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Review Article

The Influence of Corporate Governance on Financial Reporting Quality in the Banking Sector

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Abstract: This study examines the impact of corporate governance structures on the transparency and accuracy of financial reporting in banking institutions. Using a quantitative research approach, the study analyzes data from 150 banks across 25 countries over a five-year period (2019-2023). Multiple regression analysis reveals that board independence, audit committee effectiveness, and ownership concentration significantly influence financial reporting quality. The findings indicate that stronger corporate governance mechanisms lead to improved financial reporting quality, with board independence having the strongest positive impact. This research contributes to the existing literature by establishing empirical evidence of the relationship between specific corporate governance mechanisms and financial reporting quality in the banking sector, which has implications for regulatory policy and banking governance practices.

Keywords: Banking Sector, Board Independence, Corporate Governance, Financial Reporting Quality, Transparency.

1. Introduction

The banking sector serves as the backbone of modern economies, facilitating capital allocation, enabling financial transactions, and supporting economic development across all sectors. As financial intermediaries, banks hold a position of significant trust and responsibility, managing vast sums of depositors' funds while extending credit that fuels economic growth. This fiduciary relationship with the public necessitates exceptional standards of transparency and accountability, placing the quality of financial reporting at the center of banking governance concerns.

The 2008 global financial crisis represented a watershed moment in banking history, exposing critical weaknesses in banking governance and financial reporting practices worldwide. In the aftermath, investigations revealed how inadequate disclosure, risk concealment, and insufficient governance oversight contributed to systemic instability (Basel Committee on Banking Supervision, 2015; Financial Crisis Inquiry Commission, 2011). The crisis prompted unprecedented regulatory reforms, including enhanced capital requirements under Basel III, expanded disclosure mandates, and strengthened corporate governance guidelines. Despite these substantial reforms, persistent concerns about the reliability, comparability, and transparency of financial reporting in banking institutions continue to challenge regulators, investors, and other stakeholders (Acharya & Ryan, 2016; Bushman, 2014).

Corporate governance—defined as the comprehensive system of structures, processes, and relationships by which companies are directed and controlled—has emerged as a fundamental determinant of financial reporting quality (Cohen et al., 2004; Larcker et al., 2007). While significant research has explored this relationship in non-financial firms, the

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banking sector presents unique characteristics that warrant specialized investigation. Banks operate with higher leverage, face complex regulatory constraints, manage distinctive risk profiles, and create financial products whose valuation often involves substantial judgment and estimation. These characteristics create an environment where governance mechanisms may function differently than in other corporate contexts (Mehran & Mollineaux, 2012; Adams & Mehran, 2012).

The intersection between corporate governance and financial reporting quality in banks represents a critical area for research, particularly as it relates to financial stability and market confidence. However, existing literature has not sufficiently examined the specific governance mechanisms that most effectively promote high-quality financial reporting in banking institutions. This knowledge gap has significant implications for regulatory policy development, supervisory approaches, and investment decision-making.

This study aims to bridge this gap by conducting a comprehensive examination of how various corporate governance structures affect the transparency, reliability, and accuracy of financial reporting in banking institutions. Through rigorous empirical analysis of data from 150 banks across 25 countries over a five-year period (2019-2023), the research investigates five key governance dimensions:

1. Board composition and independence: Analyzing how board size, independence ratio, expertise diversity, and meeting frequency influence oversight effectiveness and financial reporting quality.
2. Audit committee characteristics: Examining the impact of audit committee independence, financial expertise, activity level, and interaction with external auditors on financial reporting integrity.
3. Ownership structure and concentration: Investigating how different patterns of ownership (institutional, government, family) and concentration levels affect monitoring incentives and financial transparency.
4. Executive compensation systems: Assessing how compensation design, including the balance between fixed and variable components, performance metrics, and deferral mechanisms, shapes reporting incentives among bank executives.
5. Risk management frameworks: Evaluating how risk governance structures, including dedicated risk committees, Chief Risk Officer authority, and risk appetite frameworks, contribute to accurate risk disclosure and provisioning practices.

The integration of these governance dimensions provides a holistic framework for understanding the complex relationship between corporate governance and financial reporting quality in banks. By identifying the most influential governance mechanisms and their interactions, this research contributes to both theoretical understanding and practical applications. The findings have significant implications for banking regulators developing governance standards, board directors designing effective oversight structures, investors making allocation decisions, and auditors evaluating reporting controls.

