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Research Article

The Impact of Accounting Disclosure of Geopolitical Risks on Earnings Quality and its Reflection on Firm Value

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ABSTRACT

This research investigates the impact of accounting disclosure of geopolitical risks (GPR) on Earnings Quality and its reflection on firm value within the context of the Iraqi banking sector. The research is motivated by the growing significance of geopolitical uncertainties and their implications for financial reporting and corporate valuation.

The research was conducted on ten Iraqi banks listed on the Iraq Stock Exchange (ISX), utilizing a structured questionnaire designed to assess three key dimensions. The first dimension examines the level of geopolitical risk disclosure, comprising 35 items across seven critical areas: wars and military conflicts, terrorist attacks, cyber threats, climate change, subsequent events, internal control over financial reporting, and management strategies. The second dimension evaluates the Earnings Quality through 15 items, while the third dimension assesses firm value, also with 15 items.

A total of 117 employees answered the questionnaire, and the collected data were analyzed using IBM SPSS 27. multiple regression analysis to test the proposed hypotheses. The findings reveal that geopolitical risk disclosure enhances earnings quality. Furthermore, both geopolitical risk disclosure and earnings quality directly influence firm value, with earnings quality acting as a mediating factor.

Keywords: Accounting Disclosure, geopolitical risks, risk Disclosure, Earnings Quality, firm value

JEL Classification

JEL Classification: M41, D81

INTRODUCTION

In the light of the increasing economic and political challenges facing the world, geopolitical risks, such as wars, terrorist activities, and political tensions between nations, have become among the most significant factors influencing the business environment and financial markets (Liu et al., 2024). Geopolitical risks pose a substantial threat to the performance of many companies, most banks have identified geopolitical shocks as the greatest threat to their business models. According to Jamie Dimon, the CEO of JPMorgan Chase, the largest bank and financial institution in the world, "Geopolitical risks are rising, the situation is dangerous, and it is getting worse." necessitating the acquisition and assessment of reliable information to manage these risks effectively.

Moreover, the growing legal requirements in recent years have led to the enforcement of more comprehensive corporate risk reporting (Voeller, 2024). In today's global economic landscape, the interplay between geopolitical conflicts and international accounting and financial reporting practices has become increasingly evident and impactful (Noch, 2024). However, despite the rising importance of geopolitical risk disclosure (GPR), there remains a knowledge gap regarding its impact on earnings quality and firm value, particularly in emerging markets such as Iraq.

This research seeks to bridge this gap by examining the relationship between geopolitical risk disclosure, earnings quality, and firm value, providing empirical evidence on how transparent risk reporting influences investor confidence**.**

LITERATURE REVIEW

Geopolitical risks encompass a range of uncertainties, tensions, and conflicts that disrupt the natural and peaceful course of international relations. These risks stem from various sources, including wars, terrorist acts, and strained relationships between states, all of which contribute to global instability (Caldara & Iacoviello, 2022). Geopolitical risks have significant consequences for countries worldwide, as they have the ability to transcend borders, exerting a strong influence on the economic and political stability of neighboring nations. Escalating tensions can disrupt trade routes, hinder cross-border investments and capital flows, weaken financial stability, and heighten economic uncertainty. These disruptions often translate into negative effects on key economic indicators, such as Gross Domestic Product (GDP) growth, foreign trade, Foreign Direct Investment (FDI), and employment rates. Moreover, the overall impact extends beyond individual economic indicators to affect the broader economies of neighboring countries. For instance, the conflict between Russia and Ukraine in 2022 threatened the economic stability of the entire European Union (Afonso, Alves & Monteiro, 2024).

Recent studies have increasingly recognized the critical role that geopolitical risks play in shaping corporate performance. Researchers such as Voeller (2024) and Noch (2024) argue that geopolitical risks—including wars, cyber-attacks, and political instability—impose significant uncertainty on financial markets. However, the disclosure practices vary considerably between developed and emerging markets. For instance, while Western markets benefit from stringent regulatory frameworks and well-developed risk management systems (as evidenced by enhanced disclosure practices in multinational firms), studies such as Abdullah (2024), highlight the need for tailored disclosure indices that reflect local economic and political contexts.

The current literature often notes that while firms have expanded the scope of disclosure, the quality and depth of such disclosures are still insufficient to address the complexities posed by geopolitical uncertainties. This gap is particularly salient in emerging markets like Iraq, where institutional and regulatory environments are less mature.

