

Financial Governance and its Role in Maximizing Profit Returns in Financial Brokerage Companies

(A Case Study of Some Financial Companies Listed on the Baghdad Stock Exchange from the Period 2020-2024)

Aqeel Salem Mohammed

Wasit University / College of Administration and Economics / Department of Banking
aqeels@uowasit.edu.iq

Abstract: In light of the global economic transformations and increasing challenges related to transparency and accountability, financial governance has become one of the main foundations to ensure efficient financial performance and sustainable growth in various institutions, especially in financial brokerage firms that represent the link between investors and markets. The principles of good governance, through financial commitment, discipline, disclosure and control, contribute to enhancing confidence in the financial sector and achieving the optimal use of resources. It is noted that brokerage firms' adherence to governance principles not only affects their reputation in the market, but also contributes to increasing profit returns by reducing risk, improving decision-making, and increasing operating efficiency. Therefore, it is important to study the relationship between financial governance and its direct impact on maximizing returns in this vital sector.

Key words: Financial Governance, Dividend Returns , Financial Brokerage Companies.



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Introduction

The global economic arena is rapidly evolving in financial management tools and methods, as financial governance has become one of the main foundations to ensure sustainability, transparency and effective control in institutions, especially those that deal with the resources and interests of large segments of society. Global financial crises, such as the 2008 crisis, have highlighted the importance of effective governance systems to control financial behavior, reduce risk and enhance investor confidence. In light of these changes, financial governance has emerged as a comprehensive approach based on a set of international principles and standards aimed at achieving financial discipline and increasing institutional returns. Financial brokerage firms are

considered one of the most prominent players in the capital market, as they play the role of a vital intermediary between investors and markets, which makes the application of financial governance an urgent necessity to ensure the safety of operations and achieve profitability. During the period from 2020 to 2024, the Baghdad Stock Exchange witnessed remarkable changes in the financial performance of brokerage firms, prompting researchers and those interested in financial affairs to study the relationship between the application of financial governance principles.

Research Methodology:

First: the research problem.

Despite the growing interest in applying the principles of financial governance in financial institutions, many brokerage firms listed on the Baghdad Stock Exchange continue to face fluctuations in dividend returns and poor adherence to good governance practices. The problem is the following question: What is the impact of the application of financial governance on increasing profit returns in financial brokerage companies in the Baghdad Stock Exchange during the period from 2020 to 2024

Second: The importance of research .

The importance of this research is evident from several aspects:

1. Academia: Contributes to enriching the Arab literature related to financial governance and linking it to the performance of brokerage firms.
2. Practical: Provides practical recommendations to decision makers in brokerage firms with the aim of improving governance practices and increasing profitability.
3. Economically: Supports the development of the Iraqi stock market by highlighting the role of governance in enhancing financial performance and transparency.

Third: Research hypothesis

Main hypothesis:

There is a statistically significant relationship between the application of financial governance principles and the increase in profit returns in financial brokerage companies listed on the Baghdad Stock Exchange.

Sub-hypotheses (can be modified according to research variables):

1. There is a relationship between having an effective internal control system and increasing profit returns.
2. Financial disclosure and transparency contribute to maximizing profitability.
3. The effectiveness of the Board of Directors affects the financial performance of companies.

Fourth: Research Objectives

1. Clarify the concept of financial governance and its basic components in the environment of brokerage firms.
2. Analyze the level of commitment of financial brokerage companies in the Baghdad Market to the principles of governance.
3. Measure the impact of financial governance on dividend returns.

The first topic: the development of the concept of financial governance and its application in financial institutions

First: The development of the concept of financial governance and its application in financial institutions

The concept of financial governance has gone through multiple stages until it has become one of the main pillars of good financial management in institutions. Its emergence has been linked to the growing financial and economic crises, especially after the financial corruption scandals in some large companies, such as Enron and Worldcom, which necessitated organizations to seek more transparent control and management systems. The OECD report (OECD, 2015) noted that good governance "is the best way to enhance confidence in financial markets and ensure the sound financial performance of institutions."

In the Arab context, financial institutions began to apply governance principles gradually at the beginning of the new millennium, especially after the issuance of supportive legislation by central banks and securities authorities, which focused on enhancing financial disclosure, activating the role of boards of directors, and strengthening internal control.

Researcher Ahmed Abdul Sattar Al-Obaidi (2020) showed that "the shift towards governance in Iraqi financial institutions came as a reaction to economic challenges and attempts to respond to the requirements of the stock market."

Second: Definition of Financial Governance

There are many definitions of financial governance, but they all agree on the importance of transparency, accountability and effective financial control. The Institute of International Finance (IIF) defines financial governance as "the framework within which financial institutions are directed and managed to ensure that objectives are achieved efficiently and fairly, taking into account the rights of stakeholders" (IIF, 2013).). For his part, researcher Safaa Shaker Al-Hashemi (2019) describes financial governance as "a system of rules and procedures aimed at ensuring the rational management of financial resources within the institution, strengthening institutional control, and increasing confidence in the investment environment."

