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Article

The Relationship Between Voluntary Disclosure, Accounting Earnings Quality, and Its Impact on Investor Confidence: An Applied Study at the Middle East Investment Bank for the Period 2010–2024

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Abstract: The paper employs an applied case study of the Middle East Investment Bank to investigate the relationship between voluntary disclosure, accounting profits quality, and investor confidence from 2010 to 2024. The research problem stems from the following question: To what extent does optional disclosure enhance earnings quality, and how will it affect investor confidence? This study incorporates quantitative tools for measuring earnings quality (i.e., accrual models) and disclosure content analysis along with market indicators of investor confidence, and uses a descriptive-analytical methodology based on reviewing financial reports and voluntary disclosures issued by the bank. To determine these relationships among the variables, multiple linear regression tests were performed along with mediation relationship tests. Findings from this preliminary research indicate that a higher level of earnings quality due to optional disclosure is likely to increase investor confidence, while one key mediating factor in the relationship between investor confidence and voluntary disclosure is earnings quality. The findings also suggest that if bank management wants to improve financial data reliability, investor confidence, and the stability of financial markets, it should make more voluminous voluntary disclosures and engage in more transparent accounting practices.

Keywords: Voluntary Disclosure (VD), Accounting Earnings Quality (AEQ), Investor Confidence (IC), Middle East Investment Bank

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1. Introduction

Accounting disclosure is one of the fundamental building blocks of transparency in financial markets, since it gives stakeholders and investors access to the information they need to make investment decisions. As the business environment has changed and as financial transactions have become more complex, mandatory disclosure alone cannot fill the information gap between investors and management; voluntary disclosure becomes an essential tool for enhancing transparency and trust in financial reporting. Quality of accounting earnings remains a concern: Quality accounting earnings means that what is reported on the face of the income statement gives a true sense of economic performance as it relates to profit without any practices designed to manipulate profits or mislead users of the financial data. The quality of earnings is directly related to investor confidence and decisions about buying or selling shares; the degree of transparency and reliability of accounting data and disclosures is linked with the stability of the financial market. The greater the voluntary disclosure and the quality of accounting earnings, the more confident investors are in the performance and sustainability of the institution. Therefore,

this paper uses a case study approach for Middle East Bank for Investment from 2010 to 2024 to demonstrate how greater transparency through voluntary disclosures and higher-quality accounting earnings can contribute to building investor confidence and financial system stability by providing a scientific and useful framework.

2. Research Methodology

2.1 Research Problem

Even though there have been tremendous advances in accounting and governance requirements, there continues to be a knowledge gap between investors and bank management; mandatory disclosures do not always paint an accurate picture of how well the institution is performing or what its prospects are going forward, so voluntary disclosure has become a critical tool for transparency and calming investor concerns. In contrast, other management teams will employ accounting estimates or earnings management that taints the quality of reported results, making financial data more difficult to use due to poor-quality earnings, whereas low-quality earnings diminishes investor confidence and is necessary for stable financial markets.

2.2 Research Significance:

This research contributes to accounting and finance literature by focusing on voluntary disclosure and its relationship to the quality of accounting earnings and how it affects investor confidence which has been relatively neglected in the Arab banking environment, and adding a new analytical dimension to earlier studies by emphasizing the mediating role of earnings quality between voluntary disclosure and investor confidence. The findings of this study can help the Middle East Investment Bank create more transparent disclosure practices and build trust among stakeholders; they also provide regulatory bodies and decision-makers with indicators regarding how voluntary disclosure and earnings quality affect investor attraction and financial market stability.

2.3 Research Objectives:

This paper conducts an applied research on Middle East Investment Bank during 2010-2024. Its main purpose is to investigate the impact of voluntary disclosure on the quality of accounting earnings and its effect on investor confidence by showing how voluntary disclosure can enhance the credibility of financial information and reduce manipulation or earnings management opportunities, and then demonstrate how accounting earnings quality, as an important indicator of equity and transparency in the company\'s financial performance, influences investors\' decisions and confidence.

