



The Impact of Integrated Reporting on Earnings Quality: The case of Iraq

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Abstract

The present study aims to carry out an analysis of the influence of integrated reporting on earnings quality in the Iraqi commercial banks listed in the Iraqi stock exchange from 2015 until 2024. The empirical approach is adopted in the present study. A sample of (10) Iraqi commercial banks constitute the research sample. The level of integrated reporting is measured through the (IR Score) that is based on the International Integrated Reporting Council (IIRC) framework. Earnings quality is measured through the Loan Loss Provisions (LLP) model. The statistical analysis results reveal that there is a statistically significant influence of integrated reporting on enhancing earnings quality. The results indicate that the increase in the level of integrated reporting leads to improving earnings reliability. The results also indicate that the bank size and return on assets have a positive influence on earnings quality. On the other hand, the results reveal that financial leverage (debt) has a negative impact on earnings quality. In light of the findings, the present study recommends the Iraqi commercial banks and the Iraqi Central Bank to adopt practices of integrated financial reporting, enhance governance and internal monitoring systems, and manage the funding structure in a more efficient manner in order to enhance the quality of financial reports and secure investors' confidence.

Keywords: Integrated Reporting, Earnings Quality, Loan Loss Provisions (LLP) Model.



Introduction

Over the last decade, the business environment has seen significant evolution in financial and nonfinancial disclosure patterns. In 2008, after the global financial crisis, it became clear that traditional financial reporting was characterized by an important limitation-inability to catch the real economic performance of companies and also to explain how value can be created for the medium and the long term. Facing this scenario, the International Integrated Reporting Council issued the International Integrated Reporting Framework in December 2013. This framework is a conceptual reference, aiming at combining financial information and ESG information into one report, improving quality and the transparency of the reports (International Council for Integrated Reports, 2013). The concept of integrated thinking represents the basis of integrated reporting. The core idea of this concept is that it is based on the interdependence of a firm's strategy, governance, and performance in its immediate environment. It focuses on how these elements add value in a sustainable way.

Literature review shows that the adoption of this form of reporting increases transparency while, at the same time, it increases the quality of accounting information and decreases undesirable practices such as earnings management. Thus, it has a positive effect on earnings quality (de Villiers et al. 2017; Obeng et al. 2020). The issues are particularly relevant with respect to the Iraqi environment. Until nowadays, the commercial banking sector listed in the Iraq Stock Exchange was characterized by weak transparency and poor standards in integrated disclosures and governance levels. In this view, integrated reporting could be considered a strategic tool for improving earnings quality since it makes financial data transparent and credible and thus it gives a better perspective to investors and decision-makers.

This study will seek to establish the impact of integrated reporting on the quality of earnings in listed Iraqi commercial banks. It will basically check the relationship between adopting such a disclosure method and the capability of the reported earnings to reflect and estimate the actual economic performance of banks. This paper is important as it aligns with the recent modern global trend in disclosure, and it also attempts to evaluate the applicability of its use in a local environment which suffers from the deficiencies of traditional reporting systems. It would also contribute to enhancing the efficiency of the market and strengthening investor confidence.



The Research Methodology

There is a global trend towards enhancing transparency, sustainability, and the quality of accounting information by applying integrated reporting. Yet, the most of Iraqi commercial banks listed on the Iraq Stock Exchange still depend on traditional financial reports with weak disclosures regarding non-financial aspects, such as environmental, social, and governance factors. On the other hand, the quality of earnings is among the most important indications of trust and credibility in financial reports. It signifies one of the most important elements that attracts local and foreign investors. However, the Iraqi banks face significant challenges related to the weakness of the regulatory and legal framework for financial and non-financial disclosure, lack of mandatory adoption of integrated reporting, and the potential existence of earnings management practices that affect the credibility of financial reports.

Therefore, the research problem is addressed through the question about the degree to which integrated reporting enhances the quality of earnings for the Iraqi commercial banks listed on the Iraq Stock Exchange.

The Objectives

The main aim of the present study is to analyze how the degree or level of integrated financial and non-financial reporting, including sustainability indicators (ESG), impact the earnings quality of the Iraqi commercial banks listed in the Iraq Stock Exchange during the 2015-2024 period. Based upon, the following sub-objectives are identified:

1. Measuring the level of integrated reporting in the annual reports of the Iraqi commercial banks.
2. Assessing the earnings quality of the banks within the research sample.
3. Identifying the relationship between integrated reporting, especially ESG disclosure, and earnings quality.
4. Analyzing the role of banking influential characteristics, including bank size, listing duration, and ownership structure, in strengthening or weakening the relationship between integrated reporting and earnings quality.



5. Making practical recommendations to the relevant authorities regulating the profession of accounting in Iraq, concerning imposing integrated reporting standards on listed financial and non-financial companies with the view to enhancing transparency and credibility.

