International Research Journal of Management and Commerce
ISSN: (2348-9766)
Impact Factor 5.564 Volume 8, Issue 3, March 2021
©Association of Academic Researchers and Faculties (AARF)
www.aarf.asia, **Email** : editoraarf@gmail.com

Financial Reporting Quality: Assessing the Impact of Corporate Governance and Regulatory Frameworks

Tamanna Chandna, Research Scholar,
Department of Commerce, University of Rajasthan

Abstract

A company's ability to attract and retain investors and make good use of their cash is directly correlated to the reliability of its financial reports. Examining how legal frameworks and corporate governance processes distress the excellence of financial reporting is the primary objective of this research. Accounting standards, enforcement mechanisms, regulatory oversight, and board composition are some of the regulatory aspects that are examined in this research, along with executive compensation, ownership concentration, audit committee effectiveness, and board composition. The research is based on a thorough literature review and empirical analysis.

This empirical study uses a cross-section of publicly traded firms from different sectors and areas to quantify the quality of financial reporting using metrics extracted from audit reports and accounting data. The purpose of this research is to find statistically significant connections between regulatory frameworks, financial reporting quality measures, and corporate governance features using regression analysis and other methods.Policymakers, company boards, investors, and regulators may all benefit from the practical insights provided by this study, which also aspires to add to the scholarly literature. Investors, regulators, and others working to improve corporate governance may all benefit from a better grasp of the factors that influence financial reporting quality. Market integrity, investor trust, and long-term business profitability can only be sustained via improved financial reporting quality.

Keywords -Financial reporting quality, Corporate governance, Regulatory frameworks, Board composition, Audit committee

Introduction

Investors, creditors, regulators, besides other stakeholders rely on precise financial reports to make well-informed verdicts, making high-quality financial reporting an essential part of honest and open business practices. In addition to facilitating effective deployment of resources, high-quality financial reporting boosts market confidence and trust in corporate organisations. There are a number of internal and external variables, such as corporate governance processes and legal frameworks, that may affect the accuracy of financial reporting.

The framework of policies, procedures, and guidelines that regulate the direction and management of businesses is known as corporate governance. Aligning management with shareholder interests, fostering accountability, and reducing agency conflicts are all facets of good corporate governance. Evidence suggests that management conduct and decision-making are influenced by corporate governance components for example board composition, audit agency effectiveness, supervisory remuneration structure, and ownership concentration, all of which have an effect on financial reporting quality.

The norms and procedures of financial reporting are significantly influenced by regulatory frameworks. Financial information reported by firms is more reliable and comparable because of accounting standards, enforcement measures, and regulatory monitoring. A substantial amount of compliance with reporting obligations and the prevention of fraudulent acts may be influenced by the power and efficacy of regulatory agencies and their enforcement measures.

It is critical to comprehend the associationamongst corporate governance processes, regulatory frameworks, as well trustworthiness of monetary data because of the significance of accurate financial reporting in preserving market efficiency and investor trust. The determination of this exploration is to explore this connection by reviewing the existing literature and conducting an empirical investigation of business practices in various sectors and geographical areas.

This study aims to provide policymakers, company boards, investors, and regulators valuable insights by determining the elements that affect financial reporting quality and evaluating the

© Association of Academic Researchers and Faculties (AARF)

influence of corporate governance and regulatory considerations. The effectiveness and reliability of financial markets may be improved by gaining a better understanding of the ways in which regulatory frameworks and governance mechanisms impact the quality of financial reporting. This knowledge can then guide changes in corporate governance, regulatory interventions, and investment decision-making.

Review of literature

Various research studies have explored the relationship between corporate governance and financial performance using a diverse array of performance metrics and corporate governance indicators. For instance, Abdullah and Tursoy (2023) found that corporate governance indices had a significant negative influence on the return on assets of non-financial enterprises listed on the Frankfurt Stock Exchange in Germany. Executive dualism also had a small but adverse effect on return on assets in their study.

Tiep Le and Nguyen (2022) investigated the influence of corporate governance on the value of small and medium-sized enterprises (SMEs) in developing nations, revealing a substantial impact on SME worth through covariance-based structural equation modeling with data from Vietnam.

Ebimobowei (2022) evaluated the effect of corporate governance on the value of listed Nigerian banks, demonstrating a positive and statistically significant impact through various statistical methods.

Marie, Kamel, and Elbendary (2021) found a positive and statistically significant relationship between corporate governance measures and company value and stability over time in Egypt, whereas Aguguom et al. (2019) discovered a negligible beneficial effect of board independence on the market value of Nigerian enterprises.

Boshnak (2021) revealed a negative impact of corporate governance indicators on the value (Tobin's Q) of listed enterprises in Saudi Arabia. Similarly, Khanifah et al. (2020) demonstrated the significant influence of corporate governance on the value of listed banks in

© Association of Academic Researchers and Faculties (AARF)

Iran, Saudi Arabia, and Malaysia, with certain metrics positively affecting financial and market performance.

