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THE IMPACT OF INSTITUTIONAL GOVERNANCE ON COMBATING FINANCIAL CORRUPTION AND THE QUALITY OF BANKING SERVICES

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Abstract

The research aims to study, analyze, and evaluate the role of governance mechanisms in light of banking regulations in reducing financial and administrative corruption in public banks. The research question investigates whether the implementation of governance principles leads to improving the quality of banking services and combating financial and administrative corruption, thereby enhancing the financial performance of banks? The importance of this research lies in the utilization of governance principles to improve the quality of banking services and combat financial and administrative corruption within these banks. These principles have a direct and indirect impact on these banks .The study focuses on the governmental banks Al-Rasheed and Al-Rafidhain, with branches across Iraq. The study sample consists of 390 financial managers within these banks. Statistical methods such as mean, standard deviation, and tests of influence and correlation were employed using the SPSS statistical software. The research concludes that the adoption of transparency and disclosure principles in public banks is weak due to the lack of available data and information regarding the operational aspects of these banks.

Keywords: Institutional governance, quality of banking services, financial and administrative corruption.

THE FIRST PART: RESEARCH METHODOLOGY

INTRODUCTION

Institutional governance encompasses a set of principles and priorities aimed at achieving integrity and effectiveness in the management and performance of institutions, including commercial banks. The role of institutional governance in the quality of banking services involves improving management and leadership through the development of governance structures in banks that ensure informed and effective policy guidance and decision-making. It also enhances transparency by disseminating accurate and understandable financial information that contributes to building trust among customers and investors. Effective monitoring and oversight reinforce the role of boards of directors and oversight committees in evaluating the performance of executive management and overseeing policy implementation. Additionally, by promoting anti-corruption efforts, governance provides a better foundation for detecting and combating corruption within the institution through accountability and transparency.

The Seybold Report
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1- Research Objective

The research aims to study, analyze, and evaluate the role of governance mechanisms in accordance with the instructions of the Central Bank in reducing financial and administrative corruption in public banks. It also aims to achieve the following:

1- Identify the concept of governance and its principles and assess the extent of their implementation in Iraqi banks from the perspective of the study sample.

2- Analyze the impact of implementing governance principles on improving the financial performance of the banks included in the research sample.

2- Research Problem

Does the implementation of governance principles lead to improving the quality of banking services and combating financial and administrative corruption, thereby enhancing the financial performance of banks? The sub-questions for the research are:

1- What is the impact of implementing the principle of stakeholder engagement on improving the financial performance of banks?

2- How effective are banking governance mechanisms, in light of the instructions of the Central Bank, related to the principles of transparency and disclosure in public banks, in combating financial and administrative corruption?

3- Research Significance

The significance of this research lies in the utilization of governance principles to improve the quality of banking services and combat financial and administrative corruption. These principles have a direct and indirect impact on these banks.

4- Research Methodology

The descriptive analytical research methodology was used to obtain the research results. This approach involved the use of measures, tests, and statistical methods in the evaluation.

5- Research Hypotheses

The researcher formulated the following hypotheses:

H01a: There is no statistically significant impact of ensuring an effective framework for banking governance on improving the financial performance of banks at a significance level of ($0.05 \geq a$).

H01b: There is no statistically significant impact, at a significance level of ($0.05 \geq a$), of protecting the rights of shareholders and investors on improving the financial performance of banks.

H01c: There is no statistically significant impact of fair and equal treatment among all shareholders on improving the financial performance of banks at a significance level of ($0.05 \geq a$).

The Seybold REPORT
ISSN 1533-9211
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H01d: There is no statistically significant impact of stakeholder engagement on improving the financial performance of banks at a significance level of (0.05 ≥ a).

H01e: There is no statistically significant impact of disclosure and transparency principles on improving the financial performance of banks at a significance level of (0.05 ≥ a).

H01f: There is no statistically significant impact of the responsibilities of the board of directors on improving the financial performance of banks at a significance level of (0.05 ≥ a).

6- Previous Studies

1- A study by Sayed Ali (2020), titled "The Impact of Corruption and Governance Indicators on Economic Growth in Arab Countries for the Period 1996-2017," aimed to investigate the impact of corruption and governance indicators on economic growth in 13 Arab countries. The study revealed a negative effect of corruption on economic growth, and the results indicated that the education indicator is one of the variables that negatively affects economic growth in Arab countries.