2.4 Research Hypothesis:

The present analysis postulates a noteworthy association and influence between accounting earnings quality, voluntary disclosure, and investor trust at the Middle East Investment Bank from 2010 to 2024. In particular, it is assumed that optional disclosure has a direct and indirect impact on investor trust (through earnings quality) and that it helps to improve earnings quality, which in turn boosts investor confidence.

2.5 Research Population and Sample:

All banks listed on the Iraqi financial market between 2010 and 2024 make up the research population, providing an appropriate setting for examining the connection between investor confidence, accounting earnings quality, and voluntary disclosure. Because the Middle East Investment Bank is a listed bank on the Iraqi financial market and is subject to regulatory disclosure requirements, as well as because the annual financial data and disclosure reports for the period 2010–2024 are available, making both quantitative and qualitative analysis easier, the bank was chosen as the specific sample for both practical and academic reasons.

3. Theoretical Framework

3.1 The Concept and Importance of Voluntary Disclosure:

The term "voluntary disclosure" describes the financial and non-financial information that businesses give to stakeholders and investors in excess of what is mandated by legal requirements and accounting standards. The purpose of this kind of disclosure is to increase openness and lessen investor apprehension about the institution's operational and financial performance. It also allows for disclosure of future strategic initiatives, growth plans, and other risks not shown on the face of the financial statements, which gives investors a better overall picture of the organization to make more informed investment decisions (Healy & Palepu, 2001: 356). Voluntary disclosure is an important way that management can increase investor confidence in their organization while also bolstering its reputation in capital markets by building trust with investors. Research shows that companies that have strong voluntary disclosure policies attract investment and cut down on capital expenditures as it alleviates concerns of the investor, and helps build trust between the organisation and the financial marke (Verrecchia, 2001: 117).

The importance of voluntary disclosure derives from its various functions, which include enhancing investors' understanding of the operational and financial condition of the organisation, reducing information asymmetry between investors and management, facilitating more informed investment choices, and strengthening the organisation's position in financial markets, all of which increases competitiveness and maintains relationships with stakeholders (Bushman & Smith, 2003: 137).

A key factor in enabling projections of the institution's future success is voluntary transparency. Research shows that optional disclosure lowers investor uncertainty and improves the accuracy of earnings projections. Additionally, by reducing financial surprises that can influence their choices, it helps analysts and investors better assess the risks associated with investments, boosting trust in accounting data and bolstering the institution's bond with investors (Botosan, 1997: 42).

Improved internal governance, more efficient oversight of company management, and a decrease in dishonest accounting practices are all associated with voluntary disclosure. As investors and analysts start to anticipate accurate and transparent information, it puts some accountability on management, decreasing the possibility of illegal earnings management and boosting the credibility of financial statements (Lang & Lundholm, 1993: 105).

The institution directly benefits economically from voluntary disclosure, which lowers capital costs by boosting investor trust, improves market liquidity by promoting financial transactions, and supports the institution's and the financial markets' overall financial soundness. Because of these financial advantages, voluntary disclosure is a strategic instrument that has observable impacts on administrative and financial performance rather than just being an accounting practice (Bushman et al., 2004: 210).

In the end, voluntary disclosure fills the gap between official accounting data and the various demands of investors by offering a thorough understanding of operational and financial performance and boosting confidence among all parties involved. It is also a key component of business strategy for long-term value creation since it facilitates sustainable investment and growth in financial markets as well as corporate transparency (Hassan et al., 2020: 55).

3.2 The Concept of Accounting Earnings Quality and Its Relationship with Investor Confidence:

The ability of reported profits to accurately and realistically portray the organization's actual financial performance, free from tactics intended to manipulate or inflate earnings in order to meet short-term managerial goals, is known as accounting earnings quality. The quality of earnings indicates how trustworthy financial statements are and how well they can inform stakeholders and investors. Investors are more confident in financial

statements from companies with strong earnings, which helps them make well-informed investment decisions and lowers market uncertainty (Hribar & Collins, 2002: 119).

The regularity of accounting procedures and management's adherence to industry norms are directly related to the quality of earnings. The probability of misstatements or financial manipulation is decreased by organizations that uphold consistent accounting standards and use financial estimates carefully and impartially. This strengthens the long-term trust between management and investors by demonstrating management's trustworthiness and ability to accurately portray financial performance (Sloan, 1996: 243).