Dimensions of Accounting Disclosure for Geopolitical Risks:

1-Wars and Military Conflicts:

Wars or conflicts refer to hostile and violent activities that utilize weapons and modern technologies to resolve internal or international disputes between two or more states, or among organized ethnic, social, or religious groups. The primary objective is to restrict the freedom of other communities or groups and to inflict social, economic, cultural, or even racial damage over time (Coccia, 2019), Geopolitical events, especially wars, significantly impact global economies. This effect is seen in energy prices, supply chains, and stability, with some effects being immediate and others long-term on key economic indicators such as stock market indices, commodity prices, GDP growth, inflation, and employment (Müller & Madjid, 2024). It is important for companies to assess their direct and indirect exposure to the effects of war and consider its implications on accounting practices and disclosures, which can be numerous, particularly for companies that own key subsidiaries, operational operations, investments, contractual arrangements, or joint ventures in a war-affected country. Companies must carefully consider their unique circumstances and levels of risk exposure when analyzing the impact of war-related accounting implications on their financial reports. Specifically, financial reports and related disclosures in the financial statements should reflect all current or potential material effects arising from the war. The relevant accounting considerations and financial reports may be similar to those arising from severe economic recessions or catastrophic natural disasters (Deloitte, 2022).

2-Terrorist Attacks:

Since the massive terrorist attacks of September 11, there has been a significant escalation in such incidents due to the proliferation of terrorist organizations planning diverse attacks worldwide (Smales, 2021). Although there is no unanimous definition of terrorism, its primary aim is to instill fear and panic beyond the direct victims, thereby impacting various economic sectors of a country (Lee, 2018). Terrorism is characterized by three distinct features: the type of attack, the primary target, and the timing and location of the incident. The nature of terrorist attacks varies, including suicide bombings, kidnappings, and armed assaults, with key targets often being military forces, high-ranking government officials, oil extraction companies, and civilians. Unlike civil conflicts, terrorism transcends national borders by targeting both military and civilian populations (Chesney et al., 2011).

3-Cyber Attacks:

Cyber-attacks are criminal activities aimed at stealing, revealing, corrupting, altering, damaging, or destroying information through unauthorized access to computer systems. These attacks are launched using one or several computers to target other computer systems and networks, and they can be considered a form of cyber terrorism (Desai, Oza & Naik, 2021), In 2023, the U.S. Securities and Exchange Commission (SEC) issued a regulation requiring registered companies to provide enhanced and standardized disclosures regarding cybersecurity risks and their management strategies, cybersecurity governance, and cyber incidents. The disclosure must also provide an accurate description of the risks, including those resulting from prior incidents, which have materially affected or are reasonably likely to materially affect the company's business strategy, operations, or financial condition. Additionally, the company must clarify whether its cybersecurity program relies on consultants, auditors, or other third parties, and specify the mechanisms used to assess and manage the risks associated with these external parties (Deloitte, 2023).

4- Climate Change:

Climate change is one of the most urgent and significant environmental challenges globally in the twenty-first century. Its effects extend beyond environmental consequences to impact global economic stability. Changes in climatic conditions occur due to the emission of greenhouse gases (GHG) into the atmosphere, leading to an increase in the Earth's temperature. The challenges posed by climate change have intensified significantly since the onset of the industrial era (Massey, 2023).

5- Subsequent Events:

According to the International Financial Reporting Standards (IFRS), subsequent events are those occurrences—positive or negative—that take place between the end of the reporting period and the date on which the financial statements are authorized for issuance. These events can either provide evidence of conditions existing at the end of the reporting period or indicate conditions that arose after the period ended. The procedures for finalizing financial statements vary based on management structure, legal requirements, and the methods used in the preparation and completion of the financial statements (IASB, 2021), Changes may occur rapidly or unexpectedly, especially in regions exposed to geopolitical risks. Therefore, the company must carefully review information that becomes available after the balance sheet date and before the issuance of financial reports, in accordance with applicable accounting standards. Additionally, it must recognize the impact of all subsequent events that provide further evidence of conditions existing at the balance sheet date, including estimates included in financial reports. Even if recognizing these events is not required, companies should consider the necessity of disclosing them and ensure that the lack of disclosure does not result in misleading financial information (Abdullah, 2024).

