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The Impact of Corporate Governance, Ownership Structure, and Cash Flow on the Value of the Companies Listed on the Iraqi Stock Exchange

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Abstract

Stock price garners considerable attention from internal (financial and executive managers) and external (creditors and shareholders) users. Shareholders invest in the company's stock to gain profitable returns. Cash holding level is among the most important determinants of firm value (stock price). Managers might invest the excess cash in non-profitable projects and reduce the firm value. However, studying corporate governance mechanisms and ownership structure can control such managerial behaviors. Therefore, this study investigates the impact of corporate governance, ownership structure, and cash holding on firm value. The sample comprises 35 companies listed on the Iraq Stock Exchange via a systematic sampling method. Multiple regression models and panel data analyzed the data. Findings show that corporate governance and cash holding affect the value of Iraqi companies, but ownership structure does not significantly affect firm value. To the extent of our knowledge, this is the first study investigating the impact of corporate governance, ownership structure, and cash flow on the value of Iraqi companies. Despite earlier studies, this study uses the composite index to evaluate corporate governance.

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1. Introduction

The Iraq Stock Exchange (ISE) was established 17 years ago and has listed over 100 large companies ever since. ISE peaked performance with investors' surge in the first three months of 2018 following the defeat of a terrorist (ISIS) attack. Economic growth increased the number of new companies listed to 10%. This growth is noteworthy because it is contemporaneous with the extreme fluctuations in global markets. However, ISE tackles other challenges, including political instability, represented by a 7% decline in value due to the May elections, disputes, oil prices, and other economic dissatisfactions (England, 2018). Since ISE is dramatically affected by economic and political changes, it is a reliable indicator of economic conditions (Ali et al., 2019). Iraq can be a good place for domestic and foreign investments. Firm value is among the dynamics of the capital market represented in the growth of stock prices. A literature review reveals that various factors affect firm value. This study addressed the impact of corporate governance, ownership structure, and cash on firm value.

Theoretically, a company's liquidity can affect its decisions. Sujoko (2007) found that companies can decrease their potential risk and increase their value by keeping a proper level of liquidity. Cash reserves have increased significantly. Some companies keep excess cash because of information asymmetry or a better investment opportunity in the future. Information asymmetry in companies with excess cash flow reduces investors' attention and stock liquidity. When liquidity is low, companies use external financing to pay short-term debts, which will impose other costs. If the excess cash flow exists in the company, investors will consider more value for each extra rial. However, when the liabilities are due, the excess cash flow will not create more value for the company, and investors aware of this will consider less value for each excess rials (Sun et al., 2012).

Dewi and Abundanti (2019) found that the structure of corporate governance changes the impact of excess cash on firm value. Therefore, firm value has a positive relationship with free cash flow. Hence, investors consider more value for the excess cash flow in companies with better corporate governance. However, investors do not consider more value for such cash in companies with higher information asymmetry (Paminto, 2015).

According to the agency costs of free cash flow, the firm value changes with the dividend per share policy, and the dividend policy is considered a tool for reducing agency costs (Mahenthiran et al., 2020). Scholars believe that companies use dividend shares to signal information regarding growth and stability procedures to external users (Simorangkir, 2019). Managers expect paying dividends will increase shareholders' satisfaction and loyalty (Leary and Michaely, 2011). Paying dividends initiates a positive market response and increases firm value in inefficient markets (Seth and Mahenthiran, 2022).

Although numerous studies (Liu et al., 2015; Bozec, 2005; Gillan, 2006; and Guluma, 2021) have addressed corporate governance in developed and developing countries, Iraqi studies are few and primarily focus on the financial performance of Iraqi companies or disclosure and transparency aspects. Since Iraq has the potential for numerous economic opportunities, it is necessary to build an environment that explains the best procedures and provides sufficient assurance for investment activities in Iraqi companies (Muhammad, 2016). Madhani (2017) found that some of the conditions in their study aligned with international principles of corporate governance in reflecting the economic aspects of Iraq's market and reducing the risk of listed companies on ISE in facilitating their entrance to global markets and creating transparency for shareholders (Kartika and Utami, 2019). Therefore, when shareholders' rights are preserved, the firm value and investor efficiency are expected to be increased.

