

The necessity of issuing a corporate governance code for the Kurdistan Region

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ABSTRACT

This study proposes to answer a very critical question “Why does the Kurdistan region-Iraq need to pass corporate governance codes for different types of companies and ownership structure” by analyzing theoretically the most important factors leads to issue a corporate governance code for the Kurdistan region.

There no laws or regulations for corporate governance in Iraq until now, in spite the issuance of many ministerial orders such as the order from the ministry of industry and minerals in November of 2006, establishing four committees to follow the development of the corporate governance (CG) codes of ethics/conduct and procedures in Iraq, in addition to recommendations from few past scientific research such as ((Al-Ani & Al-Azzawi, 2007: Abdulhakim & Dalloul, 2009: Al-Obeidi, 2011: Karbala center for studies and economic research, 2012: Khudair : 2012), and many other factors, motivate the researcher to propose a corporate governance code in Kurdistan in isolation from Iraq's. Therefore this study focuses on the most influential factors that make the need for Kurdistan corporate governance code (KCGC) inevitable case and must be formed and written. The low level of investor's protection was one of the most influential variables affecting delay establishing corporate governance code.

These reasons divided to nine main categories include (legal aspects, investor's protection, transparency and disclosure, numerous potential opportunities for investment and trade, vast oil reserve and potential economic hyper growth, safety and security, the socio-cultural aspects, economic freedom and doing business, and lastly corruption).

Keyword: Corporate Governance Code, Kurdistan Region Economy, KRG.

INTRODUCTION

The financial crises of some companies around the world like WorldCom, Enron and Arthur Andersen heated up the discussion about the adequate governance of companies and the investors' confidence shakes up by these famous scandals as a result these companies forced to file for bankruptcy (Kariyawasam, 2011). The roots of corporate governance (CG) go back to Berle & Means, who are among the first to address the issue of separation of ownership from management in 1932. Abu-Ata (2003) stated that the CG mechanisms can act as a bridge to fill the gap that can occur between the managers and the owners of the company which can result of the negative practices that could be harmful to the company. But in the modern society, the first CG codes were established in the USA in the 1970s (Ray, 2012).

The earliest definition indicated was by OECD (The Organization for Economic Co-operation and Development) when defined CG as a set of relationships between the company's management and board of directors and shareholders and other stakeholders, and provide a framework through which is placed the organization's objectives and tools, which are carried out these goals and determine the level of performance required (OECD, 2004). Shleifer and Vishny (1997) defined CG as ways in which the owners can processors funds in companies which guarantee their rights, with the return they get from investing their money there. While, (Fernando, 2009, p. 31) state that CG "*Ensures transparency, full disclosures and accountability of companies to all its stakeholders*".

Klapper and love (2004) results suggest that even prior to legal reform, companies can still decrease their cost of capital through setting up credible investor protection regulations. Klapper and love (2004) also find that companies in countries with poor investor protection can use regulations in their charters to make their CG better, which could performs better.

Good CG is an essential standard for establishing the striking investment environment which is needed by competitive companies to gain strong position in efficient financial markets (Fidanoski, Mateska & Simeonovski, 2013). Establishing fine CG mechanisms could decrease agency costs more in countries featured with poor investor protection due to the fact that the biggest shareholders have more remuneration to expropriate from other investors in countries with poor country-level governance (Doidge, Karolyi, & Stulz, 2004). Additionally, Tandelilin, Kaaro, Mahadwartha and Supriyatna (2007) focus on banks governance by imposing that good CG mechanism in banks can be explained only with higher banks performance.

Due to the importance of the corporate governance subject around the world, the researcher surf quickly over the terms "Corporate governance" together in the internet until September 10th 2014, the results reached about 17,5 Million hits in the Google search engine, while it reached about 1.43 million in the Google book library, but in Amazon.com site approximately 16 thousands book appeared, in mean time more than 513 thousands hit appeared as a result of academic research and scientific studies in the best search engine for research and studies evaluated scientifically (Scholar.google.com), and about 1,4 million videos has been published about everything related to CG subject.

KURDISTAN ECONOMY PROFILE

The Kurdistan region name has been increased in the international press after Iraq's war in 2003, especially in the last four years, and more broadly in the economic and financial press due to increase the degree of economic openness with the world, starting with the issuance of investment law in 2006, which regulates and facilitates the investments in general

and foreign investment, in particular in order to achieve its goals in medium period of time of economic development in the region, in addition initiating the oil and gas law in 2007.

Kurdistan region is established in north Iraq after the autonomy agreement between the Kurdish opposition and the Iraqi government in early 1970s. The territory of Kurdistan remains stable partially, but after Gulf war in 1991, the Kurdistan regional government (KRG) established and acquired a complete autonomy from Iraqi central government in Baghdad. KRG geographically consists of its capital (Erbil governorate), Duhok governorate and Sulaimaniyah governorate. After liberation war of Iraq in 2003, turbulence and chaos occurred in many Iraqi governorates' and cities except the Kurdistan region territory.

The first free and fair elections in Iraq's history has done on 19 May 1992 in Kurdistan region, its parliament starts working under law no. 1 that issued in 1992 and consists of the 111 parliament seat, headed by the president of the council. The minimum age of candidates for parliament between 30 year old and 25 year old, increase the minimum legal percentage for women in Parliament from 25% to 30%, and the quota increased in the previous election of minorities to 5 seats for each of the Christians and Turkmen through some amendments in February of 2009 by electoral law in the Kurdistan Region.

