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The Impact of Management Control Systems on the Financial Performance of Companies in Light of Institutional Factors: An Empirical Study on a Sample of Non-Financial Companies Listed on the Iraqi and Kuwaiti Stock Exchanges

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Abstract. This study aimed to demonstrate the impact of management control systems on the financial performance of companies, as well as the indirect impact of these systems on financial performance through institutional factors, specifically the legal framework. The research relied on a sample of non-financial companies in the financial markets of both Iraq and Kuwait. Information published in the annual financial statements of 14 non-financial companies was used for the period from 2020 to 2024. To achieve the study's objectives, a proposed model was developed and simulated using the R2 programming language and various statistical software programs. The results showed that the third proposed model was the best for measuring the variables after the simulation. Furthermore, the results demonstrated a direct and significant positive impact of planning budgets on the legal framework, while no positive or significant impact was found for performance reports. The legal framework also had no effect on the financial performance of companies in either country. In addition, the results showed no direct and significant impact of planning budgets and performance reports on the return on assets for either Iraqi or Kuwaiti companies. The mediation of institutional factors has not been achieved in Kuwaiti and Iraqi companies.

Keywords: Management control systems, financial performance, and institutional factors

1. Introduction

Management control is the fourth administrative function of administrative activity. Its goal is to measure the results of the work of subordinates to identify deviations and address them for the purpose of evaluation by ensuring that the established plans have been implemented, and that the goals have been achieved to the fullest extent as previously planned. Therefore, the oversight process has a close relationship with all other administrative functions, and oversight uses all available science and knowledge in order to achieve the goals (Abbas, 2017).

Therefore, Management control is a basic and important element in the administrative process upon which management is based at any administrative level, and its importance appears in being a tool that works to determine and measure the degree of activities that take place in organizations in order to achieve their goals (Abiola & Adeyemi, 2018). Despite the great development in management science, many managers still apply the traditional concepts of Management control, as control is viewed as a process of inspection and search for Mistakes and threats to employees: Through this perspective, the manager uses his authority or power to force employees to implement instructions and orders and account for costs (Ahmed & Ahmed, 2020: Almamun & Islam, 2017). Management control systems are also considered one of the basic pillars that contribute to the stability and growth of institutions in the modern economy, as Management control systems are considered a main line of defense to prevent risks that companies may be exposed to, such as embezzlement and misuse of assets. It aims to achieve the maximum possible production efficiency through the optimal use of resources and ensuring the accuracy and credibility of financial data, which helps in making effective decisions. Thus, it is not limited to the administrative aspect only, but extends to strengthening the ties between companies and stakeholders, which contributes to building trust and ensuring compliance with accounting standards (Alhammadi et al, 2020).

The relationship between administrative control systems and financial performance is not always a direct relationship, but may be affected by the surrounding institutional factor in which companies operate. This means that Management control systems are not limited to their internal design, but rather are greatly and importantly affected by the quality of the legal and regulatory framework, the level of transparency, and the prevailing business culture in the country (Ambuli et al, 2019). If Management control aims to enhance transparency and accountability, its ability to achieve this depends on the presence of a supportive institutional environment, in an environment characterized by legal weakness and corruption. Institutional, Management control systems may become formal procedures that do not achieve their desired effect on financial performance, so institutional factors act as an element that increases the effect of control, as research indicates that the external environment, which is measured by the degree of institutional development, has a positive impact on industrial companies' compliance with legal requirements, disclosure and transparency (Ariffin et al, 2018).

Therefore, the aim of this research is to investigate the extent of the impact of Management control systems on the financial performance of Kuwaiti and Iraqi industrial companies in the presence of the legal system as an intermediary institutional factor. Therefore, the next section will address a review of the literature on Management control and then develop hypotheses and a conceptual framework for Management control, financial performance and the institutional factor. The fourth section deals with the methodology and sample of the research and measuring the impact of the variables. Finally, the results are discussed and the most important conclusions and recommendations are identified.