6- Internal Control over Financial Reporting:

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the accuracy and reliability of financial reports and the preparation of financial statements for external purposes in accordance with accounting standards. It encompasses the policies and procedures that ensure accurate and fair recording of transactions and asset dispositions. This control guarantees that transactions are recorded appropriately, that company receipts and expenses are properly authorized by management and directors, and that there are reasonable measures to prevent or promptly detect any unauthorized acquisition, use, or disposition of company assets that could materially affect the financial statements (PWC, 2021:2), Companies may need to establish new controls or modify existing ones in response to emerging or evolving risks in financial reporting, which arise due to macroeconomic conditions or current geopolitical challenges. It is essential to assess the efficiency and effectiveness of existing operational controls, particularly if workforce shortages or changes in ownership structure have weakened or disrupted audit and control systems. Most importantly, companies registered with the Securities and Exchange

Commission must disclose in their quarterly or annual reports any modifications to internal controls that have had, or are reasonably likely to have, a material impact on financial reporting controls (Abdullah, 2024).

7- Management Plans and Strategies:

Disclosure of strategic managerial actions (SMAD) provides stakeholders with relevant strategic information about the company's activities, its competitors, and current market conditions. This information is essential for the formulation and implementation of effective business strategies (James, Joseph & Said, 2023).

Earnings Quality:

reflects a company's ability to accurately represent its true financial performance and economic reality. High-quality earnings indicate that the reported figures are reliable, transparent, and sustainable over time, thereby providing investors with a trustworthy measure of profitability. Factors that influence earnings quality include accounting practices, revenue recognition policies, governance structure, and the consistency of earnings over time (Essien & Akpan, 2024). (Menicucci, 2020) emphasizes that earnings quality is demonstrated through the consistency, predictability, and stability of the reported earnings. This quality is also evident in the sustainability of earnings in the subsequent financial quarter and in the ability to reliably forecast future earnings, enabling users to make decisions based on accurate and truthful information.

The characteristics of high-quality accounting earnings are essential for ensuring that reported earnings accurately reflect a company's true financial performance. For earnings to be considered high quality, they must exhibit the following properties Sustainable, Free from Manipulation and Errors, Useful and Informative (Nissim, 2024).

firm value:

firm value is an amount reflected in the company's share price, emerging from the dynamics of supply and demand in capital markets. This value demonstrates the company's ability to generate funds for its stakeholders and its overall financial stability. When a company achieves a high value, stakeholder confidence increases, leading them to invest in the form of shares or bonds—in other words, stakeholder confidence is an effective means to boost the company's share price (Abd El-Aziz & Mohamed, 2024). Abdel-Megeid offers a comprehensive definition, stating that firm value is the total market capitalization of outstanding shares. Also known as market capital, this value encompasses profitability, intangible assets, and long-term growth prospects. It tends to exceed merely the book value and is calculated as the sum of the market values of all outstanding financial instruments, including common shares, preferred shares, and bonds (Abdel-Megeid, 2021).

Aims and Objectives

This research aims to examine the concept and dimensions of geopolitical risks (GPR) and their impact on companies and financial markets, while also exploring the nature, characteristics, and importance of earnings quality along with the factors that influence it. In addition, the research seeks to define firm value by identifying its determinants and elucidating its significance for stakeholders. By analyzing the effect of accounting disclosure of geopolitical risks on the earnings quality of the selected banks, the study further evaluates how changes in earnings quality—shaped by risk disclosure—affect the overall value of these banks. Ultimately, this research contributes to the academic and accounting literature by highlighting the substantial influence of geopolitical risks on corporate performance and sustainability, and it provides valuable insights for banks on effective risk disclosure practices.

METHODS

The current research employs a descriptive-analytical approach combined with quantitative methods to examine the impact of accounting disclosure of geopolitical risks (GPR) on earnings quality (EQ) and firm value (FV) in the Iraqi banking sector. The research is based on primary data collected through an electronic questionnaire distributed to employees of ten selected banks. The study's methodology is designed to ensure reproducibility, allowing future researchers to apply the same approach and obtain similar results.

1. Research Approach and Design

The research follows a descriptive-analytical approach, which is widely used in financial and accounting studies to analyze the characteristics of variables and their relationships (Zikmund et al., 2013). This approach is suitable for understanding how accounting disclosure of geopolitical risks influences earnings quality and firm value in an emerging market context.

A quantitative research design was adopted to ensure the objectivity and generalizability of the findings. The study relies on structured data collection and statistical analysis to examine causal relationships between variables, following best practices in empirical accounting research (Bryman & Bell, 2015).