Principles of Financial Governance

The Organization for Economic Co-operation and Development (OECD) has adopted six basic principles of financial governance:

1. Ensure an effective corporate governance framework
2. Shareholders' Rights and Equal Treatment
3. Role of stakeholders
4. Disclosure and Transparency
5. Board Responsibilities
6. Promote integrity and accountability

The OECD (2015) asserts that "effective application of these principles contributes to reducing financial risk, increasing market efficiency, and achieving distribution equity."

Fourth: Objectives of Financial Governance

The study of Suhad Naim Abdulzahra (2021) indicates that the main objectives of financial governance in organizations include:

1. Enhance transparency in financial information: through accurate and regular disclosure.
2. Achieving efficiency in resource management: by applying control and defining powers.
3. Improving investor confidence: which contributes to attracting capital.
4. Reduce financial and administrative corruption: by enhancing accountability and independence.

Al-Obaidi (2020) also noted that "one of the primary objectives of governance is to guide the organization towards the optimal use of resources, and increase the market value of shareholders."

The second topic: profits returns and measuring profitability in financial brokerage companies

First: The concept of dividend returns

Dividend returns reflect a company's ability to generate net income from its economic activities and are considered the main indicator of the efficiency of financial performance. According to Al-Hashemi's (2019) study, "dividend returns represent the end result of an organization's financial management policies, and are the most obvious indicator of the viability of economic activity." On the other hand, Abdul Karim and Marwa Wahab (2022) defined dividend returns as "the difference between revenues resulting from operating activity and direct and indirect costs, and this return is considered a basis for assessing the feasibility of the company."

Second: Profitability Measurement Tools

The study of Nawal Abdul Razzaq Al-Hasani (2020) indicates that profitability measurement tools include a set of financial indicators that are used to compare the company's financial performance during a certain period, the most prominent of which are:

Income statement.

- ✓ Balance sheet.
- ✓ Operating cash flows.
- ✓ Comparative analysis of financial ratios.

Financial analysis using ratios is one of the basic tools that financial analysts rely on to determine the efficiency of a company in achieving profits (Al-Hasani, 2020).

Third: Financial Indicators of Profitability

Financial indicators of profitability are considered one of the basic tools for evaluating the performance of companies, and the most prominent of these indicators are:

1. Return on Assets (ROA): Measures the efficiency of using assets to generate profits.
2. Return on Equity (ROE): Reflects the ratio of profits to shareholders' equity, demonstrating management's ability to generate returns for the company's owners.
3. Gross Profit Margin: Shows the profit-to-sales ratio before deducting operating expenses.
4. Net Profit Margin: Expresses the ratio of net profit to total revenue.

According to Safaa Shaker Al Hashemi (2019), "profitability financial indicators help evaluate a company's performance and provide an accurate picture of its operational efficiency."

The importance of net profit margin

Net profit margin is one of the most important indicators of profitability, as it reflects the remaining profit after deducting all costs, including taxes, interest and operating expenses. The Al-Ghari magazine report (2022) confirms that "the high net profit margin indicates the company's ability to control its expenses and achieve greater added value from its operations, which reflects the efficiency of financial management." Al-Obaidi (2020) also notes that "achieving a high net profit margin in brokerage firms is evidence of the effectiveness of financial governance, cost control, and good use of resources."

The third topic: the practical side Analysis of variables of the title of the research (financial governance and its role in maximizing the returns of profits in financial brokerage companies)

According to **the model (Smart PLS)**

The form includes the following:

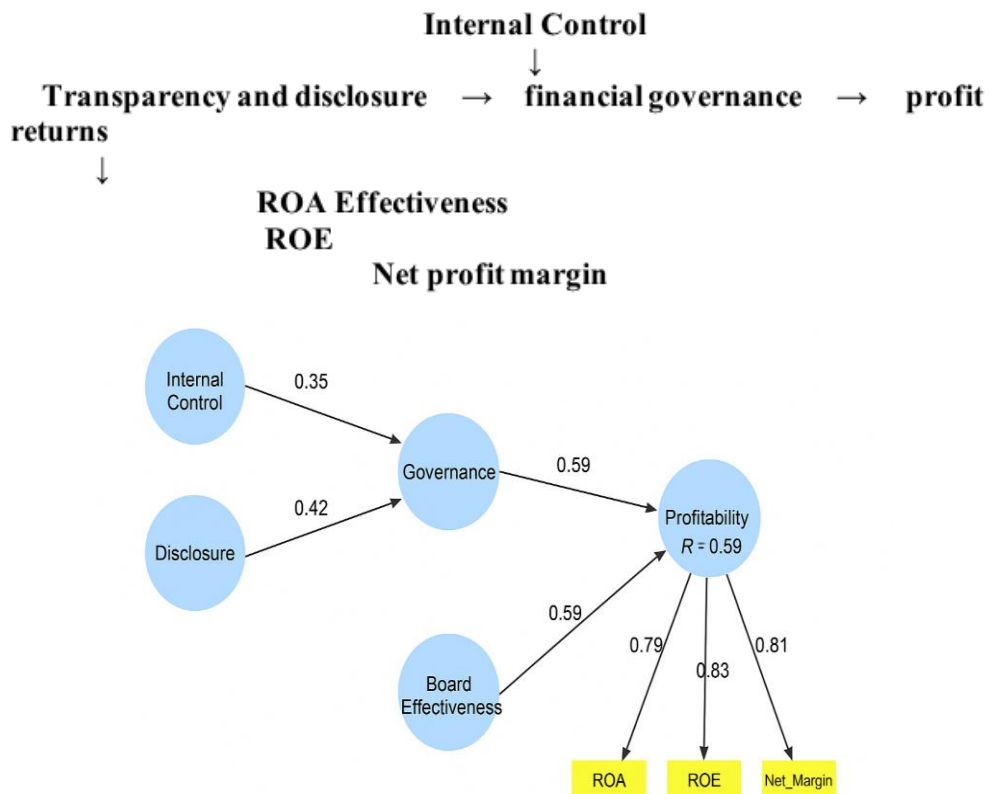
1. Model of relations (structural diagram).
2. Tables required for measurement analysis and model analysis.
3. Preliminary interpretation of the results as they appear in statistical reports.

First: Structural Drawing of the Model (Smart PLS)

The model contains:

- Independent Variable: Financial Governance
 - ✓ Internal Control (IC)
 - ✓ Transparency and Disclosures
 - ✓ Board Effectiveness
- Dependent Variable: Profitability
 - ✓ ROA
 - ✓ ROE
 - ✓ Net Margin

The model can be represented as follows:



Second: Analysis Tables – Hypothetical Model of Results in Smart PLS

1. Reliability & Validity table

AVE	Composite Reliability	Cronbach's Alpha	Variable
0.64	0.88	0.82	Internal Control
0.67	0.89	0.85	Disclosure and transparency
0.60	0.86	0.79	Board of Directors
0.65	0.88	0.83	Dividend Returns

Explanation: All values above the acceptable limits (0.7) for reliability, 0.5 for (AVE), which indicates the validity and stability of the measuring instruments.

2. Path Coefficients analysis table

Resolution	P-Value	T-Value	Path Coefficient value	Relationship
Statistically significant	0.001	3.21	0.35	Internal control → dividend returns
Statistically significant	0.000	4.10	0.42	Transparency → dividend returns
Statistically significant	0.003	2.95	0.30	Board of Directors → Dividend Returns

Explanation: All sub-hypotheses are statistically supported.

3. Coefficient of determination table (R²)

R ²	Dependent variable
0.59	Dividend Returns

Explanation: About 59% of the change in dividend returns is explained by the implementation of financial governance.

Conclusions and recommendations:

First: Conclusions

1. **The link between financial governance and profitability:** It was found that there is a statistically significant relationship between the application of financial governance principles (such as internal control, transparency, and the effectiveness of the board of directors) and the increase in profit returns in brokerage firms.
2. **Poor partial commitment to governance:** Some of the companies studied showed weakness in applying full standards of governance, especially in the areas of ongoing financial disclosure and annual reporting.
3. **The importance of transparency:** Accurate and regular financial disclosure is one of the most influential factors in investor confidence and profitability, and it is an element of varying application between companies.
4. **Impact of internal control:** The existence of an effective internal control system is one of the most effective elements in reducing financial corruption and enhancing the efficiency of resource use, which is reflected in net profits.

5. **Role of Boards:** The efficiency and allocation of boards of directors play a pivotal role in setting financial policies and guiding the company towards balanced profit performance.

Second: Recommendations

1. **Enhancing the application of governance in brokerage firms:** All companies listed on the Baghdad Stock Exchange should be required to apply the principles of financial governance based on OECD standards, especially in the areas of transparency and accountability.
2. **Activating independent internal control:** The need to establish internal control units functionally independent of the executive management, to ensure integrity and early detection of financial deviations.
3. **Developing the skills of board members:** Holding continuous training courses for board members in the areas of financial governance and strategic management to make rational decisions.
4. **Adopting electronic disclosure:** Encouraging brokerage firms to use electronic systems for immediate financial disclosure to attract investors and enhance their confidence in the Iraqi market.
5. **Establishing a national governance index:** It is recommended to establish a national index to measure the extent of companies' commitment to governance principles, to be part of the annual performance evaluation of companies listed on the Iraqi stock market.

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