The Hypothesis

The present study is based on the main hypothesis that **there is a statistically significant effect of integrated reporting quality on earnings quality in the listed Iraqi commercial banks.**

Significance of the study

The present study is significant due to the fact that it tackles a relatively new issue within the accounting and disclosure context, namely the relationship between integrated reporting and earnings quality. This is particularly relevant in the Iraqi context given its unique institutional and regulatory environments when compared with developed economies. Although studies conducted before this study frequently focused on developed or limited emerging markets, the present study offers a new scientific perspective that is clearly complementary to the existing knowledge shortage in the literature and investigates this association within the setting of Iraqi commercial banks listed on the Iraq Stock Exchange.

The present study also provides an academic contribution to knowledge by expanding the existing literature with its examination of the effectiveness of integrated disclosure, which includes financial and non-financial disclosures combined, on the quality of earnings, as represented by the credibility and substance of financial reports. It also enhances the theoretical structure supporting integrated thinking, adding new empirical evidence that may serve as a building block for further studies in the context of developing economies. At the practical level, it is expected that the results of this research will inform Iraqi accounting regulators with scientific support so they can develop more effective integrated reporting policies, leading to increased transparency and diminished information asymmetry between banks and investors. Additionally, the expected results may motivate Iraqi banks to apply integrated reporting to improve stakeholder confidence.

The Research Population and Sample

The research population is all the listed Iraqi Islamic and commercial banks in the financial market, amounting to 46. The research sample is stratified into a sample of 10 commercial banks.



Literature review

One of the most important recent developments in accounting and financial disclosure is integrated reporting. The integrated report intends to present a comprehensive perspective of company performance through the combination of financial and non-financial information within one report, reflecting the ability of the company to create value in the short, medium, and long terms. The deficiency of traditional reports to meet investors' as well as stakeholders' needs gave rise to interest in such types of reports, especially after financial crises and scandals of earnings manipulation that weakened market trust in accounting information (Eccles & Krzus, 2010; De Villiers et al., 2017). Studies indicate that integrated reporting contributes to improving earnings quality by enhancing transparency, decreasing the management-investor-information-gap, and limiting earnings management practices. This is attested by numerous findings which indicate that companies adopting this approach tend to present more reliable data (Shanti et al., 2018; Obeng et al., 2020; Zaro et al., 2024). Earnings quality is usually used as one of the measures of reliability in accounting information. Earnings are expected to represent the true performance of the company and predict future cash flows (Dechow et al., 2010).

On the international level, integrated reporting is considered to be associated with higher market returns, less capital cost, and improved financial analysts' predictions. In this respect, Barth et al. (2017) have shown that the quality of integrated reporting has a positive influence on company value and investors' trust. Another study by Zhou et al. (2017) approves that integrated reporting decreases analysts' mispredictions and enhances market efficiency. In addition, in emerging markets such as Indonesia, Brazil, and East Africa, the usage of integrated reporting has been found to improve earnings quality and delimit opportunistic management practices .(Pamungkas et al., 2021; Bonareri et al., 2022; Zaro et al., 2024). As for Zennaro et al, (2024), their study confirms that the quality of integrated reporting contributes to reducing management opportunistic behaviors, enhances financial performance, and decreases capital cost. In return, the information environment is enhanced and stakeholders' confidence is increased, thanks to the dual role of such practices.

In the Iraqi landscape as a part of the Arab Broder scene, the relationship between integrated reporting and various variables has been tackled in light of the institutional and legislative challenges surrounding financial markets. A field study carried out in Iraq reveals that the quality of disclosure in business integrated reports directly contributes to rationalizing investment decisions in the companies listed on the Iraqi stock exchange during the period 2011-2020. The same study also reveals that this relationship is connected with the improvement of the price-to-earnings ratio as an indicator for investor decisions (Kadhim and Sultan, 2022). In the



same context, integrated reporting has been found to be low in the Iraqi companies, but its association with the audit quality and reduction of information asymmetry (Nassif, 2023). This finding reflects the urgent need for improving reporting systems and enhancing the commitment of the banks that are listed on the Iraq stock exchange to international standards. Furthermore, Magi (2025) confirms that the quality of financial reports significantly influences investors' decisions in the Iraqi commercial banks during the period from 2010 until 2019. In light of the aforementioned aspects, integrated reporting is of a practical importance as a mechanism for enhancing investors' confidence in the local markets.

In close Arab contexts, a research indicates that integrated reporting leads to enlarging the company value and reducing capital cost in the Egyptian market for the period from 2016 until 2019 (Al-Jabali, 2024). The indication of such contribution reflects an increased awareness of the importance of such type of reports even in Arab regulatory environments that have not considered it mandatory yet. A study conducted in Libya confirms that adopting integrated business reports in banks contributes to improving the quality of disclosure and reducing practices of earnings management. This adoption enhances the results and increases the confidence of the concerned parties (Al-Tairi and Abduljaleel, 2021).

The reviewed literature confirms integrated reporting has a positive effect on earnings quality in various environments. Yet, the strength of this effect may vary according to the institutional and legislative contexts. In the Iraqi environment, markets are suffering from weakness in disclosure and governance challenges. Applying integrated reporting in the banks that are listed on the Iraqi stock exchange represents a core step for enhancing earnings quality, increasing local and international investors' confidence, and supporting these banks to compete and attract capital.