Understanding these relationships is not merely an academic exercise but essential for developing evidence-based regulatory policies and governance practices that enhance financial reporting quality in the banking sector. Ultimately, such improvements promote financial system stability, protect depositors and other stakeholders, and support efficient capital allocation—cornerstones of sustainable economic growth in global markets.

2. The Theoretical Aspect of the Research

Financial Reporting Quality in Banking

Financial reporting quality refers to the extent to which financial statements provide accurate, complete, and transparent information about a company's economic performance and position (Dechow et al., 2010). In the banking context, financial reporting quality encompasses several dimensions, including earnings management, timely loss recognition, and disclosure adequacy (Bushman & Williams, 2012).

Banks present unique challenges for financial reporting due to their complex operations, high leverage, and the significant judgment required in estimating loan loss provisions (Gebhardt & Novotny-Farkas, 2011). Moreover, banks operate in highly regulated environments with specific reporting requirements, such as capital adequacy disclosures under Basel frameworks (Bischof, 2009).

Empirical studies suggest that financial reporting quality in banks influences market discipline, funding costs, and systemic stability (Bushman & Williams, 2015; Nier & Baumann, 2006). However, measuring financial reporting quality in banks presents methodological challenges due to the industry's distinctive characteristics (Beatty & Liao, 2014).

Corporate Governance Mechanisms and Financial Reporting

Corporate governance encompasses a range of mechanisms designed to align managers' actions with shareholders' interests and ensure accountability to stakeholders (Shleifer & Vishny, 1997). These mechanisms can be broadly categorized as internal (e.g., board structure, ownership concentration) and external (e.g., regulatory oversight, market discipline).

Board Composition and Independence

The board of directors plays a crucial oversight role in ensuring financial reporting integrity. Prior research suggests that board independence—the proportion of non-executive directors on the board—is positively associated with financial reporting quality (Klein, 2002; Beasley, 1996). Independent directors, being free from management influence, are better positioned to monitor financial reporting processes objectively.

In the banking context, the relationship between board independence and financial reporting quality may be more pronounced due to banks' complex operations and the severe consequences of financial misreporting (Adams & Mehran, 2012). Based on agency theory and prior empirical evidence, we propose:

H1: Board independence is positively associated with financial reporting quality in banks.

Audit Committee Characteristics

The audit committee serves as a primary mechanism for overseeing financial reporting processes. Several characteristics of audit committees have been linked to financial reporting quality, including independence, financial expertise, meeting frequency, and size (DeZoort et al., 2002).

Research suggests that audit committees with greater independence and financial expertise are more effective in constraining earnings management and enhancing disclosure quality (Bedard et al., 2004; Krishnan & Visvanathan, 2008). In banks, where financial transactions are often complex and opaque, the audit committee's role may be particularly significant (DeBoskey & Jiang, 2012). Therefore:

H2: Audit committee effectiveness (measured by independence, expertise, and activity) is positively associated with financial reporting quality in banks.

Ownership Structure and Concentration

Ownership structure influences the incentives for monitoring and the potential for expropriation by controlling shareholders. Concentrated ownership can have dual effects: it may enhance monitoring of management (alignment effect) but also enable controlling shareholders to extract private benefits at minority shareholders' expense (entrenchment effect) (Shleifer & Vishny, 1997).

In banks, ownership concentration may affect financial reporting through its impact on risk-taking behavior and disclosure policies (Laeven & Levine, 2009). Based on competing theoretical perspectives, we propose:

H3: Ownership concentration has a significant (non-directional) association with financial reporting quality in banks.

Executive Compensation Systems

Executive compensation structures influence managerial incentives, potentially affecting financial reporting decisions. Performance-based compensation, particularly short-term incentives, may motivate executives to manipulate financial reports to meet performance targets (Bergstresser & Philippon, 2006).

In banks, compensation practices have received particular scrutiny following the global financial crisis, with concerns about incentives for excessive risk-taking and short-termism (Bolton et al., 2015). Thus:

H4: The proportion of performance-based compensation in executive pay packages is negatively associated with financial reporting quality in banks.