2- The study conducted by Al-Kirbani (2020) titled "The Role of Government Policies in Combating Administrative Corruption and Prevention: A Perspective from Judicial Personnel in the State of Kuwait" revealed that the overall level of government policies in reducing administrative corruption and preventing it was moderate. The results also indicated that there are significant obstacles hindering the effectiveness of government policies in combating corruption, and these obstacles were found to be at a high level. The findings highlighted that the most important obstacles include centralization in administrative decision-making and the lack of clearly defined functional responsibilities within the organizational structure of senior officials in public institutions. Additionally, the study confirmed that activating the role of citizens and encouraging interactive participation between oversight bodies and reporting mechanisms are among the supportive methods to enhance the role of government policies in reducing administrative corruption and preventing it.

3- The study conducted by Pinzon (2020) titled "The Role of Transparency and Accountability in Combating Corruption: A Case Study of Healthcare Organizations in Hong Kong" aimed to explore the role of the United Nations in developing an approach to address corruption and enhance transparency and accountability in healthcare organizations as part of its efforts to support sustainable development goals. This study employed qualitative methods, including desk research and field experience, to develop the research methodology. The study uncovered several important findings, including the absence of a specific approach to combat administrative corruption in healthcare organizations due to the variation in approaches used to study this phenomenon. It also highlighted that anti-corruption efforts serve as a clear entry point for governance reforms, employing organized approaches based on systematic evidence to reduce corruption within these organizations. Furthermore, the fear of accountability and the presence of transparency played a significant role in combating administrative corruption in healthcare organizations by making employees more vigilant and cautious about corruption, which in turn influenced their behavior.

The Seybold REPORT
ISSN 1533-9211
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4- The study conducted by Devi (2019) titled "The Role of Transparency in Reducing Administrative Corruption in Government Organizations in Malaysia" aimed to understand the role of transparency in reducing administrative corruption. The study employed a descriptive-analytical methodology, utilizing a questionnaire administered to a random sample of government sectors in Malaysia. The study revealed several findings, including a generally low level of commitment by government organizations to implement transparency. It also found a low level of accountability by oversight bodies in holding government organizations accountable for corruption. The study indicated that the prevalence of administrative corruption patterns in government organizations was moderate. Additionally, the study identified an inverse relationship between the level of transparency and the level of administrative corruption, where an increase in transparency corresponded to a decrease in the scope of administrative corruption, and a decrease in transparency corresponded to an increase in the scope of administrative corruption.

THE SECOND PART: THEORETICAL FRAMEWORK

1- The Concept of Institutional Governance:

The increasing satisfaction, prosperity, acceptance, development, and revitalization for everyone in the long term, which is associated with business activities (ACCA, 2018:5), leads to the establishment of future and immediate projects that respond to social needs with innovative and distinctive techniques. Therefore, institutions make tremendous efforts to achieve sustainable growth and increase long and medium-term corporate value. This is the goal that institutions or companies aim for when they are established, as they are merely a group that contributes to the continuity and development of humanity, establishing trust among stakeholders who understand institutional governance as effective management to provide sustainable long-term profits for stakeholders through accelerated decision-making, clarification of management responsibilities, and execution of tasks (Kinoshita, 2018:1). This is what governments aspire to achieve in terms of corporate social responsibility, as they seek to enact laws that help ensure compliance with the best standards and practices that align with international standards, with a focus on community development laws.

The economies of emerging countries, which include countries in Eastern Europe, Latin America, Africa, and Asia, have been negatively affected by weak legal systems that hinder the proper implementation of contracts and dispute resolution. This leads to a lack of reliable data and information, which in turn affects supervision and control, resulting in cases of corruption and loss of trust. To avoid these legal breaches, it is important to adhere to the principles of proper institutional governance, which can help create a legal environment built on precautions against corruption and mismanagement (Youssef, 2007:15).

Institutional governance, when implemented and practiced in institutions and banks, has significant effects that lead to achieving economic development and growth. It stimulates and drives the economy towards attaining progress, development, and prosperity by adhering to principles of information quality, transparency, and disclosure. It represents a positive perception of the institution's actions and practices in the minds of investors. Consequently, it

The Seybold REPORT
ISSN 1533-9211
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supports and contributes to attracting a substantial amount of investments (Netson, Stelpon, 2001, 16).

