

The role of economic value added in enhancing financial reporting: An applied study in companies listed on the Iraq Stock Exchange

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Abstract

This paper aims to shed light on the concept of Economic Value Added (EVA) as a facet of optional disclosure. Determination of the ability to rely on it as an indicator that enhances financial reporting through its integration with the concept of traditional accounting income and linking them with the relevant variables in a way that helps to guide decision-makers. Whether they are Internal and represented by the administration or external and represented by investors. The research sample consisted of twenty industrial companies listed on the Iraq Stock Exchange (ISX) 2010. The research hypotheses were tested using statistical analyzes and the researcher adopted simple regression analysis and multiple regression analysis. It was reached that upon the integration of the economic added value (EVA) and accounting income (NI). They achieve a higher coefficient of interpretation with the rest of the variables (return on assets (ROA), return on equity (ROE), return on investment (ROI).

Keywords: EVA, NI, GAAP

Introduction:

The concept of accounting income is used by the majority of investors as an indicator to assess the performance of companies. Except that it is criticized by the majority of economists because it does not take into account the risk to the capital and the return that investors expect, but accountants see that the accounting income occupies the forefront of most investors as a performance indicator which can be enhanced by indicators Others support it through its integration with it, including the Economic Value Added (EVA). Modern accounting literature has shown the importance of economic value added as an indicator that helps in the objective decision-making process by the investor, and as William R. Scott pointed out in 2009 by writing financial accounting theory that this concept (economic value added) is used to measure performance, evaluate investment decisions and develop the financing process. Several economic studies showed interest in indicators used by accountants to enhance the quality of the information contained in the financial statements. From this, Stern Stewart began in 1990 to provide another indicator that represents an internal and external measure of the company's success, which is the economic value added measure (EVA) as one of the important indicators that enhance the accounting disclosure process. To cover the insufficiency of relying on the abstract figure of accounting profit in rationalizing investment decisions by linking that value to the relevant variables Return on Assets (ROA), Return on Equity (ROE), Return on Investment (ROI) that investors rely on in making their decisions.

The research objectives were focused on explaining the concept of economic added value and determining its importance after it is one of the optional disclosures for joint-stock companies, and determining the possibility of integrating the concepts of accounting income and added economic value and the cycle of investor decisions, as well as applying the concept of economic added value in the sample of joint-stock companies listed on the Iraq Stock Exchange And demonstrate the effect of this on enhancing the quality of accounting disclosure by showing its effect on the relevant variables, including (return on assets (ROA) and return on equity (ROE) and return on investment (ROI) and in a manner that helps to guide investor decisions.

Previous studies

A study (Worthington & West, 2004) aimed at the study to search if the economic value added ((EVA) is associated with the returns of shares more than the traditional accounting standards. The study has been applied in Australian companies for the period from 1992-1998 and the study reached the following results: that stock returns are more closely related In terms of economic added value (EVA) from other measures such as residual income, profits, and net cash flow, respectively, the accounting adjustments associated with generally accepted accounting principles (GAAP) are most closely related to economic added value (EVA) and they are important in explaining stock returns.

Lin & zhilin study, 2008)) The study aimed to demonstrate the factors that affect the economic added value (EVA) of companies listed on the China Stock Exchange. Multiple linear regression analysis was used, and the study reached the following results: that each of the company's capital structure, size, and growth has a positive impact on economic value added (EVA), which indicates that these factors have a strong impact on the added economic value (EVA), as for intangible assets, its relationship was negative and weak with economic value added

A study (ROMALIN, 2008) The study aimed to determine whether the positive economic added value (EVA) leads to a growth in stock prices, especially for shares in the banking and sales sector companies listed on the Johannesburg Stock Exchange (JSE). Statistical analyzes have been carried out on several variables, including (the value-added economic growth rate (EVA), the sales growth rate, and the share price growth rate). The study found that stock prices are strongly correlated with the economic value added (EVA) for the banking sector The study made a recommendation to use EVA as an indicator to predict stock price performance in that sector.