Corporate governance, as a system of control and management within a company, plays a crucial role in valuing companies. A strong and sound ownership structure can foster trust among shareholders and other market participants, ultimately increasing the company's value. Additionally, a strong and sustainable cash flow can significantly contribute to determining the value of a company in the Iraq Stock Exchange. Companies that can generate appropriate and sustainable cash flows often become valuable enough to attract investors, potentially leading to innovations in cash flow management and financial policies. Since most investors in Iraq's stock exchange try to increase their stock values, investigating the role of corporate governance, ownership structure, and the level of cash holdings on firm value is vital. Information concerning the current and used cash flow is necessary for investors because it enables them to better understand ongoing concerns, financial flexibility, liquidity, and firm value. The excess cash flow poses agency problems because managers might invest a lot of cash in unprofitable projects, which is unfavorable for investors and consequently reduces the firm's value. Therefore, addressing this issue in Iraq's capital market can help enrich the relevant literature.

2. Theoretical Foundation and Literature Review

2.1 Firm value

Firm value can be defined as the set of beliefs that help companies select from instruments and alternative objectives. More technically, it is the weight decision-makers place on alternative objectives. Alternative objectives are accounting profitability, stock returns, customer value, market share, company growth, employee satisfaction, or the firm's social performance criteria, such as firm image, environmental impact, and income tax. These variables' current or future values can balance short-term and long-term objectives. The core concept of firm value lies in shareholders' understanding and view of the company's success, which is typically represented in the company's stock price (Reschiwati et al., 2020). Based on the theory of shareholder value, a company's primary objective is to maximize its shareholders' wealth, and the company's value is determined by its ability to generate cash flow and distribute it to the shareholders (Jenson and Meckling, 1976). The value of a company is influenced by multiple factors, some of which are discussed below:

- The level of liquidity can have a direct impact on the value of a company. Companies with strong and stable cash flows usually have a higher value (Damodaran, 2012).
- The growth of revenue and profits indicates the company's ability to create value for shareholders. Companies with significant growth in revenue and profits generally have a higher value (Brealey et al., 2014).
- Companies with high financial flexibility are better able to respond to environmental changes and economic policy uncertainties. This financial flexibility can contribute to an increase in the company's value (Myers, 1977).
- Strong and long-term relationships with customers can lead to an increase in the value of the company. Companies that serve their customers well and establish positive relationships with them are likely to have a higher value (Reichheld and Sasser, 1990).
- Companies are often influenced by environmental factors such as laws and regulations, market conditions, competition, and technological changes. These factors can significantly impact the company's value (Hill et al., 2017).

2.2 Corporate governance

The Organization for Economic Co-operation and Development (OECD) defines corporate governance as relationships between managers, board members, shareholders, and other stakeholders. Corporate governance imposes a structure where company objectives, the path to achieve them, the monitoring mechanisms, and governing performance are determined (Chin et al., 2019). The emergence of joint stock companies from the 18th century is among the most significant economic changes and probably the most critical factor in industrial development. It has several outcomes, including separation of ownership from management, differences in optimal function, conflict of interest, and agency theory. The conflict of rights and the danger of violating minority shareholders' rights by large shareholders with higher controls have been among the agent's problems in most countries.

2.3 Ownership structure

The ownership structure is the focal point in corporate governance. Determining the type and combination of ownership structure is an important tool in companies' governing and controlling activities. This governance dimension is identifiable in various ownership determinants, including ownership distribution, ownership concentration, and the combination and percentage of individual, minor, and large shareholders. Companies' ownership structure has various patterns of institutional shareholders, managerial ownership, and private and governmental shareholders (Karim et al., 2023). Shleifer and Vishny (1997) found that large shareholders tend to monitor management more closely, which reduces agency costs and increases firm value and performance. According to Fama and Jenson (1983), the alignment between ownership and control eventually reduces conflict of interest and increases firm value. Despite individual shareholders who lack incentives in monitoring management, large and institutional shareholders have higher monitoring incentives that can boost their stock values.

