuring and environment disclosure level, as well promote disclosure of environmental issues resulting from the activities of industrial companies in the financial and environmental reports. The presentation and disclosure can attract external parties to work in the companies and invest in them by purchasing their products. This will consequently lead to an increase in the financial return of the company.



While, on the side of scientific importance, the research stems from the establishment of a basis for measuring, controlling disclosure level, and opening the way for researchers interested in this field. Moreover, despite the truth that the disclosure and environmental issue revelations have been a major point for scholarly research for several years, the majority of the research has only concentrated on the developed regions such as America, Western Europe, and Australia. A number of studies have suggested that further investigation should be conducted in the developing nations (Babiak, 2011; Rahman, David, and Owen, 2007; Belal and Cooper, 2011; Gao et al., 2005; Gugler and Shi, 2009; Jamali and Mirshak, 2007; Sobhani, Amran, and Zainuddin, 2009).

1.9 Study's Scope

The researcher targeted businesses in the industrial sector in the ISX and the oil sector in Iraq. The secondary data were used for the independent variable and dependent variable, while content analysis was used for the independent variable by analysis of the annual reports that include the environmental items. Specifically, the researcher was proving that better environmental disclosure may influence the level of financial performance. Additionally, giving full exposure is the fundamental manner by which data about company practices are passed on to the invested and interested individuals. The study period is five years from 2015 to 2019 due to the availability of data during these years. The researcher used a quantitative approach in this study because it is more accurate and credible for this research.



1.10 Operational Definitions

Several essential definitions are included throughout this study for a better understanding of this research. Definitions are as below:

1.10.1 Environmental Disclosure

Environmental disclosure is generally described as "knowledge about a corporation's aspirations, practises, and public profile in relation to environmental, community, customer, and employee concerns"(Gray and Sinclair, 2001). Environmental disclosure is described as "any disclosures that concern the effect of an organization's or company's operations on the physical or natural environment under which they work" in a nutshell (Wilmshurst and Frostr, 2000).



Environmental disclosures, according to Published, Gaskell, Jimack, Sellier, and Thompson, (2006), are "direct or conditional comments regarding the effect of the company's operations on the environment." Environmental disclosures are described by Hibbitt and Collison, (2004) as "the external communication of environmental, health and safety, and energy concerns related to a company's strategies, undertakings, and values through an organization-wide report that is put in the public domain on a frequent and consistent basis"(Bednárová et al., 2019).

1.10.2 Financial Performance

Financial Performance is a monetary indicator of a company's strategies and activities. It's a broad indicator of a company's overall financial health over time and can be used to assess related firms in the same market or to compare businesses or sectors in aggregate (Kinyua et al., 2015).





The Financial Performance of a company can be measured in a variety of ways: in a company's Return on Investment (ROI), Return on Assets (ROA), and Return on Sales (ROS), among other metrics, and is a subjective indicator on how a company will utilise assets from its primary mode of operation to produce income (Zulkiflimokhtar, 2006; Harash, Al-Tamimi, and Al-Timimi, 2014).

1.10.2.1 Return on Assets (ROA)

Return on Assets (ROA) is a metric that indicates how much money can be made from using assets to earn profits. ROA is a metric used by analysts to assess a firm's Financial Performance as it relates to acquisitions, taking into account whether the company financed the investments in debt or equity resources. The ratio expresses the relationship between the sum of earnings before interest and tax and the total number of assets in percentage form (Saleh, Muhamad, and Zulkifli, 2010; Tayeh, Al-Jarrah, and Tarhini, 2015).

1.10.2.2 Return on Sales (ROS)

Return on Sales (ROS) is among the 10 key performance indicators that are being used by companies as a benchmark to monitor their performance. ROS (or so-called net profit margin) exhibits the success of the management in generating profits from its sales (Tayeh et al., 2015). Net profit is divided by sales to calculate ROS. To calculate the ratio of ROS, the following formula is being used adapted from Iwata and Okada (2011). ROS is calculated by this formula: $ROS = (\text{Net Profit before Interest and Tax} / \text{Sales}) \times 100$.





1.10.2.3 Return on Investment (ROI)

Return on Investment is a form of critical ratio to evaluate the profits of the company. The presented ratio is considered to be an essential element in financial statement analysis (Tayeh et al., 2015). ROI is an accounting term and a financial ratio that shows profit has a direct connection to the investment. In addition, ROI is outlined as an equation of profitability that can be used to figure out future performance such as future expectations or earnings, particularly the proposed investment's sustainability (McNulty and Tharenou, 2004). ROI is calculated by this formula: $ROI = (\text{Operating profit} / \text{Total investment costs}) \times 100$

1.10.2.4 Earnings per Share

Earnings per share (EPS) is considered as an important accounting indicator of risk, entity performance and corporate success. It is used to forecast potential growth in future share prices, because changes in EPS are often reflected in share price behavior (Robbette et al., 2017). Earnings per Share EPS is a measure of firm's financial performance as it indicates the corporate's wealth and has a disclosure advantage (Oeyono et al. 2011) 107. All listed companies are required to disclose their EPS on the statement of profit or loss. EPS relates to the profit attributable to equity shareholders for the year divided by average equity shares during the year.