According to the Kurdistan Region 2013 facts and figures, in May 19, 1992 the first parliamentary and presidential elections held in Kurdistan, and latest elections held in 2013 with 74% turnout by Kurdistan constitution is held every four years, and the Kurdistan region parliament consist of 111 seats and have 11 committees oversee legislative issues within their purview with official languages Kurdish and Arabic and the main Religions are Islam, Christian and Yazidi.

The Kurdistan regional government (KRG) is a coalition of several political parties that reflect the religious and ethnic diversity of Kurdistan's mosaic. The cabinet has 19 ministries within parliamentary democracy system still within Iraqi status as federal region lead by Prime Minister Nechirvan Barzani while the Kurdistan region's president is still President Masoud Barzani. KRG have a widespread political and economic linkage with more than 27 countries have representations in the Kurdistan region, in the other hand, KRG has more than 14 representative offices in 14 countries around the world. Its people consist of a big mosaic of ethnic groups (Kurds, Assyrians, Chaldeans, Turkmen, Armenians & Arabs) combining a population for more than 5.4 Million with net population growth rate about 3%. Kurdistan become recently the key frontier market in the Middle East Kurdistan has distinguished itself via its dedication to political stability, economic development, national cohesion and democratic governance. By 2020, KRG envision a thriving private sector filled with new and growing small and medium-sized enterprises (SMEs) with logo "A government that is effective, transparent, trusted, and honest".

The Kurdistan regional economic and financial sector was regarded as the key factor to increase its image among the Middle East countries and regions. The gross domestic product (GDP) in 2011 was more than 12 billion U.S. Dollars with annual GDP growth rate around 8% with potential growth rate to exceed 10% in the next five years, and the GDP per Capita in 2011 was around 4450 U.S dollars with an increase more than 1400% since 2003, GDP per capita rates for the Kurdistan region are higher than those in the rest of Iraq (3500 U.S dollars). Many foreign banks entered the region recently, 3 state owned banks now working actively, 19 local private banks, 11 foreign private banks and 6 local and 1 foreign Islamic banks now days operating in the region. But the inflation rate increased in 2012 to exceed 5.5%, with unemployment rate about 6% in 2012. The labor force is more than 1.1 Million, about 50% of them under the age of 21 years old. Additionally, the major trade and foreign direct investment (FDI) are (USA. UK. EU Zone, Turkey, China, Iran, Jordan, Lebanon, and Egypt)

KRG's oil production is predicted to reach 1 million barrel per day (BPD) by the end of 2015 through initiating an ambitious program to increase production capacity to 2 million bpd by the end of 2019. Currently, 39 companies operating in oil production fields from 19 different countries. In addition, 45 billion barrels proven as oil reserves and 100-200 trillion Quebec feet (TCF) natural gas reserves, currently 57 discovered Oil & case fields has been discovered.

The level of education in Kurdistan regional has seen development especially in the last few years by minimizing the illiteracy rate year by year to achieve 2015's goal (7%). The higher education also improved through increase in the number of universities from only two in early 1990s to become 13 public universities with 11 private universities, and the enrolled students to exceed 115,000 students in 2013. There was 2641 primary and secondary schools in 2012 with 1.6 million students in 2012, the targeted goals for investing the education sector in the period (2013-2020) is around 4 billion U.S dollars. Other sectors like construction also expected to grow, the total investment capital is expected to flow in construction sector during the period 2012-2016 is around 14 billion U.S dollars. And the mobile penetration rate in Kurdistan is more than 90%, with internet access around 10%, other sectors such as agriculture and health care also developed in the last few years and expected to grow rapidly in the coming years due to the strategic programs established by various ministries.

As a new established region in the new federal Iraq, there is a lot to be done in Kurdistan region in order to develop its economy, thus by proposing a Kurdistan corporate governance code (KCGC) it will help to increase the investor confidence to invest in the wide range of opportunities in all sector, and it will help to establish an institutional region that comply the laws and regulations, and it will help to increase the awareness of the importance of disclosure and transparency. Therefore, this study attempts to present the most important reasons why Kurdistan region must have its own codes of governance in isolation with Iraqi federal laws.

PROBLEM STATEMENT

According to Najim (2013) Iraqi law and regulations did not states clearly anything about CG whether for whole Iraq or even specifically for Kurdistan region especially the investment law, law of joint stock companies, and the capital market law as well as the accounting and auditing standards. While, Obeidi (2011) evidence that there is low level of some CG implementations due to the lack of issuing or even establishing CG codes until now, as well as the lack of relevant local laws that determine few CG mechanisms. According to Rafiee and Sarabdeen (2012) there are limited evidence so far on the CG and related issues in emerging markets and focuses on the link the cultural influence in the adoption of CG in developing countries.

According to Bloomberg (2004) the obstacles to establishing good CG codes of conduct in Asia are high due to the majority of Asian companies are controlled by a single shareholder group (usually a family). Hopewell (2010) study illustrates that Middle East ownership structures favor family-owned and majority shareholder dominated companies. Therefore CG influences all type of companies regardless of ownership structure, but in the same time the family-owned companies require special consideration.

Few past researches (such as Al-Ani & Al-Azzawi, 2007: Center of Karbala for Studies and Economic Research, 2012: Al-Obeidi, 2011, Hakim & Dalloul, 2009: & Khudair, 2012) devoted to highlight the importance of CG in Iraq, but none of them focused or even mentioned significant of separate CG code for Kurdistan region. Due to that along with many other factors, most importantly as this study focus on the reasons leading to the urgent need

to plan strategically and investigate about how to benefit from the existing related laws, then establish Kurdistan corporate governance code which will have a positive role on Kurdistan's economy and act a key role in attracting foreign investment to Kurdistan region, as well as may have positive impact on the various economic sectors, especially SMEs and in maximize the corporations performance, in addition could contribute to reducing fraud and conflicts of interest between the engaged parties in the corporations in Kurdistan region.