As a gauge of the dependability and openness of financial information, earnings quality is a crucial component in fostering investor trust. To evaluate real financial performance and forecast future risks, investors look to high-quality earnings. Investors are better able to plan and make well-informed investment decisions when earnings quality is higher, which lowers uncertainty and promotes durable investment relationships (Francis et al., 2005: 91).

Investors and financial markets are adversely affected by low profits quality, which raises capital costs because of eroded trust, decreases investment willingness, and increases stock price volatility. High-quality earnings, on the other hand, promote financial and business sustainability, enhance the institution's standing with investors, and offer a stable investment environment (Bushman & Smith, 2001: 58).

Numerous accounting metrics, including the correlation between net income and operating cash flows, the consistency of earnings over time, and the precision of future earnings projections, can be used to assess the quality of earnings. These metrics assist analysts and investors in evaluating the reliability of financial performance and differentiating between earnings from projections or short-term accounting techniques and those from actual operations. These steps help investors make better judgments and lower the hazards of depending on erroneous financial data (Leuz et al., 2003: 125).

According to recent research, investor confidence and voluntary disclosure are mediated by earnings quality. By improving transparency and earnings credibility, voluntary disclosure strengthens the bond between management and investors, lowers the possibility of misunderstandings or bad decisions, and has a direct and indirect effect on investor confidence (Hope, 2003: 67).

Earnings quality helps build financial soundness for markets and institutions by demonstrating to management that they are committed to openness and credibility while reducing the risk of losing trust; it is a necessary tool to maintain a reliable relationship between management and investors so that they can continue to invest in and sustainably grow the institution over time, which builds long-term competitiveness. (Francis & Wang, 2008: 140).

3.3 The Role of Voluntary Disclosure in Enhancing Earnings Quality and Investor Confidence:

Voluntary disclosure can also help provide full information beyond what is required by law (such as future strategic plans and analysis of operational and financial risks), which enhances the level of financial transparency. This type of disclosure reduces uncertainty about financial results and helps investors better understand the financial performance of the institution, increasing the credibility of reported earnings and enhancing incentives for management to follow proper accounting procedures (Bushman et al., 2005: 122).

Voluntary disclosure increases the visibility of any earnings manipulation to investors and financial analysts, creates an internal and external pressure for management to provide accurate and objective accounting estimates, enhances the quality of earnings by making it more difficult for management to manipulate earnings, improves the compliance with accounting rules, and provides investors with a powerful tool for assessing the validity of financial performance (Biddle et al., 2009: 78).

By offering qualitative details on both recurring and non-recurring components of earnings, as well as the influence of governmental policies and economic occurrences on financial outcomes, voluntary disclosure aids investors in comprehending the nature of accounting earnings. Because of this transparency, investors are better equipped to make solid and well-informed investment decisions by being able to discern between actual operational earnings and earnings derived from managerial forecasts (Giner & Rees, 2015: 210).

By providing access to comprehensive details about the organization's financial and operational practices, voluntary disclosure bolsters investor confidence by demonstrating management's openness, responsibility, and dedication to internal review. Building trust through voluntary disclosure improves investor-management relationships and lowers financial uncertainty, which benefits market stability and the institution's standing (Hassan & Marston, 2016: 44).

Because ongoing publication of financial data and strategic estimates exposes any attempt at manipulation to analysts and investors, voluntary disclosure serves as a precaution against excessive earnings management. By forcing management to follow the strictest integrity guidelines when creating financial statements, this increased transparency improves the quality of earnings and the dependability of the financial data that investors may access (Patel & Taffler, 2008: 52).

According to recent research, voluntary disclosure enhances the quality of accounting earnings, which in turn influences investor trust. Since thorough and transparent information improves the accuracy of financial performance assessment, lowers investment risks, and favorably influences investor decisions, high-quality earnings act as a link between voluntary disclosure and investor confidence, strengthening the institution's position in the market (Kim et al., 2014: 176).

One all-encompassing strategic technique that promotes institutional sustainability and investment appeal is voluntary disclosure. Voluntary disclosure boosts long-term investor trust, establishes a stable financial environment, and makes the institution more competitive and capable of long-term growth in financial markets by enhancing financial performance transparency and earnings quality (Chen et al., 2019: 95).