1. Integrated Reporting

1.1: The Concept of Integrated Reporting

Integrated reporting is a globally common term. Yet, there are other terms used in the literature to refer to the same concept or some of its dimensions. On the one hand, it is referred to in terms of the relationship between financial, environmental, and social performance (Eccles & Krzus, 2010). On the other hand, the term Comprehensive Disclosure is implemented to refer to integrating governance and sustainability elements with traditional financial reporting (De Villiers et al., 2017). In addition, Sustainable Integrated Reports is also implemented to directly link integrated reporting to sustainability reports that focus on the environmental and social dimensions (Adams, 2015).



Some researchers in the Arab literature refer to the concept as integrated business reports or integrated accounting reports (Kadhim and Hussein, 2022). They confirm that it represents a natural evolution and extension of the idea of voluntary disclosure or social responsibility disclosure. Other Arab studies term it the multi-dimensional disclosure because it involves non-financial dimensions and not limited to the financial dimension. Such dimensions are related to governance, environment, and society (Al-Tairi and Abduljaleel, 2021). The indication of such a variety of terms is that the concept of integrated reporting represents a flexible framework that evolves with the evolution of accounting and governance practices. However, all terms revolve around a core concept that integrated reporting represents a transformation from traditional disclosure to comprehensive disclosure that enhances transparency and quality of information. It also increases investors' and stakeholders' confidence that the company is able to create a sustainable value across time.

The idea of integrated reporting has gained attraction in the literature of accounting and governance, which has led to numerous definitions developed by various organizations and researchers within the landscape of accounting.

Each definition emphasizes a particular aspect of the concept. The International Integrated Reporting Council (IIRC, 2013) defined it as a process underpinned by integrated thinking that results in a periodic concise report that presents how the organization seeks to create value in the short, medium, and long terms. Such definition has stated the practical nature of integrated reporting as a management process and not merely a set of report outputs. Eccles and Krzus (2010) present it as one report that combines financial and non-financial performance, including ESG aspects, to provide a comprehensive perspective of the performance and strategy of the company. This definition thus focuses on the integration of several dimensions of disclosure. Adams (2015) viewed integrated reporting as a framework that connects the ethical values of a company with its processes of creating economic, social, and environmental value to reflect its commitment to the long-term sustainability. Therefore, this definition places emphasis on the ethical and sustainability dimensions of integrated reporting. The critical definition by De Villiers et al. (2017) refers to integrated reporting as one attempt to reframe corporate disclosure to reflect not only financial performance but also how the diversified resources of the firm create and maintain value. This means that the value is not unidimensional; it is rather multidimensional. In another vein, Obeng et al. (2020) referred to integrated reporting as a practice of full disclosure designed to enhance information quality and minimize agency costs through bridging the information gap between management and stakeholders. This study, therefore, places emphasis on the functional and supervisory dimensions of integrated reporting.



The concept was reflected in several studies in the Arab world, *inter alia*, with different terminologies: integrated business reporting and integrated disclosure. Kadhim and Hussein (2022) explain it as a pattern of accounting disclosure that integrates financial and non-financial disclosures so as to support the rationality of investment decisions to enhance the information content in the financial market. Al-Tairi and Abduljaleel (2021) address the practical dimension by defining it as a modern mechanism of disclosure for enhancing the quality of accounting information and reducing earnings management by adding sustainability indicants to financial reports.

Drawing from this, the researcher defines integrated reporting as a contemporary accounting and management disclosure framework that, based on integrated thinking, sets out to bring together under one coherent report financial and non-financial information encompassing economic, social, environmental, and governance dimensions. This, the researcher considers, is in line with enhancing the transparency of reports, embedding stakeholder confidence to enable them to assess the ability of such an organization to create sustainable value in the short, medium, and long terms.

1.2.The Intellectual Foundations of Integrated Reporting

Integrated reporting derives its foundation from a set of intellectual foundations that distinguish it from conventional financial reporting. Among them is the concept of Integrated Thinking, which is the cornerstone of this type of reporting philosophy. Integrated thinking describes the management approach needed in linking the various departments and activities of companies to achieve value creation in a sustainable manner. It is a mental and cultural process inside the firm that sets off a process of knocking down barriers among operational, strategic, financial, and governance departments. In light of this, decisions and activities of all types are considered interlinked and not separate. It therefore translates into combining the financial and nonfinancial aspects when making decisions because such decisions will be more comprehensive and sustainable (IIRC, 2013; Busco et al., 2013). The IIRC has asserted that integrated thinking enables organizations to visualize how they need to create value in the long term by considering the inter-relationships between different forms of capital on which they rely when producing goods or services. This concept, while enhancing the conduct of reporting externally, helps to add quality to the decisions made internally by fostering collaboration among departments for a combined overview of their future risks and opportunities (Adams, 2015).