Yaaqub and Saad (2013) study recommend to develop the accounting education programs in universities and specialized institutes, in addition to change and modify the curriculum and re-formulate in accordance with the requirements of the domestic and international market and changes it to keep pace with the current global business environment in the twenty first-century. The legislation that relates to the exercise of the profession of monitoring and audit in Iraq intact without any fundamental changes in order to suit the economic situation of Iraq (free market economy) after the change of the socialist system. For instance, the exercise of the profession of monitoring and audit legislation in Iraq regulation No. 3 in 1999 remained intact, also the rules of professional conduct issued by the Association of accountants and auditors in Iraq which issued in 1984 unchanged .

This research attempt to answer the question arises, "Why does the Kurdistan region-Iraq need to pass corporate governance codes of ethics for different type of companies and ownership structure"? By analyzing theoretically the most influential variables impose to urgent need for issuing the first codes of corporate governance in Kurdistan region for different type of companies (Listed, unlisted, family business and banks).

LEGAL ASPECTS

Becht, Franks, Mayer, and Rossi (2008) study indicate that legal rules in UK give shareholders much more power than U.S. shareholders have. Gompers, Ishi, and Metrick (2001) research report that well establish company-level and country-level shareholder rights and judicial efficiency Influence companies' value. Mohanty (2003) study also evidenced that the companies with well sound CG measures as easily compatible to borrow money in compared to those with poor CG measures. According to Fernando (2009), one of the key elements in initiating well sound CG code is compliance, due to fact that CG ensures the long run survival of a company and thereby continuously benefits its stakeholders in long term. After the corporate scandals clearly show establishing CG mechanism is paramount (Megginson & Smart, 2008).

Thus, corporate governance is in part a product of legal systems put in place and the legal infrastructure accompanying them. Ofo (2011) state the attention to onus of the exchange and securities commission in establishing well sound CG practices is rapidly increasing. Nenova (2003) study report the countries with poor rule of law, the agency problem become more severe. According to Leng (2009) company level CG mechanisms matter more in countries with weak legal infrastructure and environments, companies can partially and easily compensate for ineffective law via establishing good CG and providing credible investor protection.

Setting up of the quality CG ensures considerable limitation of the agency problem and is intended to maximize shareholders' as well as other interested parties' wealth. Additionally, high quality of CG is a guarantee of the long-term trust between shareholders and company's management (Bistrova & Lace, 2012). According to (Mallin, 2007) one of the key role of non-executive directors for the board is to control and balance the executive directors power, making sure that no one individual has too much influence over board decisions.

The accounting rules and principles in Iraq remained fourteen years intact, especially rule No. 6 disclosure of information relating to the financial statements and accounting policies issued by the accounting standards board and the supervisory Iraqi in spite of good recommendations by few scientific studies to modify these rules such study (Najim , 2008). Yaaqub and Al-Zahabi (2014) report that there should be reconsideration to formulate the accounting rules and few other related laws and regulations such as the banking act No. 42 in 2004, and the companies law No. 21 in 1997, the temporary law of financial markets No. 74 in 2004, unified accounting system and its instructions, and the current investment law as established in 2007.

There is no harmonization in all Iraqi fourteen accounting rules with the international accounting standards, for example, Iraqi accounting rule No. 13 did not mention "all disclosures in income tax" required in accordance with international accounting standard 12 (IAS), also did not include a method how to deal with differences in temporary deferred taxes.

According to Dube (2011) public institutional framework can be strengthened by CG which in turn will create an influence on internal organizational setup and legal system because assiduity will make the company more respectable in the society. The domestic/foreign shareholders interests and top managers' avails act as incentives for improving CG mechanisms and codes (Dolgopiatova, 2009). According to Crittenden and Crittenden (2012) political/legal unease is regarded as one of the key attributes of emerging countries has led to significant challenge in respect to CG. Legal compliance is a substantial measurement for well sound CG practices and the acquiescence of legislations ensures that outer governance reinforces the internal CG structure (Dube, 2011)

Lack in active auditing and accounting companies in Iraq in general and the region in particular, and the lack of the existing of accountants and statutory auditors obtaining international certificates and with full knowledge of international accounting standards and for international financial reporting standards and international codes and regulations of corporate governance and good practices around the world. This is because of the lack of specialized academic programs in Iraqi universities and at the same time tied with international bodies and institutions which are expert in this area such as the Association of Chartered Certified Accountants (ACCA).

Since the establishment of Kurdistan region's investment law in 2006, and due to the favorable environment for attracting foreign direct investment that considered itself as a friendly business environment for foreign companies. According to Kurdistan region companies directory published by the Kurdistan federation of chambers of commerce and industry, until end of June 2013, more than 2,300 foreign company and 15,000 local company registered in Kurdistan region, where it is characterized by the security and political stability, airport infrastructure, the development in the transport sector, the quality of lifestyle and vast investment opportunities as regarded the most important factors to encourage economic development in Kurdistan region. Due to the fact that the investment climate has a direct correlation with attract more investors (IKG Property Research, 2013).