2- The concept of quality in banking services:

I have found that it is defined as "the characteristics and overall image of a product that have the ability to satisfy specific needs or desires of the customer. It is the absence of any defect in the service during its delivery, and it is the result of judgments related to the customer's perceived expectations of the service and its actual performance" (Al-Ajarmah, 2005, p. 329).

I have also learned that it is described as consisting of four main dimensions: "banking service, its delivery style, customer service, and physical and electronic resources and capabilities" (Abdulqader, 2005, p. 255).

Banking services differentiate from other services in the challenge of pre-storing them for customer demand. Bank officials do not work in a factory in front of a production line, and they are required to provide immediate services to customers with the same efficiency and high quality every time. Banks, in particular, do not produce samples of their services and send them to customers for them to judge the quality. Therefore, banks are obliged to take care of each individual customer because the service itself is not something tangible that can be possessed according to fixed standards by all customers. Thus, the judgment of the service relies on what the customer requests and expects (Al-Zamil et al., 2012, p. 57).

3- The concept of financial and administrative corruption:

Financial corruption is defined as "bad and deviant behavior that results in significant financial losses for citizens and social institutions and affects development and consequently the entire state. This burden may include unnecessary debts, for example, and the state's policy may deteriorate if corruption prevails and there is no control over public funds" (Al-Ghanmi, Al-Khazraji, 2017, p. 10).

Administrative corruption is defined as a phenomenon that may be tangible and widespread in both developing and advanced countries, albeit varying in its level of prevalence and extent from one society to another. It leads to the misuse of power, violation of laws, regulations, and ethical standards. The misuse of power affects the administrative system and diverts it from its public interest objectives (Al-Ramah, 2016, p. 17). Similarly, administrative corruption is defined as "activities carried out within the government administrative apparatus, which effectively deviate that apparatus from its official purpose in favor of private goals, whether in a recurring or continuous manner, and whether in an individual or organized collective manner" (Aboud, 2011, p. 17).

THE THIRD PART: PRACTICAL ASPECT

1- Sample and Research Population:

The Iraqi banks were selected as the sample, and 37 banks were excluded, leaving two remaining banks, Al-Rafidain and Al-Rasheed, which are the largest banks in Kirkuk province, Iraq. The statistical software SPSS Version V.24 was used to input the primary data. The

The Seybold REPORT
ISSN 1533-9211
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selected sample size was 400 individuals, while the number of valid questionnaires entered into the software was 385, with a response rate of 95% of the total sample size.

Table 1: Number of Distributed and Received Questionnaires from Research Sample Individuals.

	Total
Number of distributed questionnaires	400
Number of received valid questionnaires for analysis	390
Percentage of valid questionnaires for analysis	97%

Source: Table prepared by the researcher.

2- Questionnaire Reliability:

The term "questionnaire reliability" refers to the consistency of results produced by the scale when used multiple times under similar conditions. The researcher verified the reliability of the questionnaire items using Cronbach's alpha coefficient, which ranges from 0 to 1. The statistically acceptable value for Cronbach's alpha is 0.60 or higher, indicating a good scale. The researcher calculated the Cronbach's alpha coefficient for each item, as shown in the following Table 2.

Table 2: Cronbach's Alpha Coefficient Values

Number of Items	Cronbach's Alpha Coefficient	Validity Coefficient
30	0.940	0.969

Source: Table prepared by the researcher based on the results of statistical analysis.

From Table 2, it can be observed that the Cronbach's alpha coefficient value is 0.940, which is considered acceptable as it reflects the availability of reliability and confidence in the research variables. It confirms their suitability for subsequent analysis stages.

3- Study Hypotheses Testing

The study hypotheses are as follows:

Hypothesis 1: There is no statistically significant effect of having an effective governance framework on improving the financial performance of banks at a significance level of ($a \leq 0.05$).

The Seybold REPORT
ISSN 1533-9211
DOI: 10.5281/zenodo.10276708

Table 3: Regression Coefficients for the Effect of Having an Effective Governance Framework on Improving the Financial Performance of Banks.

Model	Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
		B	Std. Error	Beta		
Constant	Improving Financial Performance of Banks Y	3.267	0.090		36.458**	0.000
Having an Effective Governance Framework X		0.161	0.023	0.334	7.080**	0.000
Computed F-value = 50.132 ** sig. = 0.000 **Significant at 0.01						
Coefficient of Determination (R^2) = 0.112						

Source: Prepared by the researcher from the results of statistical analysis.

The following can be concluded from the previous table:

1- The overall model's significance is established, as indicated by the computed F-value for the model (50.132), which is significant at a significance level of 0.01.