2. Data Collection and Sampling

The primary data was gathered through an electronic questionnaire consisting of 65 questions distributed across three main constructs:

Geopolitical Risk Disclosure (GPRD) – measured using seven dimensions: wars, terrorism, cyber risks, environmental risks, subsequent events, management plans, and internal control, 5 items for each dimension.

Earnings Quality (EQ) – assessed using 15 items based on earnings stability, predictability, and reliability.

Firm Value (FV) – measured through 15 items capturing market valuation.

The questionnaire was distributed to 117 employees from ten banks operating in Iraq. The sample was selected using a convenience sampling method, The use of an electronic questionnaire via Google Forms facilitated efficient data collection while minimizing human error and increasing response rates.

3. Data Analysis and Statistical Methods

To analyze the collected data, the research employs IBM SPSS 27 software, ensuring robust statistical modeling and hypothesis testing:

Reliability Analysis was conducted using Cronbach's Alpha.

Regression Analysis (Simple and Multiple Linear Regression) was applied to examine the direct effects of geopolitical risk disclosure on earnings quality and firm value.

A mediation model was employed using the Process Macro tool in SPSS to test the third hypothesis. This method is widely used in financial and accounting research for evaluating complex interdependencies between variables (Hair et al., 2019).

RESULTS

1. Content Validity

The content validity was verified by presenting the initial version of the questionnaire to a panel of 16 experts and evaluators specialized in financial and accounting sciences. This was done prior to the distribution of the questionnaire to ensure that the items were appropriate, clearly and accurately phrased, and suitable for the intended field of study. Necessary modifications were made, including adding new items, revising existing wording, or eliminating items that were unclear or not relevant to the questionnaire's objectives.

2. Reliability Analysis

Table 1: Reliability Analysis (Cronbach's Alpha)

No.	Construct	Number of items	Cronbach's Alpha
1	Accounting Disclosure of Geopolitical Risks	35	0.838
2	Earnings Quality	15	0.812
3	Firm Value	15	0.709
4	Total	65	0.903

The questionnaire used in the research achieved a Cronbach's Alpha coefficient of 0.903, indicating a high level of reliability and internal consistency.

3. Research hypothesis test

Hypothesis 1: There is a statistically significant impact of accounting disclosure of geopolitical risks on earnings quality.

Table 2: Regression coefficients for the relationship between accounting disclosure of geopolitical risks and earnings quality.

Model 1	Non-Standardized Coefficients		Standardized Coefficients	t	Significance Level (Sig.)
	B	Standard Error	Beta		
Constant	1.320	0.444		2.971	0.004
GPRD	0.672	0.110	0.496	6.130	<.001

The regression analysis results in table 2 show that the constant value in the equation is 1.320, with a statistical significance of 0.004. The coefficient for the independent variable, geopolitical risk disclosure, is 0.672, indicating that for each one-unit increase in geopolitical risk disclosure, the earnings quality increases by 0.672. The standard error for the coefficient is 0.110, suggesting precise estimation. The standardized Beta coefficient is 0.496, indicating a moderate to strong contribution of geopolitical risk disclosure in explaining the variation in earnings quality.

The results are statistically significant ($p < 0.001$), with a t-value of 6.130, supporting the hypothesis of a significant relationship between geopolitical risk disclosure and earnings quality. These findings highlight the positive impact of geopolitical risk disclosure on earnings quality, with increased disclosure improving the quality of financial reporting.

Hypothesis 2: There is a statistically significant impact of accounting disclosure of geopolitical risks on firm value.

Table 3: Regression coefficients for the relationship between accounting disclosure of geopolitical risks and firm value.

Model 1	Non-Standardized Coefficients		Standardized Coefficients	t	Significance Level (Sig.)
	B	Standard Error	Beta		
Constant	1.796	0.347		5.170	<.001
GPRD	0.559	0.086	0.520	6.522	<.001

The regression analysis results in table 3 show that the constant value in the equation is 1.796, with a statistical significance of 0.000. The coefficient for the independent variable, geopolitical risk disclosure, is 0.559, indicating that for each one-unit increase in geopolitical risk disclosure, firm value increases by 0.559. The standard error for the coefficient is 0.086, suggesting a precise estimation of the impact. The standardized Beta coefficient is 0.520, indicating a moderate to strong contribution of geopolitical risk disclosure in explaining the variation in firm value.