The adoption of CG and make the accounting system and companies law in Iraq in line with the recommendations of the international accounting standards committee is regarded as the most influential factors for the establishment an integrated system in regards to Iraq's regulatory and economic system (Al-Basri, 2010). Al-Obeidi (2011) indicates four areas of insufficiency of domestic laws relevant in determining the laws and regulations of corporate governance and its implementation methods, as follows:

- A. The related laws and regulations did not intact the protection rights of minority shareholders in companies.

- B. The process of separation between the management task and the supervising task within board of directors.
- C. Lack of focus on the executives' compensation in shares.
- D. Board of directors in companies did not require forming a committee for nominations for governance.

McKinsey & Co published a survey in 2002 on the views of investors around the world, and concluded that investors in the Arab countries are willing to pay additional money approximately around 33% to buy shares of companies that apply CG codes, but in developed countries and other developing the ratio was between 13% and 22 %. Where a large number of specialized international institutions for the establishment of criteria for judging the practices of CG codes around the world, including the following:

- A. Standard & Poor's corporate governance scores (S & P's CG score)
- B. GovernanceMetrics international and audit integrity (GMI ratings)
- C. Investor relations global ranking (IR global rankings)
- D. Corporate governance report on the observance of standards and codes (ROSC)
- E. Credit Lyonnais securities Asia corporate governance index (CLSA)
- F. Institutional shareholder services Inc. governance QuickScore (ISS)
- G. Association of Southeast Asian Nation (ASEAN) corporate governance scorecard

INVESTOR'S PROTECTION

According to Bebchuk and Weisbach (2010), the level of investor protection is very important for investors whom want to purchase stocks issued by a company from another country. Foreign investors tend to have less information about companies they invest in than domestic investors; foreign investors also frequently behave to have fewer political connections or long-term relationships with the company that can potentially substitute for governance. In addition, Leuz, Lins, and Warnock (2008) findings confirm that governance problems disturb company's ability to pull cash flow from foreign investors. La Porta, Lopez-de-Silanes, and Shleifer (1999) evidence that the positive linkage between high levels of investor protection and well economic outcomes (such as well-developed stock markets) and higher levels of economic growth. Countries with good investor protection, the investment opportunity effect is negative, whereas in countries with weak investor protection, the effect is still negative but less significant or even becomes positive.

Soleimani, Schnepfer and Newburry (2014) find the negative association between earnings volatility and company's reputation becomes better when there is a stronger creditor rights. The protection level around the world is affected by country's/region's culture and ideology (Allen, 2005), or its population's religion (Stulz & Williamson, 2003). Okpara (2011) study states that the major problem in developing countries is the lack of protection of minority shareholders. He explains even though there are countries that introduced laws to protect the right of shareholders, there is no enforcement system. The nature of governance problems differs greatly between public companies with and without a controlling shareholder (La Porta, Lopez-de-Silanes, & Shleifer 1999; Bebchuk & Hamdani 2009).

Iraq is one of the worst countries by legal rights index (strength of legal rights index) issued in doing business report, where it got three points out of ten in both years 2013 and 2014, also the Iraq's rank was one of the worst countries according to the index (protecting investors), but it's rank worsened as ranked in 127 in 2013 to 128 in the year 2014, while for the index (extent of disclosure) Iraq got four points out of ten in 2013 and 2014 that is considering a very bad rank.

TRANSPARENCY AND DISCLOSURE

One of the basic pillars in initiating good CG is transparency. According to related theories one of the main conditions in well sound CG is accountability and transparency, conducted by providing accurate and recently updated information and data with availability to the general public condition. Clarke (2007) CG researches and debate mostly focused on listed companies with dispersed shareholders and issues like financial and accounting transparency. While, the creditors and other stakeholders overview of the issues related to initiating well sound CG for non-listed companies.

According to Sufi (2003) stricter CG mechanisms can decrease the information asymmetry by initiating an efficient and effective information disclosure technique. According to Mallin (2002), the importance of good CG, accounting transparency and disclosure practices in decreasing agency problems has been widely recognised. Leuz, Lins, and Warnock (2008) findings propose that foreign investors invest less in companies in countries with poor outsider disclosure and protection. Additionally, the results from (Klapper & Love, 2004; other studies indicate a higher market valuation for companies that engage in increased disclosure of shareholder CG practices than those that do not engage. Okpara (2011) emphasizes the importance of credible disclosure of corporate information. The audit committee acts as the most important factor affecting voluntary disclosure, and the companies with a higher level of independent non-executive directors have a higher scope of voluntary disclosure. The results support that voluntary disclosure boost with declines in block-holder ownership in companies (Dahawy & Samaha, 2011).

Iraq is within the most corrupt countries in the world, according to international, regional corruption and transparency report. According to global corruption report for the year 2004 issued by Transparency International that without the commitment of systematic transparency in the reconstruction process, Iraq is in danger of becoming the biggest corruption scandal in history and the results would be risky on ordinary people for a long period of time. Iraq is ranked in the (corruption perceptions index) for 2013 at the bottom of the existing which was 171 out of 175 countries, while until 2012 Iraq ranked as 169 out of 169 for many years in the bottom of the list (ie, in the sense most corrupt).

In spite of many attempts to reduce the corruption in Iraq via establishing many few strategies like Iraq national anti-corruption strategy launched by the Iraqi central government in Baghdad in 2010 which illustrates that the fight against corruption should base on concrete evidence linked to the work environment in the public sector and also to study the strengths and weaknesses in the civil service across Iraq. However, the prevalence and spread of bribery up to 29.3% in Baghdad, while not exceeding the spread of bribery to 3.7% in Kurdistan region, but in the same time it exceed to 10.2% in all other fourteen governorate of Iraq, and half of all cases of bribery was in order to speed up administrative procedures, while more than 27 % of the cases were in order to receive better treatment or perform a service according to a study conduct by (United Nations-Office on Drugs and Crime, 2012).