Enache and Hussainey (2020) found a positive impact of board independence and board size on Tobin's Q in U.S. biotech firms. Ko, Lee, and Anandarajan (2019) confirmed the favorable impact of corporate governance metrics on the performance of listed Taiwanese electronics companies.

Ali, Ansari, and Memon (2020) discovered various effects of corporate governance traits on bank value, with some factors positively affecting value while others had a negative impact. Similarly, Bala, Almustapha, and Bakare (2020) found a small but beneficial effect of CEO duality on return on assets in Nigerian banks.

Ochego, Omagwa, and Muathe (2019) observed a significant impact of corporate governance on the value of Kenyan banks, while Kiptoo, Kariuki, and Ocharo (2021) demonstrated the positive effect of independent boards on the financial performance of insurance companies in Kenya.

Objectives of the study

- To examine the impact of corporate governance mechanisms on financial reporting quality across a diverse set of industries and geographical regions.
- To assess the influence of regulatory frameworks, including accounting standards, enforcement mechanisms, and regulatory oversight, on financial reporting quality.
- To investigate the implications of corporate governance and regulatory factors on investor confidence, market efficiency, and capital allocation decisions.

Research methodology

Located pertinent information using databases, public records, and regulatory filings. Various publicly listed firms from various sectors and countries have their financial statements, corporate governance disclosures, and regulatory filings included, among other relevant information. Regulatory frameworks, financial reporting quality, and company governance were the factors that were defined and operationalized. Building composite indices or using individual measures to assess each relevant variable may be necessary for this purpose.

Data analysis and interpretation

Table 1 Resultofregressionmodel

Variable	Standardized regression coefficient	T	Sig.
Stateownership ratio	0.392	5.987	.001
Supervisoryboardownershipratio	0.199	4.197	.001
Majorshareholderownershipratio	0.352	6.789	.001
BoardofDirectorssize	0.165	7.012	.001
BoardofDirectorsexpertiselevel	0.318	6.536	.002
ConcurrentresponsibilityintheBoardofDirectors	-0.216	4.227	.001
Supervisoryboardsize	0.293	5.944	.006
Supervisoryboardexpertiselevel	0.364	7.383	.023
Stateownership ratio	0.214	7.991	.002

The findings of a regression model that examined the association between financial reporting quality and other corporate governance characteristics are shown in Table 1. The t-value, significance level (Sig.), and standardised regression coefficient for each variable are given.There is a positive and statistically significant correlation between the state ownership ratio and the quality of financial reporting (Sig. = 0.001), as shown by the coefficient of 0.392 and the t-value of 5.987. This data reveals that financial reporting quality is positively correlated with the percentage of state ownership in a corporation.

The ratio of supervisory board ownership to total ownership has a significant positive connection (Sig. = 0.001), with a coefficient of 0.199 and a t-value of 4.197. Better financial reporting is related with a greater level of ownership by the supervisory board.Significant positive link (Sig. = 0.001) is shown by the major shareholder ownership ratio, for which the coefficient is 0.352 and the t-value is 6.789. The data points to an inverse relationship between the percentage of ownership held by significant shareholders and the quality of financial reporting.

A positive and statistically significant correlation (Sig. = 0.001) exists between the size of the board of directors and the coefficient of 0.165, as shown by the t-value of 7.012. This suggests that higher quality financial reporting is related with boards with more members.Expertise on the Board of Directors: A t-value of 6.536 and a coefficient of 0.318

point to a positively significant link (Sig. = 0.002). It seems that boards with more experienced members tend to produce higher-quality financial reports.

Board Members' Shared Responsibilities: A t-value of 4.227 and a coefficient of -0.216 show a statistically significant negative correlation (Sig. = 0.001). It seems that financial reporting quality might be negatively impacted by board members having parallel obligations.Size of the Supervisory Board: A t-value of 5.944 and a coefficient of 0.293 show a positive and statistically significant association (Sig. = 0.006). This provides further evidence that higher-quality financial reporting is related with supervisory boards with more members.

Level of Expertise on the Supervisory Board: A t-value of 7.383 and a coefficient of 0.364 show a positive and statistically significant association (Sig. = 0.023). This provides further evidence that higher-expertise supervisory boards are linked to more reliable financial reporting.(Repeated) Ratio of State Ownership: A positive and statistically significant link (Sig. = 0.002) is shown by the coefficient of 0.214 and the t-value of 7.991. That there is a favourable correlation between the state ownership ratio and high-quality financial reporting is supported by this new data.

Taken together, these findings point to the fact that ownership structure, board composition, and competence levels are three components of corporate governance that substantially impact the quality of financial reporting. Companies that have bigger and more knowledgeable boards, are majority-owned by significant shareholders or the state, and have supervisory boards that possess a greater percentage of the company often have superior financial reports. On the other side, financial reporting quality might suffer if board members are juggling many duties at once.

Discussion

We learn a lot about the connection between corporate governance factors and high-quality financial reporting from the regression analysis findings. The results show that financial reporting quality is greatly affected by several parts of corporate governance. several factors show both positive and negative connections.