2. Literature Review and Hypothesis Development

This study focuses on what has recently been studied in previous studies over the past more than five years, with regard to Management control methods. (Mwakiluma (2024) conducted a study on the impact of Management control systems and employee performance in government authorities in Tanzania. The results found a positive and important relationship between the budget system, the training and development system, and employee performance. In addition, a positive but not significant relationship was found between the information management system. And employee performance in Tanzania. Jipa & Kusumastuti, 2024, also conducted a study on the impact of the planning budget, the clarity of its objectives, reporting structures, and the internal control system as a mediating variable for accountability for performance in the state of Gambia, South Africa. The results showed that accountability for performance is greatly affected by the system of preparing reports, planning budgets, and the clarity of their objectives, and the presence of an internal control system reduces the intensity of the impact between the reporting system and the clarity of budget objectives on accountability for performance. (Bin Nashwan et al,2017) also investigated the role of flexibility in the relationship between Management control systems and organizational performance in 185 Korean and Japanese companies. The results revealed that there is no correlation between the budgeting system and the performance measurement system with flexibility, while the interactive relationship between the performance measurement system and the performance measurement system is positively linked to flexibility, and that flexibility affects the organizational performance of companies through the mediation of the internal control system. (Durendez et al, 2016) also examined the impact of Management control systems and performance in small and medium-sized family and non-family companies, numbering 80 companies. The results revealed that family companies use Management control systems less than non-family companies, and that the use of Management control systems has a positive impact on the performance of companies, as was revealed by the study of (Dao et al,2023), which aimed to evaluate the institutional role represented by values. And the common customs, beliefs, and practices in institutions, and their interaction with management control systems to improve corporate governance, which was conducted on a sample of multinational companies in 55 countries for the period from 2007 to 2021. The results revealed a positive impact of the institutional role on management control systems, which in turn supports corporate governance. This study also supports the argument that other institutional factors of management control systems exist in addition to the governance mechanisms represented by traditional systems. Control is extremely important to achieve organizational goals. Finally, (Tyasari et al, 2024) explored a study on the management control systems package, corporate governance, and the performance of small and medium enterprises in Malaysia, with the presence of organizational learning and product innovation as variables modifying the relationship between the management control systems package and corporate governance. The results reveal that the management control systems package, corporate governance, product innovation, and organizational learning are positively related to organizational

performance. In addition, organizational learning and product innovation mediate the relationship between corporate governance and the management control package. It affects organizational performance. Based on the above, the following hypotheses can be formulated:

First: the main hypothesis:

Main hypothesis (H0): The lack of a significant impact of administrative control mechanisms, represented by (planning budgets and performance reports), on financial performance under institutional factors (the legal system).

Alternative hypothesis (H1): There is a significant impact of administrative control mechanisms, represented by (planning budgets and performance reports), on financial performance under institutional factors (the legal system).

Second: Direct sub-hypotheses
H1a: There is no significant impact of planning budgets on financial performance.

Sub-hypothesis 2:
H1b: The lack of a significant impact of performance reports on financial performance.

Sub-hypothesis 3
H1c: The lack of a significant impact of planning budgets on institutional factors (the legal system).

Sub-hypothesis 4
H1d: The lack of a significant impact of performance reports on institutional factors (legal system).

Sub-hypothesis 5
H1e: The absence of a significant impact of institutional factors (the legal system) on financial performance.

Third: Hypotheses of Indirect (Mediation) Effect

H1f: Planning budgets do not indirectly affect financial performance through institutional factors (legal system).

H1g: Performance reports do not indirectly affect financial performance through institutional factors (legal system).

Hypothesis 8
H1h: Institutional factors (the legal system) play the role of the mediating variable in the relationship between Management control mechanisms and financial performance.

3. Conceptual Framework for the Research

3.1 Management Control Systems

Management control represents the administrative process through which managers ensure the efficient acquisition and use of resources to achieve company objectives. The term "Management control" has evolved in the same way as "management accounting." In other words, Management control cannot be implemented without appropriate management accounting oversight. Anthony (1965) first described the Management control system as a distinct feature of the strategic planning of operational control. Management control is defined in several contexts as a set of tools and processes that influence the behavior of actors within a company to achieve its objectives. Therefore, as defined by Anthony, Management control is the process through which the efficient and effective acquisition and use of resources is ensured to achieve company objectives. In this respect, Management control has transcended its traditional functions to become a universal tool for guiding companies. Many researchers share this view. (Almamun & Islam ,2017) describe Management control as a set of mechanisms that managers rely on to control decision-making. Its results, in this context, one of the goals of management control is to model this process in order to better identify and understand the general objectives. Both Ferreira & Otley (2005) agree that management control is a motivating tool for the sustainability of companies through the participation of all stakeholders belonging to the company who monitor performance and support this sustainability.

3.2 Financial performance

Financial performance is one of the most important concepts in accounting and financial management. It is used to assess a company's ability to utilize its economic resources and available capabilities to efficiently and effectively achieve its financial and strategic objectives. It also reflects the level of management success in running operational, investment, and financing activities, and demonstrates the financial results achieved by the company over a specific period. This provides a comprehensive picture of performance efficiency and the effectiveness of administrative and financial decisions (Ariffin et al., 2018; Ahmed & Ahmed, 2020).

From this perspective, financial performance is a key indicator for judging a company's ability to generate profits, maximize the value of the enterprise, and maintain its financial position. Furthermore, it reflects the company's ability to meet its financial obligations, ensure continuity, and enhance its competitiveness in the business environment. Therefore, institutions, investors, and regulatory bodies rely on financial performance indicators to evaluate companies' economic efficiency and measure their success in investing available resources and generating added value for shareholders and stakeholders.