Doidge, Karolyi and Stulz (2007); and Durnev and Kim (2005) study document that voluntary CG adopted by companies only partially compensates for weak CG environments. Companies under the effect of low quality government tend to have low level of transparency and weak CG mechanisms (Jiang, Lee & Yue, 2010). The results Dahawy anf Samaha (2011) study indicate that overall voluntary disclosure was low in largest 100 companies listed on the Egypt's Stock Exchange as know now days as Egyptian exchange (EGX). But they did not find any evidence that number of shareholders, type of auditor, company size, liquidity of the company, company's leverage and industry type influence the extent of voluntary disclosure.

Additionally, according to ten economic freedoms index in 2014 which is annual ranking created by the Heritage Foundation in collaboration with The Wall Street Journal in 1995 to measure the degree of economic freedom, the Iraqi economy is based largely on cash and lacks the infrastructure that imply the modern financial system. Iraq markets are open to foreign investment in basic, but political instability and strict bureaucratic system and security concerns deter investment growth, and moreover, banks have dominated the government credit markets. While Iraq is not classified in the open market index in its three criteria (investment freedom, financial freedom, and freedom of trade), but Iraq got 13% in freedom of corruption as a measurement of the role of law. Therefore, it is a very bad reflection on how bad the related laws and regulations is exercised in the public and private business in the second decade of the twenty first-century and insure ineffective of the regulations, instructions and existing legal system.

NUMEROUS POTENTIAL OPPORTUNITIES FOR INVESTMENT AND TRADE

Privatization plays an important role in establishing well CG, thus with good private CG and an investment friendly environment, foreign investment could attract to the country or region in an increase trend (Siddiqui, 2007). The benefits with establishing good CG facilitate greater access to international capital markets and help enterprises to gain a higher premium while seeking outsiders' investments (Securities & Futures Institute, 2007). Few studies have investigated that the legal system can play a key role in attracting foreign investments or encouraging financial and economic development (e.g. Gliberman & Shapiro, 2003). Findings from Durnev and Kim (2005) study indicate that companies with preferable investment opportunities and utmost need for outer financing choose better CG that lead to better valuation.

The Iraqi Kurdistan region has seen increase the amount of money invested in the past few years in various economic sectors in the three governorates (Erbil, Dohuk, Sulaimaniya), whether by local or foreign investors. According to official statistics published by the department of information and studies authority's investment in the Kurdistan region, the amount of money invested for the period August 1, 2006 to November 10, 2013 has exceeded 31 billion U.S. dollars, and the biggest invested amount has gone to the housing sector with approximately 14 billion U.S. dollars, followed by the industrial sector with more than eight billion U.S. dollars and then the tourism sector with the amount of more than three billion U.S. dollars. In the same period, the number of projects was under implementation more than 613 (26 joint ventures, 44 foreign and 543 national) projects.

The ministry of planning in the Kurdistan region initiated a vision for the regional strategy in 2020, which represents a long-term plan at the end of 2013 under the name "Kurdistan region of Iraq 2020: A Vision for the Future 2020", thus accordingly it will make the private sector the main sector in creating jobs and economic growth. Additionally, Kurdistan region government (KRG) will work to privatize (privatization) all plants owned by the KRG by the year 2020. This it's quite possible that the economic development will continue and there will be increase in the attractiveness of investments in the coming years. Therefore, it will need legal mechanisms and regulations to oversight the companies, whether local or foreign to ensure the availability of information to all stakeholders in the right time and by minimum cost with significant degree of credibility and transparency.

VAST OIL RESERVE AND POTENTIAL ECONOMIC HYPER GROWTH

The globalization and internationalization in finance and trade was an essential incentive for corporate governance around the world especially in developed markets and western countries over the past few years (Claessens & Yurtoglu, 2012). No matter how significant economic freedom is, it still requires well sound CG codes and practices, when economic freedom facilitates economic sustained growth (Kaufmann, Kraay, & Mastruzzi, 2007).

According to Claessens and Yurtoglu (2012), the CG challenges are mainly determined way by the countries' overall development and institutional environment, and more specifically by widespread its ownership structures. One of the major characteristics of emerging economies has resulted to significant challenge in respect to governance is natural resources (Crittenden & Crittenden, 2012). Nheri (2014) study evidences that financial liberalization is linked with higher efficiency. And the results emphasize the significance of CG, economic reforms and the choice of privatization ways in demonstrating the after privatization changes in company's performance by using a sample of 75 new privatized companies in Turkey, Egypt, Tunisia and Morocco. CG appears to be significant in the determination of GDP per capita. Thus, in order for economies to grow, other variables like good CG codes and regulations must also be in place (Altman, 2008.)

There is development in many other aspects in Kurdistan, for example, according to the results of the socio-economic survey done by Iraqi-households social economic survey (IHSES) in 2007, the proportion of the population below the poverty line in Kurdistan is approximately 4.7% which is much lower than the proportion in the whole of Iraq and Baghdad 22.9%, but these ratios changed in 2012 where ratio in Kurdistan reduced to around 3.5%, while this index in the whole of Iraq decreased to 18.9%. Therefore, it regarded as a good indicator shows the extent of development in well-being Kurdistan's economic during the period of time (medium).