2.4 Cash

The International Accounting Standards Committee (IASC) defines cash and cash equivalents as follows:

Cash: available cash funds and demand deposits (short-term bank deposits)

Cash equivalents are items that are easily converted to cash with the lowest risk of conversion price.

The agency problem is one of the most essential determinants of a corporation's cash holdings. Studies show that cash holdings are higher in corporations where the protection of shareholders' rights is weak. Furthermore, when shareholders' protection is weak, factors (such as investment opportunities and information asymmetry) that lead to higher cash holdings will be insignificant (Dittmar et al., 2003).

Jenson and Meckling (1976) identify two conflicts of interest in a business unit:

a) The conflict of interest between managers and shareholders
b) The conflict of interest between shareholders and debt security holders

Such conflicts eventuate in identifying agency costs that could be used to justify managers' cash-holding behavior.

2.5 Development of hypotheses

2.5.1 Relationship between corporate governance and firm value

Corporate governance encompasses the structures, mechanisms, and relationships that regulate and control managers, shareholders, and other relevant entities in a company's decision-making and management processes. Corporate governance significantly impacts company value as a control and oversight system over decision-making and company performance. Strong and effective corporate governance reduces the need for trust and instils confidence in shareholders to invest in the company. This trust and confidence attract new capital, increase stock value, and generate market demand, leading to improved company performance and operational efficiency (Tiep Le and Nguyen, 2022).

The conflict of interest between managers and shareholders was the central issue in corporate governance until the 1980s. The consensus was that ownership concentration caused agency problems to reduce, which would enhance firm performance. Shahzad et al. (2023) found that corporate governance affects firm value and that earnings quality changes the Relationship between corporate governance and firm value. Assidi (2023) found a direct relationship between corporate governance and discretionary disclosure. Ben Fatma and Chouaibi (2023) concluded that firm value is positively associated with board gender diversification and CEO ownership, but it has a negative relationship with board size and ownership concentration. Chin et al. (2019) found a positive relationship between board size and independence with firm value. El-deeb et al. (2022) found that corporate governance significantly impacts disclosure tone and company value. Tiep Le and Nguyen (2022) demonstrated that corporate governance significantly increases company value. Baihaqqi et al. (2023) found that leverage and firm size impact company value, while profitability and good corporate governance do not considerably affect company value. Wahidahwati and Ardini (2023) found that corporate social responsibility (CSR) directly impacts firm value and that better corporate governance leads to increased firm value. They also demonstrated that CSR cannot mediate the effect of good corporate governance on firm value.

Higher monitoring by corporate governance eventuates increased transparency of financial statements to ensure that financial information is reliable and managers do not act in self-interest, thereby preventing stock price bubbles and future stock price crashes in the capital market (Black et al., 2006). Additionally, corporate governance helps mitigate risks associated with improper decision-making, corruption, and mismanagement. By reducing these risks, the costs associated with uncertainty decrease, and the company's value increases. Corporate governance that enhances decision-making processes, independent auditing, information transparency, and shareholder rights considerably impacts company value and can provide solutions to increase company value.

Based on the foregone literature review, the first hypothesis is conducted as follows.

H1: There is a significant relationship between corporate governance and the value of companies listed on the Iraqi stock exchange.

2.5.2 Relationship between ownership structure and firm value

The corporate ownership structure encompasses the distribution of shares, the type and size of shareholders, the company's methods of control and management, and other related factors. In a balanced and appropriate ownership structure, the distribution of shares takes place fairly and evenly, with no group of shareholders having superiority over others. This leads to increased shareholder confidence and reduced risk associated with excessive concentration of power and control in a specific group. The type and size of shareholders can also play a significant role in firm value. Professional and experienced shareholders with strong management and leadership abilities can facilitate performance improvement and enhance company value (Wu et al., 2022). The presence of large and influential shareholders can have a positive impact on market confidence and attract investors.