Financial performance evaluation is based on a set of financial indicators and ratios that reflect different dimensions of performance efficiency, most notably the Return on Assets (ROA) indicator, which shows the company's ability to invest its assets in generating profits, and the Return on Equity (ROE) indicator, which measures the amount of return achieved for shareholders as a result of their investments in the company's capital, and is one of the most important indicators used to evaluate management efficiency in maximizing shareholders' wealth.

4. The relationship between Management control systems and financial performance under the legal system

Ferreira & otley (2009) analyzed the alignment of various variables, such as technical accounting controls, and their impact on business performance. Chenhall (2003) posited that a management control system should support company managers in achieving organizational goals and benefits, especially when well-designed and effective in enhancing company management. The appropriate design of a management control system will be influenced by certain factors influencing its operation. These factors include the external environment, technology, organizational structure, size, organizational strategy, and culture. Davila (2007) indicated that management control systems (MCS) should possess a high level of sophistication, understood as the ability of an organization's system to provide the leadership and information necessary for planning, monitoring, decision-making, and value creation and enhancement. There are several reasons why management control mechanisms are beneficial in improving company performance. First, whether management preferences are unstable or goals are difficult to clearly quantify, unproductive discussions are likely. Diagnostic mechanisms promote mutual commitment and coordinated action toward desired outcomes, and enhance goal setting and communication, thereby reducing uncertainty and leading to better performance (Ittner & Luther, 2003). Second, MCS increases the efficiency of problem-solving and task-related evaluation, leading to improved performance of problem-solving teams. Regarding MCS and performance, Davila (2007) positively correlated the use of MCS with company performance.

The management control system has been viewed as a tool to enhance monitoring and reporting processes within an organization, ensuring compliance with laws and regulations (Jokipii, 2010). Indeed, Ittner & Larcker (1997) and Herath (2007) agreed that management control leads to higher performance. In fact, Khalid (2010) found that internal control systems, such as the use of key performance indicators (KPIs), have led to improved company performance. As these researchers documented, the ultimate goal of management control is to ensure the achievement of the organization's predetermined objectives. For optimal performance, management control functions to monitor, communicate, measure, review, and analyze the progress of organizational strategies in achieving their targeted goals. As empirically demonstrated in previous studies, a positive relationship between management control and performance has been reported (Simones, 1990; Hopper & Tsamenyi et al., 2011). Among the means that influence company performance are:

4.1 Budgeting

Budget planning can negatively impact the smooth implementation of work programs. This is due to a mismatch between budget planning and the work program, which contributes to inadequate budget execution (Safitri, 2020). Budget planning is a pivotal stage in budget management, beginning twelve months before the start of the fiscal year. According to Zeyn (2018), planning is essential for formulating income, expenditure, and financing plans for a specific period. Budget objectives must be clearly, specifically, and understandably articulated by those responsible for implementation. Integrating clarity into budget objectives within development programs and strategic plans is a fundamental component of the governance framework (Rahman, 2021). Explicit budget objectives facilitate achievement, directly impacting the performance of those responsible. A lack of clarity in budgeting contributes to ineffective and inefficient budgets, posing challenges for those responsible for them. A study by Jipa & Kusumastuti (2024) indicates that a well-prepared and more effective budget has a positive impact on company performance. According to agency theory, public employees acting as agents are accountable to the manager, who has the authority

to demand accountability and must submit, report on, and disclose any relevant actions. Therefore, better budget planning is associated with increased performance accountability among agency staff.

4.2 Performance reports

Performance reports are a cornerstone of modern administrative control systems, providing a vital link between strategy formulation and actual implementation. Their role extends beyond simply recording accounting data, becoming a profound institutional tool that addresses philosophical, epistemological, and organizational issues related to accountability, legitimacy, and human behavior.

Performance reports are among the most important tools of management control, evolving with the growth of companies and the diversification of their management levels. These reports have replaced the direct, personal communication that management previously relied upon, helping to overcome the problems of senior management's detachment from actual oversight and continuous monitoring of operations at lower levels.

Based on this supervisory role, Hosoda and Suzuki (2015) defined performance reports as "reports that have a direct impact on any aspect of performance control, from system design and standard setting to corrective action." This definition focuses on the supervisory dimension of reports and their role in the various stages of the management control process, but it does not clarify the nature of the information contained in these reports or the mechanism by which it is transferred between management levels.

In a more comprehensive approach, Bin Nashwan et al. (2017) agreed with the previous discussion regarding the supervisory function of performance reports, but broadened the definition by considering them "a means of communication between administrative levels within the company, containing summarized data from the records and accounts prepared objectively in light of specific criteria and at sequential levels, with the aim of assisting management in monitoring and evaluating performance." This definition is distinguished by highlighting the communicative and informational role of reports alongside their supervisory role.