Kurdistan region characterized in new discoveries, where energy giants such as Exxon Mobil, Chevron, Marathon Oil corporation, Gulf keystone petroleum LTD, HKN energy, Dana petroleum, Gazprom Neft, Total, and Repsol are flocking to northern Iraq, but their presence may raise tensions with the central government in Baghdad (Walt, 2013). Kurdistan is preparing to bring cash flows from its oil fields revenue, with estimated reserves more than 45 billion barrels of crude oil for the benefit of many of the largest oil companies in the world (Swint, 2013). Developing countries need to show adoption of CG principles, guides so as to attract capital and foster investor trust, which will in turn lead to increase in investment and economic growth (Millstein, 2005). Good CG plays as key role in promoting economic efficiency and equity by lower cost of capital, larger capital markets, higher market valuation of companies, and higher companies' profits (African development bank, 2007)

Additionally, the biggest issue in Iraq still the absence of serious initiatives by decision-makers in the central government in Baghdad to improve laws relating to companies especially about disclosure and CG, and attract foreign investment (both direct and indirect) to Iraq. In spite of Iraq was within the expected rate according to, foreign direct investment attraction index and possibilities of foreign direct investment index, foreign direct investment potential index issued by the organization UNCTAD (World Investment Report, 2012).

Establishing fine CG mechanisms is fundamental in the competition for foreign capital especially in the context of more integrated and global financial markets nowadays (OECD, 2004). Moreover, the developing regulatory and institutional infrastructure in the Eurasia region makes CG at the company level significant variable in establishing investor's confidence. According to Ray (2012) it calls for initiating an adequate and a viable relationship between many company's participants such as shareholders, management team,

the board, and other stakeholders. It is also extremely attractive to potential partners, investors, and merger targets.

According to joint report by the KRG ministry of planning and UNDP in 2012, the investments recommended for the period 2013-2020 in Kurdistan is more than 30 Billion US Dollars especially in four sectors (Water resources management and irrigation, transport and transport infrastructure, electricity and education). Kurdistan Region attracted in the last few years hundreds of foreign companies and has attracted hundreds of different investment projects, such as, Erbil Downtown Project witch implemented by Emaar company from (United Arab Emirates) with investment amount nearly three billion U.S. dollars. In addition, the region currently producing crude oil at a rate of approximately 150 000 barrels per day from some its oil wells and is expected to increase the productivity of crude oil by the end of 2014 to more than 500 000 barrels a day where involved in geological surveys and research, production, export and marketing the most important international oil companies through Kurdistan region oil companies, including:

- Kurdistan National Oil Company (KNOC)
- Kurdistan Exploration and Production Company (KEPCO)
- Kurdistan Organization for Downstream Operations (KODO)

SAFETY AND SECURITY

There are security problems in Iraq except the Kurdistan region according to various international security reports at least until the end of first half of 2014. For example, Iraq ranked as the worst countries in the world in terms of the classification of terrorism “terrorism index” that is published by the vision and humanity foundation, and Iraq ranked seventh out of 159 countries in 2003, then headed toward the worst as ranked countries in the world as an incubator for terrorism in year 2004 and remains as one of the worst areas according to reports in the first quarter in 2014, but in the same time Kurdistan Region remains a secure and stable region. Also, in the classification of world peace “global peace index”, Iraq was the worst as ranked 143 out of 143 countries in the years 2009 and 2010, while ranked 151 out of 153 in the year 2011, and ranked 155 of 158 in year 2012, while ranked 159 out of 162 in year 2013 and 2014. Thus represents as one of the most important obstacles to attract foreign flows and where the predicted cost of the ongoing conflict for more than 43 billion dollars (www.visionofhumanity.org).

While many parts (territory) of Iraq had fallen in the worst violence and sectarian war since the year 2008, but the semi-autonomous region "Kurdistan" lives goes on as normal and usual without any consideration to the problems of security (Theeconomist.com). Moreover, Iraq was ranked 130 globally out of 142 countries in terms of economic strength index, according to the index for the welfare of the general prosperity annual report as known as legatum prosperity index in 2013 issued by the British legatum institute in London. It is worth mentioning that 64% believe that corruption is widespread in the public sector and the private business sector in Iraq. While 45% believe that Iraq is a good country in which to live as immigrants, and the ratio was appropriate because of the conditions of migrants and displaced people in Kurdistan was much better.

SOCIO-CULTURAL ASPECTS

Many factors such as compliance and audit, CG policies and CG practices contribute to initiating the corporate governance (Rodrigues, 2011). In addition, one of the most significant variables in establishing fine CG is ethics (Ali, Green & Parent, 2009), while Cakar and Alakavuklar (2011) argued that corporate governance is considered as managerial

technology/application types that attempt to control the individuals ethics. According to Murphy and McIntyre (2007) one of the main aspects in CG mechanisms is size of the board which should be small enough to ensure efficient interaction and director participation, but in the same time large enough to provide required skills and experience. Additionally, La Porta, Lopez-de-Silanes, and Shleifer (1999); Franks and Mayer (2001) illustrate that companies with a controlling shareholder are the dominant form among publicly traded firms in most countries.

Few legal academics argue that social norms could play an influential role than legal rules in shaping and determining corporate behavior (Klapper & Love, 2002). Moreover, Mengkui (2008) establishing good CG is a long-term and arduous task, requiring companies (especially commercial banks) to make substantial improvements in many aspects such as business processes, quality of human resources, management incentives and most importantly company culture. McCarthy and Puffer (2002) study concludes that Russian CG codes evolve into its own unique model reflecting the country's culture, traditions, and values. According to Crittenden and Crittenden (2012) demographic trends is considered as one of the major characteristics of emerging countries has resulted to significant challenge in respect to CG. Oghojafor, George, and Owoyemi (2012) study concludes that national culture plays a key role in the efficacy of corporate governance.