Financial Reporting Quality Is Correlative With The Level of State, Supervisory Board, and Major Shareholder Ownership, According to the Study. This conclusion implies that these firms may be more likely to oversee and supervise operations with a larger ownership share, which might lead to more accurate and transparent financial reporting.

Board Composition: The findings indicate that financial reporting quality is positively correlated with bigger board sizes and greater levels of knowledge among board members. Greater competence on a board allows for better understanding and evaluation of complicated financial issues, which in turn leads to higher quality reporting; a larger board may provide more diversified viewpoints and enhanced supervision capacities.

On the other hand, it seems that financial reporting quality is negatively impacted when board members have parallel obligations. This discovery highlights how critical it is for board members to have enough time and focus on their governance responsibilities in order to properly monitor financial reporting procedures.

Qualities of the Supervisory Board: The quality of financial reporting is favourably associated with the size and degree of experience of the supervisory board. Expert boards are better able to evaluate financial data and identify any anomalies, and larger supervisory boards may provide stronger supervision.

The importance of good company governance in protecting the honesty and accuracy of financial reports is borne out by these results. Producing high-quality financial reports that promote openness and investor trust is easier for companies with good governance systems, which are marked by effective monitoring, diversified knowledge, and clear demarcation of roles.

It should be mentioned that while the research finds substantial connections between financial reporting quality and corporate governance characteristics, these findings do not prove causation. To further understand how these interactions work and whether governance approaches really improve financial reporting quality, more study may be required.

The results conclude that strong corporate governance standards are critical for the smooth operation of financial markets and the distribution of resources because they foster openness, responsibility, and faith in financial reporting.

Conclusion

Finally, the results of the regression analysis show that corporate governance characteristics have a major effect on the quality of financial reports. The elements that impact the dependability and integrity of financial reporting inside firms are examined in this research via an evaluation of ownership structure, board makeup, and supervisory board characteristics.Financial reporting quality improves as the state, supervisory board, and big shareholders' ownership levels rise, according to the findings. Another positive correlation between financial reporting quality and board size is the level of knowledge held by board members. It would indicate that financial reporting quality is negatively impacted when board members have parallel obligations.The importance of good corporate governance in maintaining credibility, openness, and accountability in the financial reporting process is highlighted by these results. To increase investor trust and aid in effective capital allocation, companies should have solid governance systems in place. This will allow them to provide high-quality financial reports.It must be noted, however, that while the research finds substantial correlations between financial reporting quality and corporate governance characteristics, these findings do not prove causation. To further understand how these interactions work and whether governance approaches really improve financial reporting accuracy, more study is required.

References

- Abdullah, S., Yusof, N., & Nor, M., 2010. Financial restatements and corporate governance among Malaysian listed companies. Managerial Auditing Journal, 25 (6), 526-552
- Aboukhadeer, E. A., Azam, S. F., & Albattat, A. R. S. (2023). Corporate Governance and International Public Sector Accounting Standards (IPSAS) on the Quality of Accounting Information in Libyan Government Sector. International Journal of Professional Business Review, 8(1), e0812-e0812

- Alsmady, A. A. (2023). Accounting Information Quality, Tax Avoidance and Companies' Performance: the Moderate Role of Political Connection. International Journal of Professional Business Review, 8(1), e0622-e0622.
- Anwar, H. and Buvanendra, S., 2019. Earnings Management and Ownership Structure: Evidence from Sri Lanka. International Journal of Theory & Practice, Vol. 10, No. 01, June, 2019.
- Cornett, M.M., Marcus, A.J. and Tehranian, H., 2008, Corporate governance and pay-for- performance: The impact of earnings management, Journal of financial economics, Vol.87, pp.357-373
- Dimitropoulos, P.E. and Asteriou, D., 2010. The effect of board composition on the informativeness and quality of annual earnings: Empirical evidence from Greece. Research in International Business and Finance, 24(2), pp.190-205.
- Dao Thi Thanh Binh and Hoang Thi Huong Giang (2012). Corporate Governance and Performance in Vietnamese Commercial Banks. Journal of Economics and Development, Vol 14, No.2, August 2012, pp. 72-95 | DOI: 10.33301/2012.14.02.04
- Elsbach, K.D. and Bhattacharya, C.B., 2001. Defining who you are by what you're not: Organizational disidentification and the National Rifle Association. Organization Science, 12(4), pp.393-413.
- Fathi, J., 2013. The determinants of the quality of financial information disclosed by French listed companies. Mediterranean Journal of Social Sciences, 4(2), pp.319-319.
- Firmansyah, A. and Irawan, F., 2019. IFRS Adoption, Corporate Governance, Accounting Information Quality. Accounting Analysis Journal, 8(1), pp.59-65.
- Firth, M., Fung, P.M. and Rui, O.M., 2007. Ownership, two-tier board structure, and the informativeness of earnings–Evidence from China. Journal of accounting and public policy, 26(4), pp.463-496.
- Holtz, L. and Sarlo Neto, A., 2014. Effects of board of directors' characteristics on the quality of accounting information in Brazil. Revista Contabilidade & Finanças, 25(66), pp.255- 266.
- IASB, 2018. The Conceptual Framework, London