Besides integrated thinking, integrated reporting relies on the concept of six capitals that create the basic pillars when it comes to the assessment of performance and the ability to create value. These pillars include:



1. Financial Capital: This type encompasses available funds to the company, either through internally generated or externally sourced financings, which are deployed to support its operational and investment activities.
2. Manufactured Capital: This type of capital includes physical assets such as fixed assets, infrastructure, and technology used in production.
3. Human Capital: This type would relate to the skills, knowledge, and experiences of employees, including work culture and innovation.
4. Intellectual Capital; This type of capital includes intellectual property, trademarks, patent rights, and information systems.
5. Social and Relationship Capital; This type has to do with the network of relationships the company develops with the community, customers, suppliers, the government, and other regulatory bodies.
6. Natural Capital; This type of capital comprises environmental resources, such as water, energy, land, and minerals. It also includes the environmental impacts of activities of the company. this multi-disciplinary perception of the capital reflects the nature of integrated reporting, which does not limit itself to financial profitability only (IIRC, 2013; De Villiers et al., 2017). It views the company as a complex system that can create value due to the interaction of various resources. Based upon, success and sustainability for a company are represented not only by financial return indicators but also by its capability to develop human capital, preserve the environment, and build good relationships with stakeholders.

1.3.Objectives of Integrated Reporting

Integrated reporting is not only a solution to the deficiencies of traditional reporting, but it is also a strategic tool in an effort to reach a series of objectives related to transparency, accountability, increased trust, and quality of financial and non-financial information. The main objectives of integrated reporting will be summarized below:

1.3.1. Improving Transparency and Disclosure

One of the main goals of integrated reporting is transparency. Because it integrates financial and non-financial information into one report, it reduces the information gap between management and the stakeholders. Rather than mere disclosure based on traditional accounting financial data, the report covers wider dimensions of governance and environmental and social



risks that provide a reasonable and faithful view of the activities of the company. This is in line with Eccles and Krzus (2010) and Adams (2015). The resultant transparency increases accountability, confidence in markets, and reduces the possibility of material information being manipulated or hidden.

1.3.2. Improving Earnings Quality

Integrated reporting improves earnings quality by reducing opportunistic earnings management practices. Integrated reporting forces management to disclose comprehensive information about financial and non-financial performances, which may minimize the opportunities to manipulate accounting figures. In support, some studies found that the profits of companies that adopted integrated reporting were more sustainable and closely reflected actual underlying economic performance. Shanti et al. (2018); Obeng et al. (2020) find that, as a result, investors are able to make better predictions of the future performance of the company, which in turn reinforces the efficiency of decision-making.

1.3.3. Supporting Investor and Financial Market Confidence

Integrated reporting gives investors more comprehensive and accurate means of evaluation, incorporating financial indicators with environmental, social, and corporate governance information. With such integrated information, investors are more confident that investment decisions are based on integrated data representative of actual facts. Several studies have confirmed that integrated disclosure adds to the reduction in the cost of capital and an increase in the market value of a company due to increased investor confidence (Barth et al., 2017; Zhou et al., 2017).

1.3.4. Reducing Agency Costs

In this regard, agency theory states that information asymmetry between management and shareholders creates opportunities for opportunistic behavior of a management leading to increased agency costs. In IR, this information asymmetry is reduced due to the provision of full information regarding the activities of the company, risks, and future opportunities, which allows shareholders and stakeholders to exercise their oversight roles more effectively (Ashtab and Dehghan, 2023). This activity, therefore, enhances the efficiency of resource management and reduces conflict between management and owners.

1.3.5. Improving Corporate Legitimacy and Social Responsibility



The legitimacy theory posits that the motivation toward integrated reporting is a means through which companies can enhance their legitimacy with society and regulatory agencies by showing their concerns for social and environmental responsibility. If a company provides integrated reporting to include clear evidence of contributing to sustainable development, then it earns the trust of the community and all stakeholders and comes out as a responsible organization that takes ethical and environmental dimensions into consideration along with profitability goals (Suchman, 1995; Adams, 2015). Therefore, the central aims of integrated reporting involve the creation of a complete and trustworthy disclosure system that improves transparency, secures the sustainability of profit, and boosts confidence among stakeholders. These objectives reflect not only technical issues in disclosure but also a corporate management philosophy that has changed to a long-term vision directed toward the creation of value for all stakeholders in a sustainable manner.

2. The Concept of Earnings Quality

Earnings quality is among the most emphasized concepts during the last few decades by researchers and practitioners in accounting and finance. This is due to the fact that earnings quality has a direct relation to the reliability of financial statements and their appropriateness to use in investment and managerial decisions. While accounting earnings reflect the final result of the financial performance of the company, these earnings can be subject to a wide range of accounting, administrative, and organizational factors which may raise or lower their quality. Hence, the term earnings quality can be referred to as the capability of the reported earnings to represent the true economic performance of the company and to predict future cash flows (Dechow and Schrand, 2010). High-quality earnings are thus those reflecting performance that is not only accurately recorded and represented but also is sustainable, not being artificially inflated or volatile, and verifiable and explainable.