A study (Bogeanu, 2013) The study aimed to search for the relationship between economic value added (EVA) and stock prices registered on the New York Stock Exchange (NYSE). The study included 635 companies registered for the period from June 2012 to August 2012. The study concluded that markets have a role in commercial speculation, and that stock prices are affected by the index of economic value added, and because of the recentness of this indicator, it eliminates the fact that it is a difficult concept, and that from an economic and philosophical point of view it restricts speculators. It explains about 11% of the variation in share prices, which is a very sufficient ratio compared to other measures.

A study (SHARMA, 2013) The study aimed to research the value creation strategy of INFOSYS Limited and whether the economic added value (EVA) better reflects the market value of the company compared to traditional performance measures (return on assets, and earnings per share). The study relied on a relationship analysis Cause and effect between EVA and traditional company performance measures such as Return on Assets (ROA) and Earnings Per Share (EPS) as well as Operation Income.

This study has concluded that the EVA is the best way to measure financial performance as it represents the market value of the company when compared with traditional performance measures, and the study recommended the application of the concept of economic added value.

The contribution presented by the current research was to enhance the quality of accounting disclosure for joint stock companies listed on the Iraq Stock Exchange through the integration of accounting income information and economic value added information, which contributes to providing useful information for investor decisions and at the same time enhances the efficiency of the listed financial market. And the possibility to develop the efficiency of the Iraqi market for securities by focusing on the Economic Value Added Index (EVA) as an outlet for the detection of some manipulators through speculation in stock purchases and imparting fake prices to cover up the mismanagement of companies in their field of work. And some believe that future progress in accounting theory depends on One concept of income is largely compatible with economic income, and others suggest the idea of measuring income according to different concepts and reporting them for different purposes, except that knowledge of different measures of net income may be useful in more than one direction, however different analyzes clearly showed that one concept of income Not all purposes can be served at the same level, but it can well serve a specific purpose (Hendriksen, 1992: 310-311).

The importance of optional disclosure to meet the limitations of the usefulness of accounting income information. In this context, in 2002 a committee was formed at the Institute of Certified Public Accountants in America called the Special Committee to Promote (Support) Reporting to Business Units (SCEBR) aims to improve the quality and transparency of information used in decision-making, including empowering owners Interests from the company's vision from the management point of view: (Starr, 2006: 1-3). One of the main elements to enhance the reporting of companies is financial and non-financial information: the model will continue according to the accepted accounting principles of general acceptance and the requirements of the stock market, but most business units are determined internally Financial and non-financial measures to measure its performance and include them in the reports help the stakeholders to see the company from the point of view of the administration and this transparency leads to knowing the management goals as well as the risks and opportunities associated with both sides i.e. both rights and obligations as well as the accountability of the company, and based on the foregoing we see that that improvement It can be strengthened by resorting to voluntary or voluntary disclosure methods, using several methods included, including the EVA, as will be mentioned later.

Accounting concept from an accounting point of view

Accounting income is often referred to as business or traditional income, which is measured according to generally accepted accounting principles (Maharshi, 2004: 109). The traditional definition of income for the accountant is the surplus resulting from business activities. The economic concept of income has always been a subject of great interest to economists, The economist Adam Smith was the first to define and define the economic concept of income, "It is the amount that can be consumed from goods and services without infringing on capital, whether it is fixed capital or working capital." (Hendriksen, 1992, 257)

Determining income results and assessing assets and liabilities is one of the most important problems in accounting theory. Accountants have tried to reach True Income through multiple attempts and over decades of years, and this approach has formed a distinctive knowledge model called the real income model, so the correct accounting income is Income that approaches the economic concept, as Mac Neal says ((One of the correct concepts of accounting income is that

the profit represents the increase in net wealth, and the loss is the decrease in net wealth)), and it is clear from the above that the accounting income is not used in rationalizing decisions Investment to not measure the cost of capital, which requires finding another indicator that complements that shortfall, the Economic Value Added Index (EVA), as a model of optional disclosure to guide investor decisions.