2- The significance of the regression coefficient and its positive sign indicate a positive effect. The significance of the constant term is also evident.

3- The coefficient of determination (R^2) is 0.112, indicating that variations in having an effective governance framework explain 11.2% of the changes in the dependent variable (Improving Financial Performance of Banks). The remaining percentage of the impact is attributed to other factors not mentioned in this model.

Based on the above results, the null hypothesis is not supported. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted. It can be concluded that having an effective governance framework significantly affects the improvement of the financial performance of banks.

Hypothesis 2: There is no statistically significant effect at the significance level (a≤0.05) of the principle of protecting the rights of shareholders and investors on improving the financial performance of banks.

Table 4: Regression Coefficients for the Impact of the Principle of Protecting the Rights of Shareholders and Investors on Improving the Financial Performance of Banks.

Model	Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Constant	Financial Performance Improvement of Banks Y	3.211	0.083		38.881**	0.000
Principle of Protecting Rights of Shareholders and Investors X		0.193	0.023	0.389	8.432**	0.000
Calculated F-value = 71.101 ** sig. = 0.00 **Significant at 0.01 l						
Coefficient of Determination (R^2) = 0.152						

Source: Prepared by the researcher from the results of statistical analysis.

The Seybold REPORT
ISSN 1533-9211
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The following can be inferred from the previous table:

1- The overall significance of the model is established, as indicated by the calculated F-value (71.101), which is significant at a significance level of 0.01.

2- The significance of the regression coefficient is evident from the t-value and the sig (P-value). The positive sign indicates a positive effect, and the constant term is also significant.

3- The coefficient of determination, R^2 (0.152), indicates that variations in the Principle of Protecting Rights of Shareholders and Investors explain 15.2% of the variation in the dependent variable (Financial Performance Improvement of Banks). The remaining percentage of the effect can be attributed to other factors not mentioned in this model.

Based on the above results, the second hypothesis is not supported. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted, indicating that the Principle of Protecting Rights of Shareholders and Investors has a statistically significant impact on improving the financial performance of banks.

Hypothesis 3: There is no statistically significant effect at the significance level (a≤0.05) of the principle of fair and equal treatment of all shareholders on improving the financial performance of banks**.**

Table 5: Regression Coefficients for the Impact of the Principle of Fair and Equal Treatment of All Shareholders on Improving the Financial Performance of Banks.

Model	Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Constant	Financial Performance Improvement of Banks Y	2.685	0.145		18.493**	0.000
Principle of Fair and Equal Treatment of All Shareholders (X)		0.307	0.037	0.385	8.325**	0.000
Calculated F-value = 69.302 ** sig. = 0.000 **Significant at 0.01						
Coefficient of Determination (R^2) = 0.148						

Source: Prepared by the researcher from the results of statistical analysis.

The previous table reveals the following:

1- The overall model's significance is established, as indicated by the calculated F-value (69.302), which is significant at a significance level of 0.01.

2- Based on the t-value and the significance level (P-value), the regression coefficients are significant. The positive sign of the coefficients indicates a positive effect. The significance of the constant term is also evident

3- The coefficient of determination (R^2) is 0.148, indicating that variations in the principle of fair and equal treatment of all shareholders contribute to explaining 14.8% of the changes

The Seybold REPORT
ISSN 1533-9211
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in the dependent variable (financial performance improvement of banks). The remaining percentage of the influence is attributed to other factors not mentioned in this model.

Based on the above results, the validity of the third hypothesis is not supported. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted. It can be concluded that the principle of fair and equal treatment of all shareholders has a statistically significant impact on improving the financial performance of banks.

Hypothesis 4: There is no statistically significant effect of stakeholder engagement on improving the financial performance of banks at a significance level of (a ≤ 0.05).

Table 6: Regression Coefficients for the Effect of Stakeholder Engagement on Improving the Financial Performance of Banks.

Model	Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Constant	Improving Financial Performance of Banks Y	3.153	0.072		43.789**	0.000
Stakeholder Engagement X		0.244	0.023	0.470	10.635**	0.000
Calculated F-value = 113.100 ** sig. = 0.000 **Significant at 0.01						
Coefficient of Determination (R^2) = 0.221						

Source: Prepared by the researcher from the results of statistical analysis.

The following can be concluded from the previous table:

1- The overall model's significance is established, as indicated by the computed F-value for the model (113.100), which is significant at a significance level of 0.01.