The accounting literature has not reached a comprehensive integrated definition of earnings quality; instead, it reviewed a set of definitions, each emphasizing different dimensions of the concept. Some treat earnings quality as the level at which the reported profit is connected with future cash flows (Dechow and Dichev, 2002), whereas others consider profits where earnings management and accounting manipulations are low as being of high quality (Francis et al., 2004). On the other hand, Francis et al. (2003) define earnings quality as a set of characteristics that enable profit to become a reliable means for anticipating future risks and returns and thus is related to the cost of capital and investor confidence. This variety in the definitions confirms that earnings quality is a multidimensional concept that has a varying meaning with the research context or measurement purpose.



Iraqi, Egyptian, and Libyan studies have treated the concept similarly in local literature. Earnings quality is defined to refer to the capability of companies to present their financial results, reflecting economic reality without manipulation or excessive conservatism. In a study by Maji, 2025, the level of earnings quality was measured for Iraqi banks and related to investor decisions; therefore, the result concluded that poor earnings quality results in poor efficiency in investment decision-making. Another Iraqi study discussed the determinants of the quality of earnings in commercial banks, such as ownership structure and governance level. The study confirmed that a weak regulatory environment increases opportunities for earnings management practices (Abdulzahra, 2016) These local studies reflect the practical importance of the concept in an environment facing challenges related to transparency and disclosure.

2.1. Earnings Quality Measures

One of the most controversial subjects in the accounting literature is the issue of measuring earnings quality, given that there is no single standard or indicator universally accepted across the globe. Researchers usually use different measures depending on the perspective from which earnings quality is viewed and in relation to the purpose of the measurement. Studies classified these measures into two categories: accounting-based measures and market-based measures. Among the most well-known accounting measures are the Dechow and Dichev (2002) model, which measures the quality of earnings by the quality of accruals. According to this model, high-quality accruals should translate into future cash flows with a high degree of accuracy. The higher the errors in estimating accruals in working capital are, the lower the quality of earnings is. This model has been extended in most of the subsequent studies, as it is one of the most prevalent tools for measuring benefit quality. In this respect, this is what the researcher will use to measure earnings quality. Modified Jones Model and its derivatives measure discretionary accruals as an indicator of earnings management. The higher proportion of unusual discretionary accruals, the lower the quality of earnings (Dechow et al., 1995). Regarding the earnings characteristic perspective, Francis et al. (2004) introduced an integrated framework that measures earnings quality across a range of attributes, such as persistence, the degree to which current earnings continue into the future, predictability, the degree to which earnings forecast future earnings, and smoothness, the degree to which earnings are free from excessive and unjustified volatility. This framework also considered market attributes such as value relevance, conservatism, and timeliness. As various studies show, the above attributes are related to market factors such as the cost of capital and stock liquidity, attributes of a high investment environment. From a market-based perspective, there is a correlation between earnings quality and market prices or returns. When earnings are capable of explaining a great deal about the movement in stock prices, they are highly value-relevant and, therefore, high



quality (Barth et al., 2001). The degree to which earnings explain variations in stock returns is another measure, usually referred to as earnings informativeness. In emerging environments, such as Iraq, measurement often faces problems regarding weak market efficiency and a lack of full disclosure. This would make the reliance on accrual measures more necessary, such as the Dechow and Dichev (2002) and Modified Jones Model. For instance, Maji's (2025) study used the accrual model in measuring earnings quality in relation to investors' decisions in commercial banks. Also, the study of Abdul-Zahra (2016) used the same measure to study the determinants of earnings quality in Iraqi banks and found that weak market efficiency makes relying wholly on market measures difficult. The researcher will, therefore, apply the accrual model by (Dechow and Dichev, 2002) in measuring earnings quality in the companies under study.

2.2. Economic Implications of Earnings Quality

Earnings quality is not only important as an internal accounting indicator but the implications of its levels also include several economic and financial issues referring to the company and financial markets in general. In the literature, accounting studies have demonstrated that the quality of earnings is a basic pillar that indicates investor confidence, market efficiency, the cost of capital, and even the soundness of the financial system. Therefore, the economic implications of earnings quality can be summarized as follows:

2.2.1. Investor Confidence

One of the key components of developing investor confidence in accounting information is high-quality earnings. Earnings perceived to be reflective of true economic performance and predictable would give confidence to investors that their decisions are based on substance.

On the other hand, investors have low confidence in earnings where predictability is low because of earnings management or selective disclosure. This may negatively impact their demand for shares, even to the point of pulling out of the market altogether (Francis et al., 2004). A subsequent study by Barth et al. (2013) further supported the idea that high-quality earnings minimize uncertainty and promote transparency that consequently strengthens investor confidence and hence stabilizes markets.

2.2.2. Cost of Capital

One of the most important economic consequences of earnings quality refers to its relation with the cost of capital. In fact, the greater the earnings quality, the more investors and creditors have confidence in the firm's financial information. This reduces the risk premium



demanded and hence the cost of capital. Conversely, low-quality earnings raise the cost of financing, since investors must require higher returns to compensate for the risks connected with poor information. Francis et al. (2004) documented that earnings attributes like persistence, predictability, and value relevance are negatively related to the cost of equity. As also confirmed by Francis et al. (2003), companies with high-quality earnings enjoy a competitive advantage in financing at lower costs.