There was a common conjecture that all the groups in a joint stock company work for the same goal. Still, Jenson and Meckling's (1976) theory argued that various groups, owners, and managers work for diverse objectives that meet self-interests. In agency relationships, owners maximize their wealth. Therefore, they monitor agents' activities and evaluate their performance. This statement poses the question of whether different ownership structures affect firm performance. Or how would owners' performance affect the firm value if owners were various groups (i.e., government, large shareholders, financial institutions, banks, and other companies), and which group has the highest impact?

Conflict of interest between shareholders raises the impact of ownership structure on firm value. Cuervo (2002) believes that since large shareholders have a substantial percentage of shares, they can adopt their policies and gain private rights. Ownership will be concentrated on some large shareholders when shareholders' rights are not equally preserved.

Kumar (2004) found that managers had the highest impact on firm performance in Indian companies, but external shareholders and holdings significantly have no effect on firm value. Ali et al. (2022) demonstrated that managerial, institutional, and family ownership have a significant and negative relationship with the performance of listed companies in the Pakistan Stock Exchange. Wu et al. (2022) found that environmental, social, and governance performance plays a role in improving firm value. Executive and institutional ownership has a significant and positive impact on firm value. Additionally, these two variables moderate the relationship between environmental, social, governance performance, and firm value.

Karim et al. (2023) found a weak relationship between ownership structure and firm value. Suriawinata and Nurmalita (2022) found that firm size moderates the relationship between ownership structure and firm value, and with increasing firm size, managerial behavior tends to align more with shareholder interests. However, on the other hand, with increasing firm size, institutional investors are inclined to align with managers to enhance firm value at the expense of other shareholders. Rusnaeni et al. (2022) found a positive and significant relationship between financial performance and capital structure with firm value. Their results showed that the moderating role of dividends on the relationship between financial performance and capital structure is not confirmed. Jentsch (2019) found that when institutional shareholders are part of the ownership structure, firm value is increased. Strong and effective corporate governance is crucial for safeguarding the interests of shareholders and other stakeholders, strengthening oversight and control over management, and providing transparency and timely and accurate information. Enhancing the quality of corporate governance can result in performance improvement and an increase in firm value. The second hypothesis is conducted as follows.

H2: There is a significant relationship between ownership structure and firm value.

2.5.3 Relationship between cash flow and firm value

The relationship between cash flow and firm value has received significant attention in the financial domain and holds great importance for investors and strategic decision-makers. Cash flow refers to the amount and timing of cash and investments generated within a company, encompassing revenues, expenses, capital investments, operational activities, and other cash flows related to the company's operations. Cash flow directly affects the return on investments and demonstrates the company's ability to generate profits and liquidity. On the other hand, cash flow can also impact value-related factors such as discount rates, risk, and stability. The relationship between cash flow and firm value is crucial, providing insights into a company's financial performance and sustainability. Understanding and effectively managing cash flow are essential for maximizing the value and success of a business (Jihadi et al., 2021).

When a company has low liquidity, it has to use external financing to pay its short-term debts. Investors consider more value for each extra rial if the company has excess cash flow. Still, when liabilities are due, the excess cash flow will not create more value for the company, and investors will consider lower values for each rial of the excess cash flow (Sari and Ardiansari, 2019).

A company's liquidity shows its ability to cover short-term liabilities. The higher the liquidity, the stronger the company's ability to meet its liabilities. Companies with high liquidities have better futures because investors recognize them as companies with good performance that can increase stock and firm value (Putri and Wiksuana, 2021). The firm value represents an image of the firm's performance that can affect the qualitative evaluation of the company. Several factors, including debt policy, the company's capability in handling financial affairs and financing all liabilities, firm size, stock prices, and earnings, affect the firm value. Companies aim to enhance the welfare of owners by maximizing stock prices. Increasing firm value is a proper objective in guiding financial management decisions. Maximizing firm value is maximizing the earnings or income by considering the money's risk factors and time value (Sari and Sedana, 2020). According to Jenson and Meckling (1976), firm value is the function of how the shares are allocated between internal (managers) and external parties (stakeholders).