2- The significance of the regression coefficient and its positive sign indicate a positive effect. The significance of the constant term is also evident.

3- The coefficient of determination (R^2) is 0.221, indicating that variations in stakeholder engagement explain 22.1% of the changes in the dependent variable (Improving Financial Performance of Banks). The remaining percentage of the impact is attributed to other factors not mentioned in this model.

Based on the above results, the null hypothesis for the fourth hypothesis is not supported. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted. It can be concluded that stakeholder engagement significantly affects the improvement of the financial performance of banks

Hypothesis 5: There is no statistically significant effect of disclosure and transparency on improving the financial performance of banks at a significance level of (a ≤ 0.05).

The Seybold REPORT
ISSN 1533-9211
DOI: 10.5281/zenodo.10276708

Table 7: Regression Coefficients for the Effect of Disclosure and Transparency on Improving the Financial Performance of Banks.

Model	Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Constant	Improving Financial Performance of Banks Y	2.664	0.123		21.710**	0.000
Stakeholder Engagement X		0.310	0.031	0.450	10.064**	0.000
Computed F-value = 101.276 ** sig. = 0.000 **Significant at 0.01						
Coefficient of Determination (R^2) = 0.201						

Source: Prepared by the researcher from the results of statistical analysis.

The following can be concluded from the previous table:

1- The overall model's significance is established, as indicated by the computed F-value for the model (101.276), which is significant at a significance level of 0.01.

2- The significance of the regression coefficient and its positive sign indicate a positive effect. The significance of the constant term is also evident.

3- The coefficient of determination (R^2) is 0.201, indicating that variations in disclosure and transparency explain 20.1% of the changes in the dependent variable (Improving Financial Performance of Banks). The remaining percentage of the impact is attributed to other factors not mentioned in this model.

Hypothesis 6: There is no statistically significant effect of corporate governance responsibilities on improving the financial performance of banks at a significance level of (a ≤ 0.05)**.**

Table 8: Regression Coefficients for the Effect of Corporate Governance Responsibilities on Improving the Financial Performance of Banks.

Model	Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
Constant	Improving Financial Performance of Banks Y	2.045	0.123		16.699**	0.000
Corporate Governance Responsibilities X		0.483	0.032	0.602	15.045**	0.000
Computed F-value = 226.367** sig. = 0.000 **Significant at 0.01						
Coefficient of Determination (R^2) = 0.363						

Source: Prepared by the researcher from the results of statistical analysis.

The Seybold REPORT
ISSN 1533-9211
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The following can be concluded from the previous table:

1- The overall model's significance is established, as indicated by the computed F-value for the model (226.367), which is significant at a significance level of 0.01.

2- The significance of the regression coefficient and its positive sign indicate a positive effect. The significance of the constant term is also evident.

3- The coefficient of determination (R^2) is 0.363, indicating that variations in corporate governance responsibilities explain 36.3% of the changes in the dependent variable (Improving Financial Performance of Banks). The remaining percentage of the impact is attributed to other factors not mentioned in this model.

Based on the previous results, the validity of Hypothesis 6 is not established. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted. This suggests that corporate governance responsibilities have a statistically significant impact on improving the financial performance of banks.

Results of the field study:

1- It is evident that there is an impact of the principle of protecting the rights of shareholders and investors on improving the financial performance of banks.

2- It is evident that there is an impact of the principle of stakeholder involvement on improving the financial performance of banks.

3- It is evident that there is an impact of the principle of disclosure and transparency on improving the financial performance of banks.

4- It is evident that there is an impact of the principle of corporate governance responsibilities on improving the financial performance of banks.

Recommendations:

1- The senior management of banks should prioritize the implementation of banking governance principles and utilize them as tools for monitoring and control.

2- The senior management of banks should pay attention to their investment funds and appoint competent individuals to handle stock market investments, ensuring the protection of shareholders' rights in investment fund shares.

3- Efforts should be made to standardize banking procedures, applying principles of fair and equal treatment for all bank stakeholders.

4- It is crucial to prioritize the interests of all stakeholders, including shareholders and investors, without discrimination.

5- Banks should focus on publishing newsletters concerning credit and banking developments, ensuring accurate implementation of principles of disclosure and transparency.

The Seybold REPORT

ISSN 1533-9211

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6- Full digital transformation responsibilities, including transactions through modern social communication channels, should be added as key responsibilities for bank boards of directors.

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