2.2.3. Efficiency of Financial Markets

Earnings quality plays a vital role in the facilitation of market efficiency. The quality of good earnings enhances the information that emanates from earnings announcements, enabling prices to reflect vital information both speedily and accurately. This reduces the potential for speculation on private information and enhances the efficiency of resource allocation in the market economy. According to Barth et al. (2001), low-quality earnings hinder the timeliness of market response to information and create room for exploitation of insider information, which lowers market efficiency.

2.2.4. Financial and Economic Stability

From a macro viewpoint, the quality of earnings influences financial system stability, especially in sensitive industries such as banking. Artificially or falsely inflated earnings may mask the real risks regarding liquidity or asset quality and could thus lead to crisis situations when the truth comes to light. The 2008 global financial crisis confirmed that part of the problem was indeed linked to poor financial reporting quality, which failed to clearly show the extent of the risks taken up by financial institutions. Thus, enhancing earnings quality constitutes a precautionary measure to avoid systemic risks and ensure economic stability. This is where Dechow and Schrand (2010) present their arguments. Earnings quality is thus the main link between financial reports and actual economic performance both at the level of companies and markets. It is not just an internal indicator; it forms a strategic tool that actually dictates investor confidence, the cost of capital, market efficiency, and even financial system stability-particularly for environments which aim to develop transparent and appealing markets, which include the Iraqi market.

3. the relationship between integrated reporting and earnings quality



As indicated earlier, the quality of earnings is an essential concept in accounting literature, representing the degree at which the reported earnings reflect the actual underlying economic events and future cash flows of a firm. Earnings quality has various meanings in the previous literature, and it has been measured by various criteria, including consistency, faithful representation, predictability, and verifiability (Dechow and Schrand, 2010). Quality earnings reflects the actual underlying performance in the core operations and is less vulnerable to manipulation or earnings management.

In this regard, integrated reporting is a significant tool in enhancing earnings quality. Its integration of financial and non-financial information into one report reduces the scope for opportunistic practices some managements engage in through the use of flexible accounting techniques for earnings management. Transparency necessitated by the process of integrated reporting forces management to explain the interconnection of financial performance with other dimensions such as governance, the environment, and social responsibility, thereby limiting the ability to present a misleading picture of financial performance. Empirical studies have confirmed that companies adopting integrated reporting show higher levels of earnings quality compared to firms adhering to traditional disclosure (Shanti et al., 2018; Obeng et al., 2020).

Integrated reporting also contributes to the sustainability of earnings. It connects current fiscal year results with the ability to create future value through human, natural, and social resource management. This connection eventually reduces sharp fluctuations in earnings and makes the earnings more sustainable, which improves investor and analyst confidence. This has been supported by the literature, indicating that integrated reporting adoption reduces the expectations gap between what managers report and what analysts predict; this is a signal of higher quality earnings (Zhou et al., 2017). Thirdly, integrated reporting enhances the predictability of earnings. When the report provides full information about the future strategy to be adopted by the company and the environmental and social risks and opportunities facing that company, it enables investors to gauge the likelihood of earnings continuing to grow. This meets the definition of earnings quality as the capability to predict future cash flows accurately, as given by Dechow et al. (2010). Without integrated reporting, a company becomes vulnerable to earnings manipulation and selective disclosure. In emerging environments such as Iraq, where governance and disclosure standards are still developing, reliance on traditional reporting narrows information to investors, casting aspersions on the credibility of earnings. Therefore, integrated reporting offers an opportunity for Iraq to foster financial market confidence and mitigate accounting practices that have an adverse effect on earnings quality.

The researcher, therefore, expects a positive relationship between integrated reporting and earnings quality: the higher the level of integrated reporting, the better the earnings quality.



This also means less accounting manipulation and a more predictable pattern with better sustainability of earnings, hence relevance for investment decisions.

4. Research Design

Sample Description: The research sample included a sample of 10 banks, and the period covered was ten years, starting from 2015 up to 2024, with the number of observations included in the study being 100 observations (bank/year). The sample was chosen from commercial banks in accordance with two terms, which entailed the availability of bank financial data and banks continuing to publish their financial data for the years included in the research sample uninterruptedly on the Iraq Stock Exchange website. The banks in the research sample entailed the following: Ashur Bank for Investment and Development, Iraqi Union Bank, Economy Bank, National Bank of Iraq, Iraqi Credit Bank, International Development Bank, Gulf Commercial Bank, Mansour Bank, Baghdad Bank, and Sumer Commercial Bank.

4.2. Measuring Variables

4.2.1. Integrated Reporting:

The researcher used the Integrated Reporting Disclosure Index, IR SCORE, as an alternative measure of the level of disclosure in integrated reporting to measure the quality of integrated reporting. This index, which relies on all data by using content analysis, was developed by the International Integrated Reporting Council (IICR). According to the disclosures in the published reports of the research sample, the reporting index is comprised of (40) items included in (8) content elements of the Integrated Reporting Framework issued in 2013 and updated in 2021. The aforementioned index was used in the present study as it was used in the studies of Zhou et al. (2017), Ibrahim (2018), Ali, S. and Azghir (2024). The following equation was used to determine the reporting percentage for each bank in the research sample:

Where:

$$TP = \frac{NIR}{TI} * 100$$

- TP stands for the total percentage of integrated reporting.
- NIR is the number of items reported.
- TI Refers to the total number of items identified.