5. The impact of institutional factors on company performance

The literature identifies three branches of institutional theory: Old Institutional Economics (OIE), New Institutional Economics (NIE), and New Institutional Sociology (NIS). New Institutional Sociology adopts a broader, multidimensional approach, focusing on issues of external (macro) and internal (micro) organizational contexts (Hussein & Hoque, 2002). The NIS framework has significantly contributed to understanding the relationship between organizational structures and the broader social environment in which organizations operate. Institutional theory, as a theoretical approach to management studies, identifies internal and external environmental factors as institutional factors (economic constraints, competition, copying best practices from others, accounting standards/financial regulations, pressures from socioeconomic and political institutions, professionals, senior management/corporate culture, organizational strategic orientation, and organizational characteristics) through which organizational behavior can be revealed and investigated (Hussein & Gunasekaran, 2002). Analysis of different sets of institutional factors has shown that these factors operate in different ways. Two sets of institutional factors—economic and coercive—operate independently of the company, while two others—normative and traditional—depend on the company's response (He & Baruch, 2009; Gstraunthaler, 2010). From this perspective, institutional factors can be said to operate on two levels: (1) the organizational level, and (2) the environmental level, helping to identify the company's internal and external environment. If the impact of institutional factors can be analyzed at the organizational level, it follows that institutional factors also influence organizational systems. This justifies the feasibility of institutional factor analysis in the context of performance measurement.

6. Research Methodology

This study adopted the experimental method as its primary framework for constructing the theoretical framework and testing the assumed relationships between its variables. To achieve this, the researcher employed the deductive method in reviewing and analyzing relevant Arabic and foreign literature and studies on management control mechanisms, institutional theory (represented by institutional factors), and corporate financial performance. This analysis aimed to develop the theoretical framework and formulate the study's hypotheses on a scientific basis. In the applied aspect, the inductive method was utilized through a field study conducted on a sample of industrial companies listed on the stock exchanges in both Iraq and Kuwait. This field study aimed to verify the hypotheses and derive scientific findings that could be used to interpret the relationships

between the variables and generalize them within the scope of the study. The study relied on secondary data derived from the published annual reports of 14 industrial companies during the period from 2020 to 2024. This data formed the basis for conducting the statistical analyses and testing the study model.

7. Statistical Analysis and Discussion of Results

7.1 Simulation of measurement models

1 - The Concept of Simulation

Simulation has multiple concepts, but they all serve the same purpose. Simulation is defined as a mathematical method for addressing and implementing problems in electronic computers, in which certain types of logical relationships necessary to describe the behavior and structure of a complex real-world system are involved for a long period of time. The simulation process begins by building a model of the problem under investigation, and then implementing experiments and solutions for the complex model in digital or analog computers. Simulation methods are used when all other methods fail to find a solution to a problem. However, these days the uses of the simulation method have expanded, especially after the rapid development in providing ready-made programs and technical methods.

2 - Steps for conducting the simulation

First: Defining the simulation problem and its objectives

The researcher defined the objective of the simulation, which is to compare several statistical models to measure the impact of administrative control methods on the financial performance of companies in light of institutional factors, while identifying the most effective and efficient models in explanation and prediction.

Second: Identifying the Study Variables

The variables will be divided into:
1- Independent Variables: These include planning budgets and performance reports.
2- Dependent Variable: This is represented by financial performance, measured by return on assets.
3- Mediating Variable: This is represented by institutional factors (the legal framework).
4- Controlling Variables: These include company size and company age.

Third: Data Collection and Preparation

The researcher relied on quarterly data for industrial companies listed on the Kuwaiti and Iraqi markets, for the period from 202 to 2024. The data was organized within programs including (Excel, AMOS v24, SPSS v24, Gretl), and the R2 programming language.

Fourth: Designing Simulation Models

The researcher constructed three statistical models for comparison:
Model 1: Includes FP and MCS.
Model 2: Includes FP, Bug, and PR.
Model 3: Includes all independent and dependent variables, in addition to the mediating variable, Law.

fifth: Monte Carlo Simulation Application

The simulation was implemented using the R2 programming language through the following steps:

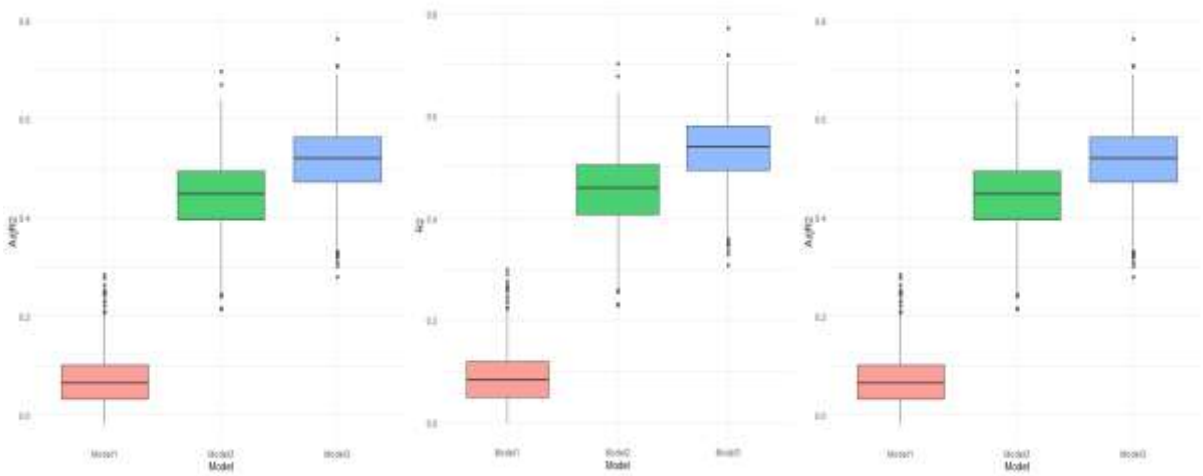
1- Relying on actual descriptive statistics for the data.
2- Generating virtual data similar to the real data.
3- Adding random noise to simulate the conditions of the real data.
4- Repeating the generation process up to 1000 trials.
5- Estimating the three models in each trial.
6- Calculating the statistical efficiency indicators for each model.
Sixth: Calculating Model Evaluation Indicators

The following indicators were adopted in the evaluation:
1- Mean Squared Error (MSE): Used to measure prediction accuracy; the lower its value, the better the model.
2- Coefficient of Determination (R^2): Measures the model's ability to explain variances in financial performance.
3- Adjusted Coefficient of Determination (Adjusted R^2): Measures the quality of the models after considering the number of variables.

Seventh: Selecting the Best Model

The results of the three models were compared based on:
• Lowest MSE coefficient value.
• Highest R^2 coefficient value.
• Highest adjusted R^2 coefficient value.

The results showed the superiority of the third proposed model because it achieved the best explanatory power and the highest predictive value.



The results above show that combining all independent variables into one model enhances prediction efficiency in addition to the power of explaining variance, which supports the adoption of the proposed model as a basis for statistical analysis in the research, as shown in the following Table (1):

Table No. (1) Results of simulating measurement models for companies

Country	Model	MSE	R2	AdjR2	Preference
Kuwait	Model 1	10.627	0.179	0.162	Model 3 (Proposal)
Kuwait	Model 2	3.467	0.715	0.709	
Kuwait	Model 3 (Proposal)	0.950	0.878	0.873	
Iraq	Model 1	42.108	0.148	0.130	Model 3 (Proposal)
Iraq	Model 2	10.559	0.818	0.815	
Iraq	Model 3 (Proposal)	0.951	0.950	0.948	

Table (1) illustrates the simulation of the three measurement models for the research variables in both countries under study. For Kuwait, the R2 value for the first model was 0.179, indicating that this model explains only 17.9% of the changes in the dependent variable, a relatively weak explanatory power. The second model had an R2 value of 0.715, explaining 71.5% of the variables, a significant improvement in explanatory power. The third model had an R2 value of 0.878, explaining 87.8% of the changes, with an MSE value of 0.950, confirming its statistical superiority. For Iraqi companies, the simulation results for the first model showed an R2 value of 0.148, explaining 14.8% of the changes. The second model had an R2 value of 0.818, a good improvement in explanatory power. The R2 value for the proposed third model was... 0.950, This is a very high value, indicating that the model explains 95% of the variations in companies' financial performance.

These results indicate that the legal environment in Kuwait and Iraq is a key factor on explaining the relationship between administrative control mechanisms and the financial performance of companies. Furthermore, including the legal system within the proposed model significantly altered the explanatory and predictive capacity of this relationship, which indicates that the effectiveness of Management control systems is linked to the existence of a supportive legal environment.

7.2 Measurement Models

The following are measurement models for the study variables according to the hypotheses:
The equation for the direct effect of Management control mechanisms on financial performance:
FP=β0+β1BUG+β2 PR+εFP = β 0 + BUG + β 2 PR + \varepsilon FP=β0+β1 BUG+β2 PR+ε

Equating the impact of management control mechanisms on institutional factors:
LAW=β0 +β1 BUG + β2 PR + εLAW = β 0 + β1 BUG + β2 PR + \varepsilon LAW= β0 +β1 BUG + β2 PR + ε
The overall model equation with institutional factors:
FP = β0 + β1 BUG + β2 PR + β3 LAW + ε FP = β 0 + β1 BUG + β2 PR + β3 LAW + \varepsilon FP = β0 + β1 BUG + β2 P R + β3 LAW + ε