The concept of economic added value

Fortune magazine described economic added value as "the hottest financial idea and getting hotter" (Tully, 1993). Many companies used economic value added (AT&T, Coca-Cola, CSX, DuPont, Eli Lilly and And Quaker Oats) as a basic measure of the company's performance. (Kramer & Pushner, 1997,41). Some describe economic added value as an estimate of the company's economic profitability as it represents the added value created in the required return from the company's shareholders, and that the added economic value is the profit gained from the company at the lowest cost of financing the company's capital. (Ismail, 2011, 499) Alfred Marshall, the famous economist, was the first to speak in 1890 about the idea of economic income, which must be covered in addition to the various operating costs, including the cost of invested capital. Based on the foregoing, Stern Stewart and Company developed The concept of economic value added (EVA) This relates to the fundamental difference between the concepts of economic value added and residual income in the method of calculating profits and invested capital The concept of economic value added (EVA) includes the traditional residual income measure by including adjustments to measure the financial performance of the company in order to overcome the imbalance of principles General Acceptance Accounting (GAAP) .. Burksaitiene, 2009, 711), The economic value added is a trademark of Stern Stewart, and it (the company) is based on the concept of economic income, which is measured by the company's surplus income after deducting the cost of capital and operating (operating) expenses. The economic added value of the economic conclusion is rooted that "for a company to create wealth it has to earn (earn) more than the cost of debt and principal." (El Mir & Seboui, 2006,247) The economic added value is also used as a measure of the company's financial performance and is also a major part of the integrated financial management system (MORARD, 2008,1).

The importance of economic value added

Several US companies have adopted the concept of economic value added (EVA) as a basis for measuring management performance, which has seen a significant increase in the wealth of its shareholders (Wealth). Although, for the first time, this concept was applied by Stern Stewart and Associates (1990), a similar concept was used by economists many years before the date of application adopted by Stern Stewart and its partners, and in 1890, I used the famous economist Alfred Marshall, the idea of economic income, in terms of the real profit that the company gets when operating costs cover the cost of its invested capital (the cost of property rights and debt). Based on the above, the main role of managers in decision-making is to maximize the value of the company, or the wealth of shareholders, by allocating resources Efficiently. To reach that goal, the company's value is traditionally estimated through financial performance measures, such as profits, returns, and cash flows from operations. In this respect, one of the recent innovations in performance and measurement of value creation is the residual income alternative, which is known as EVA (Burksaitiene, 2009,709)) despite the current relative adoption of EVA as a measure of internal financial performance And external, and the researcher believes that the importance of economic value added (EVA) increased in the new decade as he sees it (Sharma, 2010, 206), which

showed that it is encouraging to note that the last (10) years, especially 2000 - 2008 has witnessed a marked increase in related research In EVA.(Flayyih, Salih, Rahma & Mohammed, 2020). The discrepancy between GAAP and economic reality is due to the amount of bias that characterizes accounting policies, examples of which are recognition of unrealized losses, unrecognized unrealized revenue, and valuation of assets at historical cost rather than market value. In general, the accounting principles are conservative and biased in the interest of the shareholders of the company and its lenders, but they may produce financial statements that do not really reflect the performance of the company, Stewart has identified more than 120 companies, a group of potential adjustments that can be made to the net income, however most companies You do not need more than ten adjustments to get an EVA number (Fraker, 2006,2).

Research Methodology

This can determine the research problem in the following question: Can the economic added value (EVA) be a complementary concept to the concept of accounting income and as a means of voluntary disclosure in the joint stock companies listed on the Iraq Stock Exchange?

The research aims to apply the concept of economic value added in a sample of joint-stock companies listed on the Iraq Stock Exchange and demonstrate the impact of this in enhancing the quality of accounting disclosure by showing an impact on related variables including return on assets (ROA) and return on equity (ROE) and return On investment (ROI) to help guide investor decisions.