Risk Management Frameworks

Effective risk management is crucial for banks given their risk intermediation function. Strong risk management frameworks may enhance financial reporting quality by improving internal controls and promoting more accurate risk disclosures (Aebi et al., 2012).

The presence of a dedicated risk committee and Chief Risk Officer (CRO) at the board level has been associated with better risk management practices in banks (Ellul & Yerramilli, 2013). Therefore:

H5: The strength of risk management frameworks (measured by the presence and authority of risk governance structures) is positively associated with financial reporting quality in banks.

Integrated Theoretical Framework

Drawing on agency theory, resource dependence theory, and institutional theory, we develop an integrated framework linking corporate governance mechanisms to financial reporting quality in banks. Agency theory suggests that governance mechanisms can mitigate information asymmetry and align managers' interests with those of shareholders (Jensen & Meckling, 1976). Resource dependence theory emphasizes how boards provide resources, expertise, and connections that enhance organizational performance (Pfeffer & Salancik, 1978). Institutional theory explains how regulatory and normative pressures shape governance practices across banks (DiMaggio & Powell, 1983).

This integrated perspective suggests that multiple governance mechanisms interact to influence financial reporting quality, with potential complementary or substitutive effects (Ward et al., 2009). Moreover, the effectiveness of governance mechanisms may be contingent on the institutional and regulatory environment in which banks operate (Aguilera et al., 2008).

3. Method

Sample Selection and Data Sources

The study employs a sample of 150 publicly traded banks from 25 countries over the period 2019-2023, yielding a balanced panel of 750 bank-year observations. The sample includes large, medium, and small banks based on asset size to ensure representativeness and generalizability of findings. Banks were selected using a stratified random sampling approach from the population of publicly traded banks in the Bankscope database. The final sample includes banks from various geographical regions: North America (30%), Europe (35%), Asia-Pacific (25%), and other regions (10%).

Data on financial reporting and bank-specific characteristics were collected from Bankscope and Compustat Global. Corporate governance data were hand-collected from banks' annual reports, proxy statements, and corporate governance reports. Macroeconomic and regulatory data were obtained from the World Bank's Global Financial Development Database and the Bank Regulation and Supervision Survey.

Variable Measurement

Dependent Variable: Financial Reporting Quality

Following prior literature (Dechow et al., 2010; Bushman & Williams, 2012), we employ multiple measures to capture different dimensions of financial reporting quality: Earnings Management (EM): We estimate discretionary loan loss provisions using the modified Jones model adapted for banks (Beatty & Liao, 2014). Lower absolute values indicate higher financial reporting quality.

Timely Loss Recognition (TLR): Measured using the C-Score developed by Khan and Watts (2009), which captures asymmetric timeliness in recognizing losses versus gains. Higher values indicate more timely loss recognition and higher financial reporting quality. Financial Statement Readability (FSR): Quantified using the Fog Index (Li, 2008), which measures the complexity of narrative disclosures in annual reports. Lower values (indicating greater readability) are associated with higher financial reporting quality. Disclosure Quality (DQ): A composite index capturing the comprehensiveness of risk disclosures based on content analysis of annual reports and Basel Pillar 3 disclosures. Higher values indicate higher financial reporting quality.

Composite Financial Reporting Quality Index (FRQI): Principal component analysis is used to create a composite measure incorporating the above dimensions. Higher values indicate higher overall financial reporting quality.

Independent Variables: Corporate Governance Mechanisms

Board Independence (BIND): Measured as the percentage of independent directors on the board. Audit Committee Effectiveness (ACE): A composite index incorporating audit committee independence, financial expertise, meeting frequency, and size. Ownership

Concentration (OC): Measured as the Herfindahl index of ownership based on the shareholdings of the five largest shareholders.

Executive Compensation Structure (ECS): The ratio of performance-based compensation to total executive compensation. Risk Management Framework Strength (RMFS): A composite index measuring the presence and authority of risk governance structures, including a dedicated risk committee, CRO position, and risk expertise on the board.

Control Variables

To isolate the effects of corporate governance on financial reporting quality, we control for various bank-specific, country-level, and temporal factors that may confound the relationship: Bank-specific controls: Size (natural logarithm of total assets), profitability (return on assets), leverage (equity-to-assets ratio), growth (asset growth rate), and business complexity (diversification index). Country-level controls: Regulatory quality index, rule of law index, GDP growth rate, and financial market development. Temporal controls: Year fixed effects to control for time-specific factors affecting all banks.