4. The Applied Aspect of the Research

4.1 Overview of the Middle East Investment Bank:

One of the top banks in Iraq, the Middle East financial Bank was founded to offer a range of banking and financial services to suit the demands of local businesses, organizations, and individuals. Along with cutting-edge electronic banking services that streamline customer transactions, the bank focuses on providing comprehensive financial solutions, such as deposits, loans, trade finance, and investment services. While working to improve governance and transparency requirements in banking operations, the bank uses financial techniques to boost local economic growth and attract investment in a variety of areas. In order to increase client and investor confidence in its services, it is dedicated to putting local and worldwide banking standards into practice, making sure that financial regulatory requirements are met, and accurately and consistently providing financial information.

The bank also carries out traditional banking functions such as supporting economic activities that contribute to the development of the Iraqi market for money and small and medium-sized investment projects, and creates new products and services to meet changing consumer needs. The Middle East Investment Bank provides a good example of how to balance financial standards compliance, profitability, and confidence-building with investors, clients, and management.

4.2 Measurement of Research Variables (Voluntary Disclosure, Accounting Earnings Quality, Investor Confidence) at the Middle East Investment Bank for the Period 2010–2024:

Financial information and annual reports covering the years 2010–2024 were gathered in order to comprehend the connection between investor confidence, accounting earnings quality, and voluntary disclosure at the Middle East Investment Bank. In order to evaluate the effect of voluntary disclosure on earnings quality and how it reflects on investor confidence, the measuring procedure uses both quantitative and qualitative indicators for each variable. The following metrics can be used to measure the research variables:

4.2.1 Measurement of Voluntary Disclosure:

By disclosing extra financial and non-financial information beyond what is required by law, such as expansion plans, potential hazards, and investment projects, the bank demonstrates its level of openness to investors. Each optional disclosure element that appeared in the annual report was given one point under the disclosure point index, with the total number of points representing the disclosure level for each year.

Table 1. Voluntary Disclosure Level at the Middle East Investment Bank (2010–2024).

Year	Strategic Policies	Future Risks	Investment Initiatives	Total Disclosure Index
2010	1	0	1	2
2011	1	1	1	3
2012	1	1	1	3
2013	1	1	1	3
2014	1	1	1	3
2015	1	1	1	3
2016	1	1	1	3
2017	1	1	1	3
2018	1	1	1	3
2019	1	1	1	3
2020	1	1	1	3
2021	1	1	1	3
2022	1	1	1	3
2023	1	1	1	3
2024	1	1	1	3

With a total disclosure index of two out of three since future risks were not disclosed, the table demonstrates that the bank implemented certain voluntary disclosure items in 2010. The total disclosure index steadily covered all three components through 2024, rising to 3 from 2011. This dedication demonstrates a high degree of transparency by giving investors thorough information that lowers ambiguity about the bank's financial performance and enables them to make better informed investment decisions.

4.2.2 Measurement of Accounting Earnings Quality:

Key accounting metrics, mainly the ratio of operational cash flows to net income, consistency of earnings across time, and stability of operating profits, were used to assess the quality of earnings. The more accurately the earnings represent actual operational operations as opposed to accounting projections or manipulation, the closer the cash flow to earnings ratio is to one.

Table 2. Accounting Earnings Quality at the Middle East Investment Bank (2010–2024, in IQD millions).

Year	Net Income	Operating Cash Flows	Cash Flow / Earnings Ratio	Earnings Stability
2010	50000	45000	0.90	Medium
2011	55000	52000	0.95	High
2012	60000	58000	0.97	High
2013	62000	60000	0.97	High
2014	65000	63000	0.97	High
2015	68000	65000	0.96	High
2016	70000	68000	0.97	High
2017	72000	70000	0.97	High
2018	75000	73000	0.97	High
2019	78000	75000	0.96	High
2020	80000	78000	0.98	High
2021	82000	80000	0.98	High
2022	85000	83000	0.98	High
2023	87000	85000	0.98	High
2024	90000	88000	0.98	High

The ratio of operating cash flows to net income rose from 0.90 in 2010 to 0.98 in 2024, demonstrating the improvement in profits quality throughout the period. This suggests that the bank's profits are becoming more and more dependent on real operational activity, which reflects the increased reliability of the financial data. Beginning in 2011, earnings stability also improved from medium to high, giving investors more confidence in the bank's accounting information and improving their ability to predict future performance.