Equation for testing the mediating/interactive role of institutional factors:
FP = β0 + β1 BUG + β2 PR + β3 LAW + β4 (BUG×LAW) + β5 (PR×LAW) + ε FP = \beta_0 + β1 BUG + β2 PR + β3 LAW + β4 (BUG \times LAW) + β5 (PR \times LAW) + \varepsilon FP=β0+ β1BUG + β2 PR + β3 LAW + β4 (BUG×LAW) +β5 (PR×LAW) + ε
Where in:
FP = Represents financial performance measured by return on assets.
BUG = Represents budgeting, measured as a dummy variable with a value of (1) for companies that implement it and (0) for companies that do not.
PR = Represents performance reports measured by the net operating profit index.
Law = Represents institutional factors (legal system), measured as a dummy variable with a value of (1) for companies that comply with legal and regulatory requirements and (0) for those that do not.

Descriptive statistics

Descriptive statistics were conducted for the research variables based on data extracted from the companies' annual reports, as shown in Table (2) below:

Table No. (2) Descriptive Statistics for Companies

Variable	N	Mean	Median	Std. Dev.	Min	Max
Bug	14.000	0.671	0.647	0.319	0.475	0.881
PR	14.000	10.527	10.682	18.202	(23.443)	53.567
Law	14.000	0.584	0.523	0.478	0.289	1.184
Size	14.000	20.842	20.869	0.670	16.951	26.590
Fage	14.000	43.262	43.318	2.665	24.844	74.700
Roa	14.000	1.926	1.436	4.338	(1.317)	9.069

Table (2) shows the descriptive characteristics of the research variables through the arithmetic mean, median, standard deviation, and minimum and maximum values. This allows for the assessment of the degree of variation and homogeneity among the companies under study. The arithmetic mean for budgets was 0.621, and the standard deviation was 0.319, indicating a medium to high level of budget application within the companies. The near-equal mean and median of 0.647 indicate no significant discrepancy between the data. The average for performance reports was 10.527, with a standard deviation of 18.202. This relatively large deviation reflects significant variation among companies in their reliance on performance reports. The arithmetic mean for the legal system was 0.584, indicating a moderate level of effectiveness in the institutional legal environment surrounding the companies. The average age of the companies was 43.262 years, indicating that most companies have extensive operational experience. The average return on assets for the dependent variable was [amount missing]. 1.926, with a standard deviation of 4.338, indicating a clear convergence in asset utilization efficiency among companies.

From the above, the results indicate that companies rely to varying degrees on Management control methods, and that the difference in return on assets levels reflects the difference in management efficiency in employing economic resources. Also, the high adoption of performance reports indicates the difference in the quality of accounting and administrative information systems used in companies.

7.3 Testing the direct effect of variables according to the proposed model

The direct effect of variables was tested according to the proposed structural model, and the results are shown in Table (3), below:

Table No. (3) Direct Impact According to the Proposed Structural Modeling

Country	Path	Estimate	S.E.	C.R.	P
Kuwait	Law <-- Bug	0.259	0.075	4.654	0.038
Kuwait	Law <-- PR	0.001	0.001	-0.181	0.398
Kuwait	Law <-- Size	-0.050	0.028	-0.740	0.502
Kuwait	Law <-- Fage	0.129	0.003	2.538	0.063
Kuwait	Roa <-- Law	-0.096	4.089	-0.643	0.520
Iraq	Law <-- Bug	0.195	1.121	1.833	0.149
Iraq	Law <-- PR	-0.034	0.005	-0.075	0.328
Iraq	Law <-- Size	-0.067	0.248	-0.616	0.485

Iraq	Law <-- Fage	-0.061	0.051	-0.498	0.305
Iraq	Roa <-- Law	0.040	9.333	0.250	0.390

Table (3) illustrates the direct impact of independent variables on the legal system of companies in both countries. The results for Kuwaiti companies showed a significant positive impact of planning budgets on the legal system, with a value of 0.038. This indicates that the more planning budgets were implemented, the greater the companies' ability to meet legal and regulatory requirements through financial planning and resource control. In contrast, performance reports had no significant impact on the legal system, with a value of 0.378, and the legal system also had no impact on return on assets, which was valued at 0.520. For Iraqi companies, the P-value was 0.149, meaning that planning budgets had no impact on the legal system, and performance reports had no significant impact on the legal system. Similarly, the legal system had no significant effect at the financial performance of Iraqi companies. Furthermore, company age and size had no significant impact on the legal system of companies in either country. These results suggest that the legal system was unable to transmit the effects of control systems. Management factors directly impact financial performance within companies, as reflected in the following figure (1):