The hierarchical financing theory states that companies finance their resources in the following order. First, they use the retained earnings, then debt, and finally, issuing stock. They follow this order to reduce their financing costs. Since managers prefer internal financing to external financing, they tend to hold cash flow to finance their debts from internal resources instead of external resources. This theory predicts a positive relationship between cash holdings and firm value. However, according to free cash flow theory, managers tend to hold cash to increase control over their resources and equip themselves with judgmental power in making investment decisions. Paying shareholders reduces managers' power and increases the chance of being controlled and monitored if they need capital. Therefore, internal financing obviates such monitoring and control (Ameer, 2012). This theory posits a negative relationship between cash holding and firm value.

According to hierarchical theory, the debt ratio is positively associated with firm value. Higher usages of financial leverage pose financial distress, reduce the firm value, and result in bankruptcy. When businesses use higher debt levels, creditors and shareholders need them for efficient risk management. They found that firm value is higher when there is debt ownership. The capital structure represented by debt increases firm value via tax saving from profit, which is reduced after the tax costs. Income tax increases firm value because the interest rate is a cost that reduces tax payments (Djashan, 2019; Dang and Do, 2021; Komarudin and Affandi, 2019). Jihadi et al. (2021) found a positive and significant relationship between stock liquidity, financial leverage, and profitability with firm value. Their results showed that social responsibility moderates the relationship between stock liquidity, financial leverage, and profitability with firm value. Yousefi and Yung (2022) found that financial flexibility increases firm value in the face of economic policy uncertainty. Sulehri et al. (2022) found that cash flow is significantly influenced by the outcomes expected from intangible assets. İbrahim (2023) found that cash flow significantly impacts business performance. Companies with strong and stable cash flows typically have a higher value. A strong cash flow enables the company to make appropriate investments, settle debts, achieve better profitability, and provide significant returns to shareholders. In general, companies with strong and stable cash flows are more attractive to investors and can reduce investment risk. Therefore, paying attention to cash flow and effectively managing it is crucial for creating and increasing firm value. Based on the theoretical foundations and previous discussions, the third hypothesis is stated as follows:

H3: There is a significant relationship between cash flow and firm value

3. Research Methodology

This study is applied research based on descriptive and correlational analysis. Data collection is qualitative and deductive-inductive reasoning. It is ex-post-facto research that collected information based on archival data collection. The statistical population includes all the companies listed on the Iraq stock exchange from 2010 to 2021. Companies with the following conditions comprise the sample of this study.

1. The companies with the fiscal year ending in late December.

2. Companies which have not changed their activity or fiscal year.
3. Companies with available data.

35 Listed companies were selected. Table (1) shows the conditions for selecting the sample.

Table 1. The statistical sample

Description	Number
All the listed companies on the Iraqi Stock Exchange	112
Eliminate companies with fiscal years ending in months other than December.	62
Eliminate Companies with changed fiscal years.	10
Eliminate companies with partial information access during the studied period.	5
Sample	3

The following regression models are used in hypothesis testing.
Model (1)

$$price_{i,t} = \alpha_0 + \beta_1 Gov_{i.t} + \beta_2 ownst_{i.t} + \beta_3 cash_{i.t} + \beta_4 size_{i.t} + \beta_5 lev_{i.t} + \beta_6 mb_{i.t} + \varepsilon_{i,t}$$

Where:
Price it: stock price of the company i in year t
GOV it: corporate governance of company i in year t
OWNstr it: ownership structure of company i in year t
Cash it: cash holdings level of the company i in year t
Size it: the size of the company i in year t
LEV it: financial leverage of company i in year t
MB it: market to book ratio of shareholders' equities of the company i in year t
Error term it: error term for the company i in year t

3.1 The Measurement variables

3.1.1 The Dependent variables

Firm value: firm value is the stock price of the company i in year t, which, based on Ali et al.'s (2019) study, shows the natural log of firm value (number of shares at the end of the year*stock price).

3.1.2 The Independent variables

The study's dependent variables are corporate governance mechanisms, ownership structure, and level of cash holdings.

A) Corporate governance: this study uses Ali et al.'s (2019) research and makes some modifications to apply the following index to evaluate corporate governance in Iraq.