Soleimani, Schneper and Newburry (2014) study report that in societies where shareholders enjoy a high level of legal rights, the influence of stock market returns on corporate reputation becomes more positive by utilizing a sample of 593 of the largest publicly traded companies in the world during 2007 to 2011 from 32 countries. They did not find any evidence of an interaction influence between labor rights and company social performance on company reputation. According to Volonte (2014) culture is rarely used as a determinant of corporate governance practices in empirical studies. Mostly, the effect of culture has been investigated on various other economic outcomes. Other studies have used proxies for culture by more easily observable characteristics, namely language and religion; For instance, Stulz and Williamson (2003) underline the importance of culture with regard to investor protection issues,

Proper records management could be the backbone of establishing good CG (Ngoepe & Ngulube, 2013). The responsibility of establishing well sound CG code of ethics and executing it within the company depend on board of directors exclusively, in addition the elaborate of CG codes of ethics and standards cannot ever replace good business ethics and the responsible behavior of a director (Moonesinghe, 2004). Due to the fact that CG is the socio-legal contract between companies and its society, thus companies are outcomes of their socio-economic environment, which influences their corporate social responsibility activities. Corporate social responsibility (CSR) is a concept whereby financial institutions regard the interests of society and the environment by taking responsibility for the impact of their activities on shareholders, employees, stakeholders, customers, civil society and suppliers. CSR is not the only ethical dilemma that financial institutions face in an atmosphere of corrupt corporate practice (Azim, Ahmed & Netto, 2011) but also these institutions are concerned with commitment for sustainable development but execution of such development procedural function's through compliance with corporate social responsibility guidelines is difficult.

ECONOMIC FREEDOM AND DOING BUSINESS

According to Eleswarapu and Venkataraman (2006) study that companies in countries with good accounting standards show higher stock market liquidity and better stock market performance. Each country or region need its own CG codes of ethics specially in emerging

markets., because there is no one size fits all for global CG codes or CSR system which is depend basically on western regulations and codes (Peters, Miller & Kusyk, 2011). Crittenden and Crittenden (2012) state that doing business in emerging countries is confounded by the fact that laws, expectations marketplace and regulations of the home market do not apply. According to Monforte (2004, p.16), “*a good corporate governance certainly makes businesses safer and less exposed to external or management risks*”.

According to doing business report (Iraq profit 2014), in order to export the companies needs 10 documents in year 2013 and 2014, while in the majority of countries it needs only 3 documents. It applies the same way for imports. Therefore, it has negative effect on number of investors (foreign and local). Also in Iraq, the investors needs 51 procedures in order to start a business, but most of the countries needs less than 20 administrative procedures, thus it has a negative influence on the process of facilitating and regulating the companies. One of the main obstacles that reduce attracting local and foreign capitals into Iraq is the administrative routine and the lack of utilizing the modern technology to make the procedures much easier on the related parties.

Iraq ranked at the bottom of almost all index issued in doing business report in 2014, especially the ease of doing business index Iraq ranked 151 out of total 189 countries and territories. Despite the existence of a law (the companies act No. 21 Year 1997 and its amended in 2004) that governs regulations which manages various companies in Iraq, but the mechanism and methods for implementing and monitoring is far from reality. Iraq is one of the countries that did not implement any modifications in the subjects measured in doing business report in 2014, while Iraq's classification worsened from bad to worst according to starting a business index which ranked 168 in 2013 to 169 in 2014 out of 189 countries and territories, and also Iraq classification worsened in register a property index by getting rank 99 in 2013 to rank 108 in the year 2014, additionally Iraq got worsened classification in term of get the money "getting credit" by holding a 177 in 2013 then ranked in 180 in 2014.

On the contrary, any foreign company can register its name in less than 30 days without the need for a local partner according to the official website of the Kurdistan regional government, thus it is easy to doing business in Kurdistan, and it considered as one of the many attracting points in the Kurdistan investment law that issued in the year 2006.

CORRUPTION

According to Meisel (2007), when CG systems is effective, it will help organizations to comprehend their maximum efficiency, minimize the level of corruption and provide a system featured with managerial accountability. According to Caron, Ficici and Ritcher (2012), past researches shows a significant linkage between CG and corruption, also documents that in countries with high levels of corruption, companies do not demonstrate good CG practices, therefore leads to a wide range of transparency dilemmas. Wu (2007) argues that CG is considered as the most significant factors determining the level of corruption and shows that CG standards can have profound impacts on the effectiveness of the global anti-corruption campaign.

Licht, Goldschmidt, & Schwartz (2004) find a significant influence of culture on three social norm of governance (the rule of law, democratic accountability and non-corruption level). The lack of transparency and publicly available information is another major problem with emerging markets. (Miller, Eldomiatiy, Choi, & Hilton, 2005) point out that the cost of investing increases in countries where the level of transparency is low.