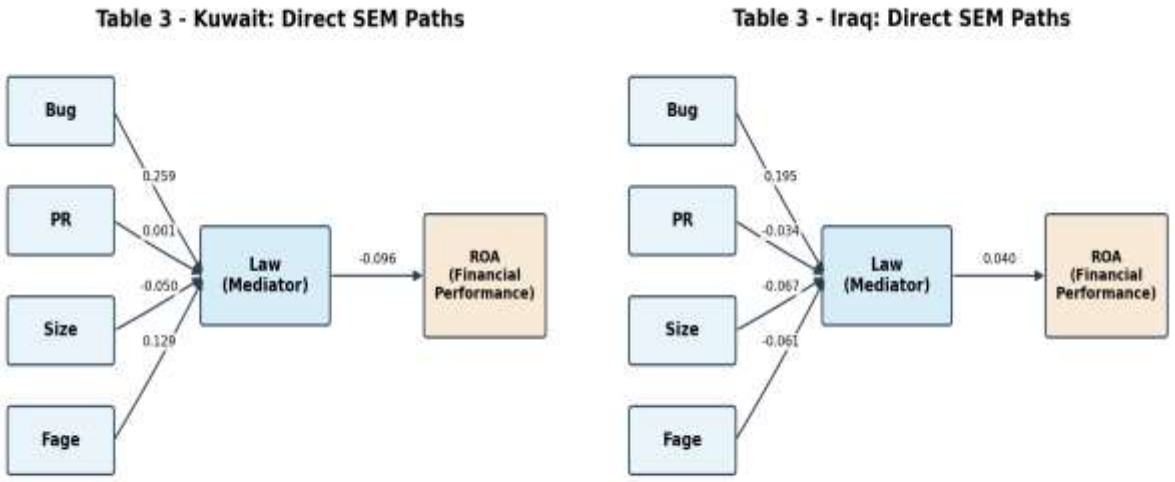


Figure (1) Direct impact according to the proposed structural model

7.4 Testing the indirect effect of variables

The indirect effect of the independent variables and its impact on financial performance in the presence of the mediating variable was tested, and its results are shown in the following table (4):

Table No. (4) Indirect effect of variables

Country	Indirect Effect Path	Estimate	Lower Bounds	Upper Bounds	Sig.
Kuwait	Roa <-- Fage	-0.082	-0.247	0.085	0.495
Kuwait	Roa <-- Size	-0.003	-0.059	0.052	0.759
Kuwait	Roa <-- PR	0.009	-0.039	0.076	0.652
Kuwait	Roa <-- Bug	0.021	-0.143	0.177	0.574
Iraq	Roa <-- Fage	0.024	-0.089	0.195	0.482
Iraq	Roa <-- Size	0.002	-0.091	0.112	0.636
Iraq	Roa <-- PR	0.003	-0.108	0.133	0.601
Iraq	Roa <-- Bug	0.017	-0.127	0.172	0.396

Table (4) shows the results of the direct effect test of independent variables on financial performance with the legal system as an intervening variable. The values of Kuwaiti companies with respect to the result of the effect of planning budgets were 0.574, for performance reports 0.652, for company size 0.759, and for company age 0.495, which explains the absence of an indirect effect of independent variables on financial performance through the legal system. All values were greater than 0.05 for Kuwaiti companies. This means that the legal system did not succeed in converting the effect of Management control methods into tangible financial results. The same applies to Iraqi

companies, as the Sig value was greater than 0.05, as is clear in the table, which means that the mediation of the legal system was not achieved in the companies of the State of Kuwait and Iraq. This indicates that the legal environment does not represent an effective conduit between Management control methods and financial performance.

7.5 Testing the direct effect of variables

Table (5) below illustrates the effect of independent variables on financial performance, represented by return on assets:

Table No. (5) Direct effect of variables

Country	Direct Effect Path	Estimate	S.E.	t	Sig.
Kuwait	Roa <-- Fage	-0.108	0.144	-1.371	0.344
Kuwait	Roa <-- Size	0.042	1.630	-0.204	0.400
Kuwait	Roa <-- PR	0.075	0.051	0.897	0.459
Kuwait	Roa <-- Bug	0.015	4.361	-0.467	0.235
Iraq	Roa <-- Fage	0.024	0.285	0.207	0.427
Iraq	Roa <-- Size	0.017	1.213	0.177	0.509
Iraq	Roa <-- PR	0.256	0.042	2.201	0.087
Iraq	Roa <-- Bug	0.112	6.022	0.808	0.412

Table (5), which deals with the direct impact of variables on financial performance as represented by return on assets, shows that the results for Kuwaiti companies show that the Sig values for performance reports are 0.459, and for budgets, 0.235. This indicates that there is an insignificant impact of performance reports and planning budgets on return on assets. In other words, the financial performance of Kuwaiti companies is not directly affected by the studied administrative control methods. This suggests that other factors, such as competitiveness, may have a greater impact on return on assets. As for Iraqi companies, the Sig value for performance reports was 0.087, which is close to being significant, while planning budgets had no impact on return on assets, as the Sig value for budgets was 0.412. This suggests that performance reports are more capable of influencing financial performance compared to the other variables, but this influence did not reach the required statistical level. This indicates that Iraqi companies are still not investing in Management control systems in a way that directly reflects on financial performance.