1. Separation of CEO from board members: if the CEO is not among the board members, it equals one; otherwise zero.
2. The ratio of internal board members: this value equals one for companies with a higher percentage of board members to total members and zero for other cases.
3. The ratio of irresponsible board members: this value is one for companies with higher irresponsible board members and zero for other cases.
4. The ratio of governmental members: this value equals one for companies with higher government members and zero for the rest of the members.
5. The female board members ratio is one for companies with higher female members and zero

for the others.

6. The ratio of non-Iraqi board members is one for companies with greater percentages of non-Iraqi members and zero for the others.

7. Audit type: if the auditor is one of the top four Iraqi audit firms, it equals one and otherwise zero (Ali et al., 2019). The top audit firms in Iraq have been identified from the Iraq Stock Exchange website.

After measuring the above seven criteria for each company each year, the general index of corporate governance for every firm each year is calculated by dividing the points of each company by the maximum points (7), which range from zero to one.

B) Ownership structure: this study uses the following criterion to evaluate the ownership structure.

Ownership structure: this variable shows the ratio of total shares belonging to the largest shareholder to total issued shares (Dang and Do, 2021).

C) Cash holding level: this variable shows the cash flow ratio to the book value of all assets at the end of the year.

3.1.3 The Control variables

SIZE: the Natural Log of the firm's total assets.

ROE: Return on equity, the variable that equals the net income by the book value of shareholders' equity in the current year.

Financial leverage ratio: this variable shows the ratio of debts to assets.

Market-to-book (M/B) ratio: market value of the share by the book value per share

4. Data Analysis

4.1 Descriptive statistics

Table (2) shows the descriptive statistics, including central tendency and dispersion measures for research variables.

Table 2. The Descriptive statistics of research variables

Variable	Abbreviation	Mean	Standard deviation	Minimum	Maximum
Stock price	Price	8.651	1.060	6.565	11.759
Corporate governance	Gov	0.379	0.301	0.000	1.000
Ownership structure	Owns	0.733	0.235	0.000	0.985
Firm size	Size	0.899	0.718	0.532	20.307
Cash holding level	Cash	0.066	0.125	0.000	1.219
Financial leverage	LEV	0.560	0.235	0.025	1.824
Market-to-book-value	MTB	2.674	6.224	-31.912	121.509

Table (2) shows that the average corporate governance for the companies listed on Iraq's stock exchange is 0.379. The average cash holding level is 0.066. Furthermore, the average financial leverage equals 0.560, which indicates that the sample companies have an average debt of 56%.

According to the variance inflation factor, the collinearity between explaining variables is favorable, and regression results are sufficient. The significance level of the Chow statistic for all research models is lower than the expected significance level. According to the Breusch–Pagan test, the fixed effects model is used. Hausman test must be performed to decide between random and fixed effect models. Since the significance level for the Hausman test is lower than 0.050, the fixed effect model is used to test research hypotheses. Wooldridge's test indicates that collinearity exists between all the residuals. The modified Wald test is used for heteroscedasticity variance, and the results show that the model has heteroscedasticity. Therefore, proper models are used to test the research hypotheses to solve that problem.

4.2 Hypotheses test results

Table (3) shows the hypotheses test results.

Table 3. The hypotheses test results

Dependent variable: firm value

$$\text{price}_{i.t} = \alpha_0 + b_1\text{Gov}_{i.t} + b_2\text{ownst}_{i.t} + b_3\text{cash}_{i.t} + b_4\text{size}_{i.t} + b_5\text{lev}_{i.t} + b_6\text{mb}_{i.t} + \varepsilon_{i,t}$$

Evaluation method: Prais-Winston regression (to solve auto-collinearity and heteroscedasticity problems)

Variable	Abbreviation	Coefficient	Standard deviation	Z statistic	Significance level
Corporate governance	GOV	0.113	0.032	3.460	0.001
Ownership structure	OWNstr	0.058	0.034	1.680	0.092
Cash holding level	Cash	-0.751	0.277	-2.710	0.007
Firm size	size	-0.452	0.169	-2.670	0.008
Financial leverage	lev	-0.006	0.006	-0.940	0.346
Book-to-market- value	BMV	-0.522	0.334	-1.560	0.118
Intercept	β0	0.226	0.368	0.610	0.539
The adjusted coefficient of determination		0.541		Wald statistic: 13.330	
			Significance level	0.017	