The results are statistically significant ($p < 0.001$), with t-values of 5.170 for the constant and 6.522 for the independent variable, supporting the hypothesis of a significant relationship between geopolitical risk disclosure and firm value. These findings highlight the positive effect of geopolitical risk disclosure on firm value, with increased disclosure enhancing financial transparency and improving firm valuation.

Hypothesis 3: The impact of accounting disclosure of geopolitical risks on firm value is statistically significant through the mediation of earnings quality.

Table 4: The indirect effect of accounting disclosure of geopolitical risks on firm value through the mediation of earnings quality.

Indirect Effect	BootSE	LLCI	ULCI
0.4101	0.1884	0.08601	0.945

The mediation model was employed using the Process Macro tool in SPSS to test the third hypothesis. This analysis aims to determine whether the total effect of geopolitical risk disclosure on firm value occurs directly or through earnings quality as a mediating variable, the statistical analysis results presented in Table 4, indicate that the disclosure of geopolitical risks indirectly affects firm value through earnings quality as a mediating variable. The indirect effect was found to be (0.4101), suggesting that part of the relationship between geopolitical risk disclosure and firm value is explained through earnings quality.

The standard error associated with the indirect effect was (0.1884), reflecting the stability and accuracy of the results. The relatively low standard error values indicate that the results remain consistent across the sample. The statistical significance of the indirect effect was assessed using a 95% confidence interval, ranging from a minimum of (0.08601) to a maximum of (0.945). Since the entire confidence interval is above zero, this confirms that the indirect effect is statistically significant, meaning that the relationship between geopolitical risk disclosure and firm value through earnings quality is not due to chance.

The findings demonstrate that geopolitical risk disclosure positively influences both earnings quality and firm value, with earnings quality acting as a significant mediator in this relationship. These results provide empirical evidence supporting the importance of transparent risk disclosure in enhancing financial performance.

DISCUSSION

the results of this study provide empirical support for the impact of accounting disclosure of geopolitical risks (GPR) on earnings quality (EQ) and firm value (FV) in the Iraqi banking sector. The findings indicate that GPR disclosure significantly enhances EQ, which in turn positively influences FV. Moreover, the mediation analysis confirms that EQ partially transmits the effect of GPR disclosure to FV, suggesting that transparent reporting of geopolitical risks contributes to financial stability and investor confidence, and These findings are consistent with prior research emphasizing the role of risk disclosure in improving financial reporting quality and firm performance (Abdullah, 2024). Similar studies conducted in emerging markets have also highlighted the impact of geopolitical risks on corporate financial stability (Lu, Gozgor, Huang, & Lau, 2020). However, this study adds to the literature by specifically examining the banking sector in Iraq, a market characterized by heightened geopolitical uncertainty.

Overall, this study underscores the importance of comprehensive GPR disclosure in strengthening financial transparency and enhancing firm value. Policymakers and regulatory bodies should consider implementing standardized disclosure frameworks to ensure that banks provide accurate and detailed information on geopolitical risks, thereby improving investor confidence and financial decision-making.

CONCLUSIONS

This section discusses the key conclusions drawn from the statistical analysis and the findings of the research.

The main conclusions reached by the researcher are as follows:

1- Companies are significantly affected by various geopolitical risks such as wars, terrorist attacks, and cyber threats. These risks lead to variability in financial performance and require specific disclosure strategies to mitigate their effects.

2- The importance of disclosing geopolitical risks is highlighted, as the results show that accounting disclosure of geopolitical risks is a vital factor that positively impacts the earnings quality, which in turn affects firm value and investor confidence.

3- The results revealed a direct relationship between the level of financial report transparency and earnings quality. Detailed and clear disclosures contribute to increased investor confidence.

4- There is a lack of clear accounting standards that mandate banks to disclose certain aspects of geopolitical risks, leading to variability in the level of disclosure among banks.

5- Disclosure of some dimensions of geopolitical risks in Iraqi banks relies more on voluntary standards than on legal obligations, which affects the quality of financial information available to investors.

Future Research Directions:

1- Investigating the relationship between geopolitical risk disclosure and financial sustainability in sectors other than the banking sector, such as industries reliant on supply chains.

2- It is suggested to conduct future studies exploring the impact of technological developments, such as the use of artificial intelligence, on improving accounting disclosure of geopolitical risks.

3- Studying the impact of other dimensions of geopolitical risks, such as economic and trade sanctions, information warfare, and media, particularly propaganda.

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