8. Discussion of results and testing of hypotheses

The results of the practical component showed that the third proposed model, which combines planning budgets, performance reports, and the legal framework, is the best in terms of explanatory and predictive power for both Kuwait and Iraq. The coefficient of determination (CID) reached 0.878 in Kuwait and 0.950 in Iraq, values that are high compared to the first two models. This indicates that incorporating the institutional factor of the legal framework contributed to improving the quality of the statistical model. This result suggests that the relationship between Management control mechanisms and financial performance cannot be adequately explained by administrative control systems alone; rather, the legal and institutional environment within which companies operate must be considered. While industrial companies in Kuwait and Iraq may implement budgets and performance reports, the impact of these tools on financial performance depends on the effectiveness of the legal framework, the quality of compliance, and the strength of the regulatory environment.

The descriptive statistics revealed that the companies under study rely to varying degrees on Management control mechanisms. The average application of planning budgets was found to be moderate to high, while performance reports showed significant variation among the companies, reflecting differences in the quality of their accounting and management information systems. Furthermore, the average return on assets demonstrated variations in the companies' efficiency in utilizing their assets to generate profits.

Regarding the direct impact, the results showed a positive and significant effect of budgeting on the legal system in Kuwaiti companies only. This means that companies that implement budgeting more effectively are better able to comply with legal and regulatory requirements. This finding supports the rejection of the null hypothesis and the acceptance of the alternative hypothesis (H1a) that budgeting has an effect on the legal system. Performance reports, however, did not show a significant effect on the legal system in either Kuwait or Iraq. This suggests that the reports may be merely formal or not used effectively to support legal compliance. This finding supports the null hypothesis (H1b) that performance reports have

no effect on the legal system. Furthermore, the results showed no significant effect of the legal system on financial performance in either country. This means that the legal environment, despite its regulatory importance, was insufficient to translate corporate compliance into a clear improvement in return on assets. This result supports the acceptance of the H1c null hypothesis, and this may be due to weak implementation mechanisms, the slow reflection of legal obligation on financial indicators, or the presence of more influential external factors such as market conditions, competition, liquidity, and the size of industrial activity.

The results of the indirect effects showed that the legal system did not mediate between Management control mechanisms and financial performance in Kuwait and Iraq, as all significance values were greater than 0.05. This indicates that the legal system did not act as a conduit for the impact of budgets and performance reports on financial performance. These results support the null hypothesis (H1e), and therefore, institutional mediation is not statistically proven in the research sample.

Regarding the direct impact of budgets and performance reports on return on assets, the results showed no statistically significant effect in Kuwaiti companies. In Iraq, the impact of performance reports approached the statistically significant level but did not reach a statistically acceptable threshold. This suggests that performance reports in Iraqi companies may be more closely linked to financial performance than budgets, but this correlation is still insufficient to establish a statistically significant effect. Therefore, this result supports the acceptance of the null hypotheses H1f:H1g:H1h, which state that budgets, performance reports, and the legal framework have no direct impact on financial performance, specifically return on assets.

9. Conclusions and Recommendations

The research findings regarding the simulation of measurement models indicate that the third model is statistically superior it explains the relationship between Management control systems and the financial performance of industrial companies. The results also demonstrated that planning budgets contribute to enhancing legal compliance in Kuwaiti companies, but do not directly affect financial performance. Furthermore, performance reports did not show a clear, significant impact on financial performance or the legal system in Kuwaiti and Iraqi companies. The legal system also failed to mediate between Management control mechanisms and financial performance. Moreover, financial performance is not solely influenced by Management control mechanisms, but also by other institutional factors such as competitiveness, operational efficiency, liquidity, and various market conditions. Therefore, Kuwaiti and Iraqi companies need to develop the use of Management control systems from mere regulatory procedures to effective tools for supporting financial decision-making. The weak mediation effect indicates that the existence of laws and regulations is insufficient without accompanying governance mechanisms and effective oversight tools. Therefore, the research recommends developing the budgeting system and linking it to performance indicators. Financial and operational aspects, increasing the quality of performance reports by developing them so that they are not limited to accounting presentation but include financial and non-financial aspects that contribute to decision-making, as well as activating the role of the legal environment by enhancing control and commitment to disclosure and transparency, and training financial and accounting staff in using the results of planning budgets and performance reports to improve the return on assets, encouraging industrial companies to integrate Management control with governance and legal compliance, and finally the research recommends conducting future studies that are applied in other sectors and different environments, with larger samples and long time periods.

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