According to Table (2), the significance level for corporate governance is 0.001, which is lower than the significance level of 0.050 and shows that corporate governance significantly impacts firm value and banks. By rejecting the null hypothesis, the H1 is confirmed, which indicates that corporate governance affects firm value and banks. Table (2) shows that the significance level for ownership structure is 0.092, greater than the significance level of 0.050. This result indicates that ownership structure does not significantly impact firm value and banks. The significance level for cash holdings equals 0.007 and is lower than the significance level of 0.050, indicating that cash holding significantly impacts firm value and banks. Therefore, rejecting the null hypothesis, H3 is confirmed.

The coefficient of determination is 0.541, which indicates that dependent and control variables can determine and predict 54.1% of the dependent variables. Furthermore, Wald tests significance level equals 0.000 and shows the regression model has good fitness.

5. Discussion and Results

The concept of value has a long history, starting with businesses and value accumulation. Valuation of companies is among managers' vital plans. It represents how strategy and financial structure affect firm value. Firm value is essential for shareholders, investors, managers, creditors, and other stakeholders in evaluating the firm's future and its impact on risk assessment, investment returns, and stock prices. Investors use accounting information concerning firm value to make sound decisions. Valuation is among the vital investment factors because investors turn their most liquid assets into security. Managing financial resources and cash inflows is one of the most essential factors affecting firm value. Cash flows are vital resources in every business unit. Balancing the current cash flows and cash requirements are among the determining factors of the business unit's health and going concern. Cash flows are significant in various financial decisions, patterns of securities valuation, and evaluation of investment decisions.

In imperfect markets, the internal and external resources cannot be easily interchanged because external financing needs extra costs that are increased due to information asymmetry. Accordingly, Ozkan and Ozkan (2004) believe managers try to reduce financing costs via cash holdings and hold sufficient cash to remain independent of external financing. On the other hand, since holding excess and idle cash has lower returns and negative economic consequences, this study addressed the impact of corporate governance, ownership structure, and cash flow on the value of the companies listed on the Iraq stock exchange.

Corporate governance refers to a set of structures, principles, and processes used to manage and control companies and safeguard the rights and interests of shareholders, managers, and other stakeholders. These principles and processes ensure that company managers act in the company's and its shareholders' long-term interests. Various factors, including the board structure, information transparency, effective monitoring, conflicts of interest, and board independence, among others, influence corporate governance. Improving each of these factors can contribute to enhancing corporate governance. The research findings demonstrate that improving the quality and efficiency of corporate governance leads to increased company value. This is because stronger and more optimal corporate governance enables company managers to make better decisions and better serve the interests of shareholders and other stakeholders. This can increase investor confidence and demand for company shares, increasing company value.

When there is an agency relationship, a conflict of interest happens between managers, shareholders, and other stakeholders, which raises the possibility of managers performing in a self-interest that is not necessarily aligned with shareholders' and stakeholders' interests (Lastiati et al., 2020). Solving the agency problem provides slight assurance that managers try to maximize shareholders' wealth. This solution requires procedures such as designing and performing the proper corporate governance in companies and economic units. Results confirm the findings of Assidi (2023) in indicating that there is a direct relationship between corporate governance and discretionary disclosure.

The research findings indicate that ownership structure does not significantly impact Iraqi companies' value. This means that factors related to ownership structure, such as share distribution, types and sizes of shareholders, and control and management of the company, ultimately have limited influence on firm value. Theoretically, a company's ownership structure can directly impact its performance and value. Generally, companies have three common types of ownership structures: family, state, and financial/international. Each ownership structure can have its specific impact on performance and company value, but the results of this study are not aligned with these factors. Results showed that ownership structure does not affect the value of the companies listed on the Iraq stock exchange. Ownership percentages can align managers' and shareholders' interests. Since individual shareholders have small ownership, they lack incentives to monitor management. Still, large and institutional shareholders' greater ownership motivates them to monitor management closely, increasing their shares' value. The research results contradict Jentsch's (2019) study, which found that institutional shareholders increase the company's value. This contradiction could be attributed to various factors, such as adaptable regulations and laws in Iraq, issues with the banking and financial system, and the economic and political conditions of the country. Furthermore, the research results are inconsistent with the Rusnaeni et al. (2022) study, which found that financial performance and capital structure significantly and positively affect firm value.