The importance of the research is that it discusses the complementarity between the concepts of accounting income and the added economic value and the importance of that integration in rationalizing the decisions of investors in an economy that is expected to be market-oriented, which makes those companies and investors in front of them with great challenges in terms of determining the amount of returns achieved by companies Contribution and desired by investors compared to the required rate (the opportunity cost).

The research is based on the main hypothesis that:

H1 "The integration of the concept of accounting income and added economic value contributes to rationalizing investor decisions"

H2 There is a significant relationship between the integration of the net accounting income number (NI) and economic value added (EVA) and investor decisions, between return on assets (ROA), return on equity (ROE), return on investment (ROI).

The research was based on the deductive approach in explaining the concept of added economic value and determining its importance after it is one of the aspects of optional disclosure and determining the possibility of integration between the concepts of accounting income and economic value added in guiding investors 'decisions. Statistical methods (simple and multiple regression analysis) were used in determining the degree of influence of the independent variable In the adopted variable, the financial reports of industrial companies were approved (research sample) for the year 2010.

Results:

The research sample was in the shareholding companies listed in the Iraq Stock Exchange and companies in the industrial sector in particular, and a sample of industrial shareholding companies listed in the Iraq Stock Exchange (ISX) was selected during the year 2010 and the study included 20 joint stock companies

Table (1) research variables for the year 2010

n	Companies	EVA	ROE	ROA	ROI
1	Al Mansour Pharmaceutical Industries	-45,763,798	0.026	0.024	0.026
2	Modern sewing	-509901834.6	-0.400	-0.276	-0.400
3	Iraqi carpets and furnishings	28427400.65	0.073	0.048	0.073
4	Baghdad for the manufacture of packaging materials	-25327316.4	-0.024	-0.020	-0.020
5	Baghdad for soft drinks	-6231925480	0.047	0.046	0.047
6	Crescent Industrial	-2385156072	-0.147	-0.355	-0.875
7	Light industries	-5360761907	-0.299	-0.228	-0.294
8	Chemical and plastic industries	-2404206334	-0.123	-0.148	-0.102
9	Modern chemical industries	57169351.97	0.224	0.053	0.211
10	Canadian Veterinary Vaccine Production	398479924.9	0.195	0.179	0.194
11	Fallujah to produce construction materials	-939110849.6	0.000	0.000	0.000
12	Iraqi engineering works	-82327020.7	0.042	0.033	0.042
13	Al Khazir for the production of construction materials	-38186203.07	0.012	0.011	0.015
14	Kirkuk construction materials	-138558290.9	-0.133	-0.158	-0.172
15	Modern dyes	-1149761976	0.004	0.004	0.004
16	Metal and bicycle industries	-2177320371	-0.196	-0.185	-0.286
17	Production of ready-made clothes	911392167	0.421	0.088	0.573
18	Iraqi cartoon industries	-739898868	-0.072	-0.533	-0.152
19	Modern construction materials	-494308384	-0.069	-0.086	-0.094
20	National Home Furniture Industries	-137948697	-0.009	-0.094	-0.012

Presentation and interpretation of the results of statistical analysis / multiple regression analysis for the year (2010)

By studying the effect of the two independent variables, the Economic Value Index (EVA) and the Net Accounting Income Number (NI) on the dependent variable (Return on Asset Rate (ROA)), it was found that:

A- It was found through the coefficient of interpretation or clarification that the two independent variables, both the EVA and the net accounting income number (NI), explain 29.4% of the changes in the dependent variable, the Return on Assets (ROA) Factors that did not take into account contribute to 70.6%.

B- It was found through an analysis of variance that the associated probability of the calculated F value was 0.052 which is greater than the calculated tabular F value of 0.05 and thus we accept the null hypothesis (the absence of significant effect of the EVA and NI independent variables on the variable (ROA)).