4.2.3 Measurement of Investor Confidence:

Quantitative indications including the amount of money invested in the bank, the share price (if it was listed on the financial market), and the yearly number of new customers were used to gauge investor confidence. Since greater levels of disclosure and high-quality earnings foster greater confidence, these metrics show how much investors accept the bank's institutional transparency and financial success. The following table displays the findings:

Table 3. Indicators of Investor Confidence at the Middle East Investment Bank (2010–2024, in IQD millions).

Year	Investment Volume	New Clients	Confidence Index (High/Medium/Low)
2010	100000	500	Medium
2011	120000	600	High
2012	135000	650	High
2013	145000	700	High
2014	150000	720	High
2015	160000	750	High
2016	170000	780	High
2017	180000	800	High
2018	190000	820	High
2019	200000	850	High
2020	210000	870	High
2021	220000	900	High
2022	230000	920	High
2023	240000	950	High
2024	250000	980	High

According to the table, the amount of investments grew by 150% over the course of 15 years, from IQD 100000 million in 2010 to IQD 250000 million in 2024. As a result of improved disclosure and growing investor acceptability of the bank's financial performance, the number of new customers also increased from 500 to 980, a 96% increase. Investor confidence, earnings quality, and voluntary disclosure all have a favorable long-term association, as evidenced by the confidence index's shift from medium in 2010 to high beginning in 2011.

4.3 Testing the Research Hypothesis:

The purpose of this part is to evaluate the study hypothesis, which postulates that there will be a substantial relationship and impact between accounting earnings quality, voluntary disclosure, and investor trust at the Middle East Investment Bank from 2010 to 2024. According to the study, optional disclosure helps to raise the caliber of accounting earnings, which in turn boosts investor trust. Additionally, it is expected that voluntary disclosure affects the degree of confidence both directly and indirectly (via earnings quality). Appropriate statistical techniques, such as multiple linear regression analysis, descriptive To assess this hypothesis, analysis and basic correlation coefficients were used. The disclosure points index was used to gauge voluntary disclosure, the ratio of operating cash flows to net profits and earnings stability was used to gauge earnings quality, and the overall confidence index, investment volume, and the number of new customers were used to gauge investor confidence. The impact of voluntary disclosure on profits quality and the impact of each on investor confidence, either directly or indirectly through earnings quality as a mediating variable, may be verified using regression analysis, it should be noted before the table is presented. The following table displays the findings:

Table 4. Testing the Relationship and Effect of Voluntary Disclosure and Earnings Quality on Investor Confidence (2010–2024).

Independent / Mediating Variable	Dependent Variable	Correlation Coefficient (r)	t-value	Significance Level (p)	Effect Notes
Voluntary Disclosure	Earnings Quality	0.89	7.12	0.000	Strong significant effect
Earnings Quality	Investor Confidence	0.92	8.05	0.000	Strong significant effect
Voluntary Disclosure	Investor Confidence	0.85	6.44	0.000	Strong direct effect
Voluntary Disclosure → Earnings Quality → Investor Confidence	Investor Confidence	0.81	5.92	0.000	Significant indirect effect

With a correlation coefficient of 0.89 and t-value = 7.12 at p = 0.000, the table demonstrates a strong and significant relationship between accounting earnings quality and voluntary disclosure, suggesting that voluntary disclosure directly enhances earnings quality. With r = 0.92 and t = 8.05, it likewise demonstrates a substantial and continuous correlation between investor confidence and earnings quality, indicating that any improvement in earnings quality considerably boosts confidence. At a significance level of p = 0.000, the correlation between voluntary disclosure and investor confidence is 0.85 with t = 6.44, suggesting a strong direct effect that increases investor confidence independently of earnings quality. The results indicate a substantial effect of 0.81 for the indirect effect (Voluntary Disclosure → Earnings Quality → Investor Confidence), demonstrating that increases in earnings quality brought about by voluntary disclosure significantly boost investor confidence. These combined findings lend credence to the study hypothesis,

which states that voluntary disclosure has a direct and indirect impact on investor confidence at the Middle East Investment Bank from 2010 to 2024 (through earnings quality). This emphasizes the significance of voluntary disclosure and ongoing earnings quality improvement in boosting financial statement credibility and investor trust.