1.10.2.5 Added Market Value

EVA is an independent variable in this study. EVA describes the company's residual income after deducting the overall cost of capital. In contrast to traditional accounting performance measures (such as ROE), EVA tries to measure the added value generated in a company, by reducing the cost of capital (cost of capital) incurred as a result of investments made (Dhani Laksana and Mayasari, 2020). In other words, EVA measures the extent to which the company has increased shareholder value. EVA approach developed by the institute of management consultants from the United States named Stern Stewart Management Services in the mid-1990s.

MVA is a measure of external performance, which is considered the best indicator of shareholder value creation (Khan et al., 2012). The positive MVA indicates that the value and investment created by the management is more than the capital supplied by the investors, vice versa (Pratiwi Putri Wibowo; and Berasategui, 2008). This study analyze whether the impact of profitability have any link BIST listed firms' MVA. These study also examine and correlates ROA and ROE variable with MVA as an market based value performance so as to test whether EVA has provide over traditional accounting performance metrics (Akgun et al., 2018).





1.11 Structure of Thesis

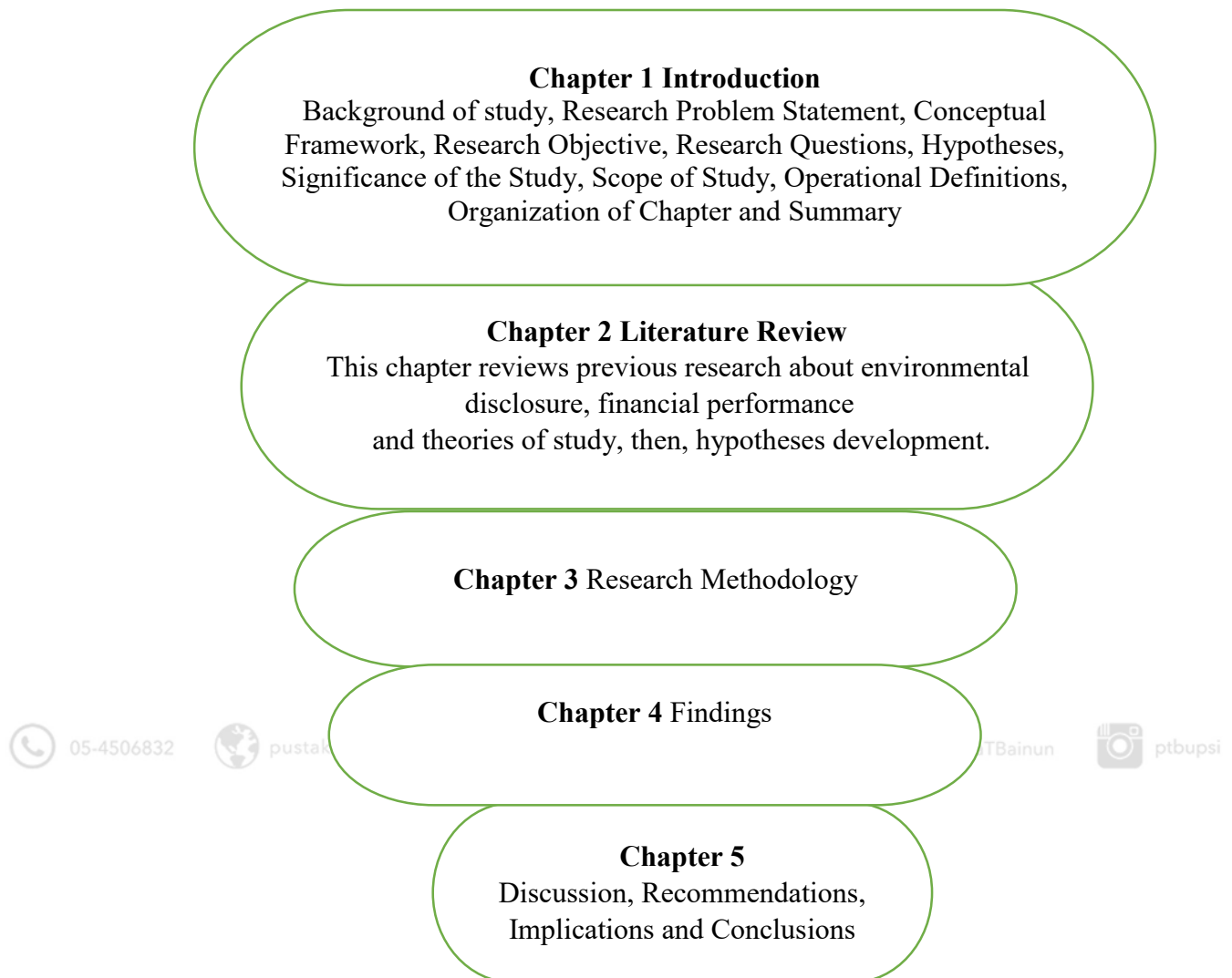


Figure 1.2. Structure of Thesis



1.12 Summary

This chapter has laid out the background of the research and identified the research gaps found in previous studies by systematic review. The gaps are derived from the deficiencies in the previous research, which include the lack of investigation on the impacts of environmental disclosure and lack of examining the impact of environmental disclosure on financial performance of companies. The chapter also dealt with questions, objectives and hypotheses of the research in addition to the scientific and practical importance of the research. It also dealt with the study's scope and the definition of the main variables followed by a summary. A discussion of previous studies and the theoretical framework appear in the next chapter.