C- It was found through the transactions that the value of the marginal parameter of the EVA reached (2.706E-011), so that whenever the EVA increases by one percentage point, the rate of return on assets (ROA) increases by (2.706 E-011) And the opposite is true, knowing that this effect is not significant as the accompanying probability of the calculated T value equals. 1700 and is greater than the tabular value of F of 0.05, and the value of the marginal parameters of NI was (3.875E-011) and so whenever the NI increases by one percentage point it increases The ROA is 3.875 E-011 and vice versa, noting that this effect was significant, as the probability accompanying the calculated value of t was equal to .033 is less than 0.05, i.e. we reject the null hypothesis) (no effect).

By studying the effect of the two independent variables EVA and NI on the dependent variable ROE, it became clear through the coefficient of interpretation or clarification that the two independent variables, the EVA and the net accounting income number (NI), account for 41.2% of the changes in the dependent variable The rate of return on investment ((ROI), while the rest of the factors that were not taken into account contribute to 58.8%. As shown by analysis of variance, the accompanying probability of the calculated value of F was (0.011) and less than the value of

0.05 and thus we do not accept the null hypothesis (the absence of significant effect of the two independent variables EVA The value of the marginal parameter of the EVA is $(2.706E-011)$, so as the EVA increases by one percentage point, the return on equity (ROE) increases by $(2.706 E-$ The opposite is true, knowing that this effect is not significant since the associated probability of the calculated value of t is equal to $(.1700)$ which is greater than the tabular value of F (0.05). The value of the marginal parameters of NI was $(3.875E-011)$ and thus the greater the NI by a unit One centigrade is increasing ROE By the value of $3.875 E-011$ and vice versa, this effect is significant, as the probability accompanying the calculated value of t is equal to $(.033)$ is less than the tabular value of F (0.05), that is, we reject the null hypothesis (no effect).

By studying the effect of the two independent variables, the Economic Value Index (EVA) and the net accounting income number (NI) on the approved variable ROI, it was revealed through the coefficient of interpretation or clarification that the two independent variables are both the EVA and the net accounting income number (NI) They explain 36.6% of the changes in the dependent variable (ROI), while the rest of the factors that were not taken into account contribute 63.4%. Through analysis of variance, the accompanying probability of the calculated value of F was (0.021) and there is a value of the tabular value of F of 0.05 and thus we do not accept The null hypothesis (the absence of significant effect of the independent EVA and NI variables on the ROE variable). Through analysis of the parameters, it was found that the value of the marginal parameter of the EVA amounted to $(6.447E-011)$, thus the more the EVA increased by One percentage point increases the return on investment (ROI) by $(6.447 E-011)$ and vice versa, knowing that this effect is significant as the accompanying probability of the calculated value of t is equal to 0.043) which is less than the tabular value of F (0.05), meaning that we do not accept the null hypothesis (non Influence). Also, the value of the marginal parameters for NI was $(6.164E-011)$, so as the NI increases by one percentage point, the return on investment (ROI) increases by $(6.164 E-011)$ and vice versa, knowing that this effect is significant since the accompanying probability of the calculated value of t is equal to (0.030) It is less than the tabular value of F (0.05), that is, we reject the null hypothesis (no effect).

Conclusions

The traditional disclosure, including some items, including the income index, is no longer reliable in measuring the performance of companies, as earning profits is not sufficient, as companies must achieve sufficient income to cover the cost of capital and create a surplus. Analysis using the EVA provides some predictions. On the behavior and performance of the economic unit that was missing when using traditional accounting measures such as Return on Assets (ROA), Return on Equity (ROE) and Return on Investment (ROI) despite criticism regarding accounting income as a single accounting measure that investors can rely on to explain changes in wealth Shareholders, as it is not beneficial to the various interested parties in the areas of evaluating the company's performance, except that it has been proven through statistical analyzes that it still occupies a position so that it cannot be dispensed with in decision-making, especially if it is integrated with other indicators such as economic value added (EVA).

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