One of the most important indicators to attract more cash flows and to strengthen the companies' confidence to enter the countries in order to perform businesses is the low possibility of exposure to bribes in both sectors (private and public). According to a study of the United Nations Office on Drugs and Crime in 2012 in Iraq, Kurdistan region was exposed to bribery less than the rest of Iraq's areas in term of index of exposure, where did not exceed 4.3% (Duhok governorate got less likelihood to 2% which is the lowest exposure rate at the level of Iraq), and in other 14 governorates was increased by 5.6%, while the worst case was the Iraqi capital (Baghdad), where the likelihood of exposure to a bribe was at 17.9%. In addition, the prevalence of bribery reaches 29.3% in Baghdad and it stands at 10.2% in the country's other (fourteen) governorates. But in Kurdistan region it did not exceed 3.7% which is regarded as a very good rate in spite of newly politically, economically structured regional government (Kurdistan region government) as known as KRG. There is disparity in the purposes and forms of bribes paid by Iraqi citizens. Almost half of all bribe payers state that they pay bribes in order to speed up administrative procedures while about 27% state that they pay bribery in order to receive better treatment or service, which means in another words bribery is often used to overcome bottlenecks in the public services delivery or to improve their quality of public services. In more than 80% of the cases, Iraqi citizens are prompted to pay bribes, as opposed to offering bribes voluntarily themselves. Specifically, more than 65% of cases bribes are requested, either explicitly or implicitly, by the civil servant taking the bribe. Additionally, civil servants in Baghdad are more likely 5.2% to be offered bribes, but in the Kurdistan Region the ratio was about 3.8%.

Even though Kurdistan region is better when comparing with other Iraqi governorates, but in some ministries a large share of staff do not know to whom to report incidents of corruption, while this share is 46% in the other governorates of the federal government and 80% in the Kurdistan region, which is likely related to the lack of a designated anti-corruption body in that region (Kurdistan Region Statistical Office, 2012).

CONCLUSIONS

Past studies points that the development of the stock market depends on the introduction of good practices of corporate governance, which by it will make the country economic growth more dynamic (Rogers, Ribeiro & Securato, 2008). The evidence from (Rogers, Ribeiro & Securato, 2008) study suggested that companies that adopt good practices of CG performs better than those do not adopt. Good CG matters to the whole spectrum of corporate ownership structures, from family-owned small and medium enterprises (SMEs) to publicly owned local companies. The lack of separation between ownership and control especially in small family businesses, can often lead to a lack of transparency and accountability, therefore it represents a major obstacle to sustained growth, e.g. by reducing access to external capital (African development bank, 2007).

Due to the lack of an effective mechanism for forcing Iraqi companies to manage and organize their work in a more serious mindset, it would be the inevitable existence of such laws and mechanisms for the Kurdistan region in order to increase the polarization of companies and increase investor confidence which is still better than other parts of Iraq even still don not have codes of ethics. implementing CG processes is regarded as one of the most significant role of board of directors now a days which ensure that business activities adhere to regulations and other external requirements that also allowing the executing the business growth strategies which can be difficult when legal frameworks is continuously changing and stakeholder expectations keep rising, but overall establishing good CG policies and practices can have the benefit of enhancing corporate management and performance.

RECOMMENDATIONS

1. Encourage companies to implement the basic standards of corporate social responsibility as part of corporate governance legislation and regulation, in order to encourage companies to grow in a socially and environmentally responsible way.
2. Increase awareness of the importance of good CG among corporate shareholders, and stakeholders, in particular owners of very small and small enterprises which hold a large share of Kurdistan region's business.
3. Kurdistan region must have its own corporate ethics guidance for listed companies, unlisted companies, family businesses and banks. Governmental institutions, NGOs, and related syndicates should disclose more on the benefits of having CG's and the consequences of not issuing it until now.
4. Business colleges and scientific departments in Kurdistan region should upgrade their curriculum especially in business administration, finance and banking, and accounting department to include the CG topics, issues in undergraduate and most importantly in postgraduates (unfortunately until now there is no special course and curriculum in all Kurdistan region's universities dedicated to CG neither in undergraduate nor in postgraduate).
5. Dedicating new seminars, discussions and scientific debates on how companies in Kurdistan region should engage in the ethical guidance in the future whether by voluntary disclosure or complaining to official CG codes and guidance.
6. According to (Oghojafor, George & Owoyemi, 2012) corporate governance like other management practices originated from the West based on their socio-cultural realities, therefore CG in Kurdistan region must be re-defined based on the socio-cultural realities in Kurdistan.
7. Before starting to the establish of codes, regulations and guidance of corporate governance, it is necessary to study how the companies in Kurdistan will respond to corporate governance principles, and it is important to investigate what are the most important factors that will prevent its application by companies.
8. Take into consideration the index and the corporate governance rules of European (especially the OECD), and the United States. Also it is important to study the Japanese model, which is characterized by good coordination between government institutions, professional and non-governmental organizations in the management of companies, which focus on the 100 principle divided into four main parts which are the company's goals and responsibilities of the chief executive, the structure and functions of the board of directors, system administration, and disclosure and transparency. In addition, there should be taking advantage of the best practices of corporate governance in the world.

FUTURE RESEARCH

Some of the most important reasons to why Kurdistan region need a corporate governance code has been analyzed in this study, but future studies may take in to the consideration other factors such as the new terror war on the Middle East countries and regions. Also future researches investigate new areas of the problem such as the influence of some corporate governance implications on corporate risk management.

Furthermore, future studies may also analyses the adaptation/adaptation level of accounting international standards by different types of companies in Kurdistan region and Iraq. In addition to examine determinates of delay issuing such codes of ethics in Kurdistan region and Iraq in a broader analysis.

The unique and distinguish culture, social aspects, business ethics, and geopolitical aspects could be investigated in details in order to understand their influence on corporate governance implementation.

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