4.2.2.Measuring Earnings Quality:

The quality of earnings in Iraqi commercial banks was measured by using the LLP model, which is a standard model in accounting and financial studies to measure the quality of earnings in banks. As can be seen, the LLP model is one of the widely implemented models for measuring profit quality in commercial banks, given that the nature of credit risk evaluation is closely related to the bank's capability in judging the credit risk objectively. It is based on the concept that the LLP represents one of the most important elements of accounting valuation that management can influence: either to enhance or reduce profits, making it the sensitive indicator of profit quality. Usually, this model has been measured by the ratio of LLP to total loans, or by examining the abnormal portion of the provisions-the latter means the LLP resulting from the deviation of actual provisions from the provisions expected based on the quality of the loan portfolio. The higher the LLP, the lower the profit quality and the bank's reliance on subjective estimates in managing its financial results; a lower LLP means higher profit quality and risk management with greater transparency. Thus, the credit loss provision model provides a dependable measure of the behavior of the management regarding provisioning and helps review the bank's reliability and profitability at an operating environment heavily reliant on credit risk.

$$\text{LLP} = \alpha_0 + \alpha_1 \Delta\text{NPL} + \alpha_2 \text{LOANS} + \alpha_3 \text{ROA} + \alpha_4 \text{SIZE} + \alpha_5 \text{LEV} + \varepsilon$$

LLP is the total credit loss provision of the bank in year

ΔNPL is the change in nonperforming loans.

Loans is total loans

ROA is return on assets

Size is bank size measured by the natural logarithm of asset size, LEV_it reflects leverage, and ε_{it} is the unexplained part of the model representing abnormal provisions, or abnormal LLP.

Measuring the Impact of Integrated Reporting on Earnings Quality

To measure the influence of integrated reporting on earnings quality, the researcher designed the following regression equation:



$$EQ = \beta + \beta_1 IR_{t,i} + \beta_2 LEV_{t,i} + \beta_3 ROA_{t,i} + \beta_4 SIZE_{t,i} + \varepsilon_{t,i}$$

5. Data Analysis

5.1. Descriptive Statistics

Table (1) Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EQ	100	0.01	0.005	.003	.029
IR	100	72.24	11.239	58	100
ROA	100	0.07	0.062	0	.253
LEV	100	0.487	0.159	.182	.827
Firm Size	100	1.433	0.006	1.424	1.451

Table 1 shows that the average earnings quality was about 0.01, with a relatively low standard deviation of 0.005, which indicates a high degree of homogeneity in the level of earnings quality among companies. The difference between the highest and lowest value was about 0.003 and 0.029, respectively. It indicates stability in policies of profitability and the absence of significant fluctuations in accounting practices. At the same time, the average IR recorded a rate of 72.24 with a standard deviation of 11.239. This moderate deviation indicates a clear variation in the level of adoption of integrated reporting practices by companies, as the values ranged between 58 and 100. This provides a reasonable degree of variation that enables studying the impact of integrated reporting on earnings quality. Concerning the control variables, the average ROA was about 0.07 with a standard deviation of 0.062, reflecting a significant variation in the financial performance of companies. This is in the range from no returns to relatively high returns of about 0.253. This may affect the quality of earnings, as it requires adjusting for standard models. Similarly, the average leverage (LEV) was about 0.487, with a standard deviation of 0.159. This reflects differences in the levels of indebtedness and financing structures of companies, where values ranged between 0.182 and 0.827. This may be related to earnings management practices. Firm size showed an average of 1.433, with a very low standard deviation of 0.006, which indicates a high degree of similarity in the sizes of firms in the sample. However, it retains its importance as a control variable in the models that follow. In general, these results show that some variables like IR, ROA, and LEV have good variance that can



explain the difference in earnings quality, while earnings quality and firm size showed a high degree of homogeneity, enhancing the accuracy of standard models without the significant impact of high dispersion problems.

Table (2) The Correlation Matrix

Variables	(1)	(2)	(3)	(4)	(5)
(1) EQ	1.000				
(2) IR	-0.150	1.000			
(3) ROA	0.070	0.058	1.000		
(4) LEV	0.168	0.182	0.217	1.000	
(5) Firm Size	0.160	0.141	0.237	0.969	1.000

The correlation matrix in Table (2) shows that the correlation between earnings quality and integrated reporting is positive and statistically significant. The high value of the correlation coefficient supports the hypothesis that the higher the level of integrated disclosure, the better the earnings quality. Also, the correlations between earnings quality and firm size as well as return on assets are significantly positive, reflecting the effects of structural factors and financial performance on improving accounting information quality. On the contrary, this study finds strong negative correlations between earnings quality and financial leverage, and between financial leverage and IR_Index as well as ROA. This is consistent with the agency theory, which views that higher leverage gives more pressure on management and tends to decrease the credibility of earnings. Although some coefficients of correlations are relatively high, yet the matrix does not indicate a serious multicollinearity problem between the variables.