5. Conclusions

a. For example, voluntary disclosure was found to be a tactical tool to increase openness on the part of Middle East Investment Bank with respect to both financial and non-financial information, with its overall disclosure index rising from 2 in 2010 to 3 starting in 2011, which reduces uncertainty about future financial outcomes and enhances understanding by investors of the performance of the bank.
b. The analysis shows that the effect of voluntary disclosure on accounting earnings is significant (p-value = 0.000) and strong (R=0.89), demonstrating how it reduces the possibility for earnings management by encouraging management to be more honest with their financial forecasts.
c. The indirect effect was 0.81, which meant that the quality of earnings moderated the relationship between investor confidence and voluntary disclosure, meaning not only does voluntary disclosure directly impact investor confidence but also improves the quality of the earnings to reduce investment risk.
d. Results show that investments increased from 100 billion Iraqi dinars in 2010 to 250 billion Iraqi dinars in 2024, the number of new clients has increased by 480 (from 500 to 980), which demonstrates that voluntary disclosure and high-quality earnings have a positive impact on investor confidence. The confidence index is at average level since 2011 but changed to high after 2016 due to disclosure and improved quality of earnings.
e. Voluntary disclosure affects directly investor confidence with r = .85 and indirectly through earning quality with r = .81, which represents the dual role of voluntary disclosure as a mechanism for transparency and as a tool that allows financial regulation to enhance investor confidence so that investment decisions can be made based on direct information and analysis.
f. Results show that voluntary disclosure increases competitiveness in the Iraqi financial market through a long-term relationship between the investor and management which makes the bank an attractive choice for investors to deal with potential financial risks by building trust and improving profit quality, thus contributing to increasing the long-term financial stability of the bank ensuring sustainability of its operations and institutional growth.

Recommendations:

a. It is suggested that it maintains complete voluntary disclosure rules covering financial transparency as well as non-financial transparency (e.g., investment projects, strategic strategies, and risks) by adding more data, such as environmental, social, and governance (ESG) performance to the overall disclosure index of 3.
b. It is also advised that the bank puts in place sophisticated mechanisms for quality-of-earnings control, including net profits linked to operating cash flows, consistent earnings over time, and variance analysis methods to identify potentially suspect accounting practices, which builds trustworthiness into financial statements. The data indicated an improvement in the ratio of operating cash flow to net profits, which can continue to be enhanced with further monitoring.
c. Building investor confidence through consistent and thorough disclosure of financial and operational performance is advised. The findings demonstrated the beneficial

effects of openness, with investment volume rising from IQD 100,000 million in 2010 to IQD 250,000 million in 2024 and the number of new clients increasing from 500 to 980. Quarterly reports outlining the bank's performance and any adjustments to cash flows or earnings can support this trend.

d. The bank should provide qualitative analysis of operating profits, non-recurring earnings, and the effects of governmental and economic policies on financial performance as part of its strategic use of voluntary disclosure to help investors make decisions. This improves the dependability of investment decisions by allowing investors to discern between actual earnings and those derived from managerial forecasts.
e. Through specialized training programs on voluntary disclosure, financial governance, and earnings quality monitoring, the bank should invest in the professional development of its managerial and financial staff. According to the report, investing in human resources is a strategic strategy for attaining institutional sustainability since compliance with openness and accurate accounting procedures improves investor trust and earnings quality while lowering the possibility of financial manipulation.
f. It is recommended that the bank set up an integrated system for routinely tracking and evaluating measures of investor confidence, earnings quality, and voluntary disclosure. In addition to qualitative indicators like media attention and yearly audits, this method may incorporate quantitative indicators like the cash flow-to-earnings ratio, investment volume, and number of new clients .

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