The research results also indicate that cash flow has a negative impact on the value of Iraqi companies, meaning that an increase in cash flow may lead to a decrease in their market value. Cash flow refers to the amount of money and liquidity flowing into and out of a company and can be derived from various sources such as product sales, investments, and loans. According to theoretical concepts of agency theory, when there are higher flows of free cash, managers have incentives to behave opportunistically because, during this time, managers become reluctant to internal controls concerning the company’s financial resources and invest that cash in self-increasing investments. Since sound and profitable investment opportunities are scarce, managers are likely to invest in risky and less profitable investments that diminish the firm value. The research findings are consistent with the results of Yusuf and Sareef (2021), who found that cash holdings have a negative impact on firm value.

5.1. Practical implications

Some research proposals based on hypotheses test results are as follows.

Based on the positive impact of corporate governance on the value of Iraqi companies, the regulators of Iraqi capital markets are suggested to design comprehensive procedures to increase firm value and shareholders’ wealth and enhance the corporate governance mechanisms to exercise more monitoring on management.

Companies can change their financial policies in a way that enhances firm value. This includes improving investment structure, optimizing capital management, reducing costs, and increasing profitability.

Based on the research findings, the board of directors' independence and effective management performance monitoring can improve corporate governance and increase firm value.

To increase the value of Iraqi companies, it is necessary to analyze various challenges that may hinder the impact of ownership structure on firm value and take appropriate practical measures to improve the economic and political conditions of the country.

Based on the negative effects of excess cash on the continuation of liquidity and firm value, Iraqi investors are advised to consider free cash flow as the determinant of firm value when making decisions.

Based on the research findings, conducting a more in-depth analysis of ownership structure and factors related to firm value in the Iraqi stock market is suggested. Certain aspects of ownership structure not considered in this study may have significant effects. A more detailed examination of share distribution, types of shareholders, and the relationship between the company and shareholders can provide further insights into the subject.

Based on the negative impact of excess cash flow on firm value, the monitoring institutions are suggested to exercise higher monitoring over management to reduce opportunistic managerial behaviors and the level of excess cash flow.

Auditors should pay close attention to corporate governance as the determinant in increasing opportunistic managerial behaviors.

To reduce dependency on a single cash source and mitigate the negative impact of cash flow on firm value, it is recommended that companies create diversification in their funding sources. For example, utilizing bank credit, attracting investors, issuing bonds, and utilizing other cash financing sources can help companies withstand fluctuations in cash flow.

Future studies can investigate the impact of excess cash on firm value and compare their results with this study. Future studies can address the effect of corporate governance on agency costs and company risk in various industries.

5.2 Limitations of the study

Some cultural factors and local laws may impact the relationships between corporate governance, ownership structure, and cash flow. These factors can impose limitations on interpreting and generalizing the research findings to other environments and markets.

The influence of corporate governance, ownership structure, and cash flow on firm value is complex and may be subject to the influence of other factors. In this study, these factors were considered to the extent possible, but other factors may include economic conditions, laws and regulations, government policies, and market factors. Therefore, in order to determine the causal relationship between variables, these factors need to be considered and controlled for.

Appendix A

The appendix is an optional section that can contain details and data supplemental to the main text—for example, explanations of experimental details that would disrupt the flow of the main text but nonetheless remain crucial to understanding and reproducing the research shown; figures of replicates for experiments of which representative data is shown in the main text can be added here if brief, or as Supplementary data. Mathematical proofs of results that are not central to the paper can be added as an appendix.

Appendix B

All appendix sections must be cited in the main text. The appendices, Figures, Tables, etc., should be labeled starting with "A"—e.g., Figure A1, Figure A2, etc.

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