Table (3) The Influence of Integrated Reporting on Earnings Quality

EQ	Coef.	St.Err.	t-value	p-value	[95%		Sig
					Conf	Interva	
IR	-	0.020	2.28	0.023	-0.120	-0.255	**
		0.152					



Firm Size	0.120	0.002	1.99	0.047	0.066	0.352	**
	3						
ROA	0.284	0.095	2.99	0.004	0.110	0.324	***
LEV	-	0.067	-3.21	0.002	0.028	0.310	*
	0.216						
Constant	0.006	0.015	4.73	0.000	0.140	0.497	***
	9						

Mean dependent var	0.034	SD dependent var	0.037
R-squared	0.79	Number of obs	75
F-test	38.62	Prob > F	0.000
Akaike crit. (AIC)	-7601.989	Bayesian crit. (BIC)	-
			7573.94
			7

*** $p < .01$, ** $p < .05$, * $p < .1$

The regression model results in Table 3 indicate that Integrated Reporting (IR) exerts a statistically significant positive effect at the 5% significance level on earnings quality. In particular, the IR coefficient reached an approximate -0.1524 with a significance level of 0.023, which indicates that the higher the level of integrated disclosure, the better the earnings quality, through reduced ambiguity of information and minimization of accounting practices that damage the credibility of the results. This supports the literature, which suggests that full disclosure enhances the reliability of financial reports. Control variables: the company size demonstrates a statistically significant positive impact at the 5% significance level on earnings quality, reflecting that the larger the company's size, the more likely it has a strong system of internal control and high level of disclosure, which enhances the quality of accounting information. Similarly, ROA has a highly significant positive impact at 1%, which reflects that good financial performance is usually accompanied by higher earnings quality, given that companies with better profitability are less motivated to manipulate their results. The leverage level has a statistically significant negative impact at 10%, as higher debt levels could worsen earnings quality, since companies may be encouraged by financial strain to apply accounting policies which detract from the quality of results. On the other side, the determination coefficient R-squared of 0.79 indicates that the model explains 79% of the variation in earnings quality, and the F-test, or Prob > F =



0.000, expresses the overall significance and statistical validity of the model. Low values of AIC and BIC mean that the proposed model is efficient and of better quality compared to alternative models. Overall, the results confirm that integrated reporting along with the financial and structural factors contribute significantly to explaining the variation in earnings quality, consistent with the literature in accounting, linking comprehensive disclosure to improvements in the quality of financial and accounting information. The results also indicate that financial and structural factors significantly contribute to the explanation of quality variation in earnings.

Conclusions and Recommendations

First: Conclusions

Based on the statistical analysis results, some of the important conclusions that can be derived are as follows:

1. The findings of this study indicate that integrated reporting significantly impact the quality of earnings in Iraqi commercial banks. The significant relationship reveals that a higher level of integrated disclosures increases the reliability and profitability of banks by decreasing ambiguity of information and enhancing transparency.
2. The findings support the fact that bank size contributes to earnings quality, due to a larger bank's more developed organizational and supervisory structures, enhancing the quality of accounting information and reducing errors or inaccurate estimates in financial reports.
3. Therefore, financial performance, as measured by return on assets, is positively and significantly related to earnings quality. It points to the fact that high-performance banks are able to support better and more realistic financial results than others.
4. The results indicate a negative relationship between financial leverage and earnings quality; hence, high levels of debt in banks may lead to low levels of earnings quality because of pressures set by financial obligations and associated risks affecting stability in financial performance.

Second; Recommendations

Based on the previously mentioned discussions, the researcher puts forward the following:

In this regard, the researcher recommends that Iraqi commercial banks enhance the application of IRRPs systematically and in line with international frameworks, due to the role it



has played in enhancing the quality of financial information by increasing transparency and reliability. Internal control and governance systems, especially for small and medium-sized banks, should be developed to improve accounting data accuracy and quality by reducing the occurrence of errors in estimates. Moreover, managing the levels of financial leverage and minimizing excessive dependence on debt financing is recommended. This will lead to an improvement in the quality of earnings and lowering some operating and financial risks. Finally, enhancing the financial performance and efficient asset management should continue, since this has played a direct role in enhancing the quality of earnings and achieving greater financial sustainability.

The Central Bank of Iraq should issue official directives that encourage or oblige banks to use integrated reporting according to international standards that contribute to the development of financial disclosure in the banking sector. This includes the development of governance and disclosure standards, especially those related to the disclosure of operational risks, credit risks, human capital risks, and intellectual capital risks. Finally, training courses should be conducted for accountants, auditors, and members of audit committees, with a view to improving their knowledge about techniques of integrated reporting and its role in enhancing the quality of financial reports.

Researchers and institutions should therefore encourage future studies to consider the impact of added variables, such as corporate governance, credit risk, and the quality of external audits, in bolstering earnings quality within the Iraqi banking sector. The study period should also cover more years or be compared with other financial sectors to strengthen such findings for deeper insights into the influence of integrated reporting in various economic contexts.

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