Empirical Models

To test our hypotheses, we employ the following baseline panel regression model: $FRQit = \alpha + \beta 1BINDit + \beta 2ACEit + \beta 3OCit + \beta 4ECSit + \beta 5RMFSit + \gamma CONTROLSit + \varepsilon it$ Where: FRQit represents the various measures of financial reporting quality for bank i in year t BINDit, ACEit, OCit, ECSit, and RMFSit are the corporate governance variables

CONTROLSit is a vector of control variables εit is the error term. We estimate this model using panel data techniques, including fixed effects and random effects specifications, with the appropriate specification determined by the Hausman test. To address potential endogeneity concerns, we also employ a two-stage least squares (2SLS) approach with instrumental variables and a system Generalized Method of Moments (GMM) estimator.

Additionally, we conduct several supplementary analyses: Interaction effects: Testing how the effectiveness of specific governance mechanisms depends on others (e.g., board independence × audit committee effectiveness). Non-linear relationships: Examining potential curvilinear relationships between governance mechanisms and financial reporting quality. Difference-in-differences analysis: Exploiting regulatory changes affecting corporate governance as quasi-natural experiments. Cross-country variations: Analyzing how the governance-reporting quality relationship varies across different regulatory environments

4. Results

Descriptive Statistics

Table 1 presents descriptive statistics for the main variables. The mean board independence (BIND) is 62.3%, indicating that the majority of board members in sample banks are independent directors. The audit committee effectiveness (ACE) index has a mean of 0.68 (scale 0-1), suggesting relatively strong audit committees overall. Ownership concentration (OC) varies substantially across the sample, with a mean Herfindahl index of 0.21 and a standard deviation of 0.18.

Financial reporting quality measures show considerable variation. The mean absolute discretionary loan loss provisions (|DLLP|) is 0.012, with a standard deviation of 0.015. The timely loss recognition measure (C-Score) has a mean of 0.18, while the disclosure quality index has a mean of 0.71.

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev	Min	Median	Max
Dependent Variables					
Absolute Discretionary Loan Loss Provisions (DLLP)	0.012	0.015	0.001	0.009	0.078
Timely Loss Recognition (C-Score) |	0.180	0.112	0.029	0.167	0.452
Financial Statement Readability (Fog Index)	19.240	2.870	14.350	19.120	26.750
Disclosure Quality Index (DQI)	0.710	0.153	0.320	0.725	0.950
Composite Financial Reporting Quality Index (FRQI)	0.000	1.000	2.634	0.127	2.418
Independent Variables					
Board Independence (BIND)	0.623	0.175	0.182	0.647	0.917
Audit Committee Effectiveness (ACE)	0.680	0.147	0.250	0.704	0.950

Ownership Concentration (OC)	0.210	0.180	0.016	0.175	0.760
Executive Compensation Structure (ECS)	0.582	0.164	0.125	0.601	0.875
Risk Management Framework Strength (RMFS)	0.620	0.190	0.150	0.635	0.925
Control Variables					
Bank Size (log of total assets)	10.754	1.867	7.124	10.635	14.982
Return on Assets (ROA)	0.009	0.008	-0.028	0.010	0.032
Equity-to-Assets Ratio (EAR)	0.092	0.028	0.041	0.088	0.187
Asset Growth Rate (AGR)	0.071	0.105	-0.154	0.058	0.421
Business Complexity (BC)	0.457	0.136	0.175	0.464	0.793
Regulatory Quality Index (RQI)	1.254	0.512	-0.389	1.382	1.984
Rule of Law Index (RLI)	1.315	0.583	0.624	1.490	2.012
GDP Growth Rate (GDPG)	0.023	0.027	0.067	0.026	0.089
Financial Market Development (FMD)	0.721	0.158	0.294	0.756	0.948

Notes: This table presents descriptive statistics for variables used in the study. The sample consists of 150 banks from 25 countries from 2019-2023 (750 bank-year observations). DLLP is estimated using the modified Jones model adapted for banks. C-Score measures asymmetric timeliness in loss recognition. The Fog Index measures the complexity of narrative disclosures (lower values indicate greater readability). DQI captures the comprehensiveness of risk disclosures. FRQI is a composite measure derived from principal component analysis of the four individual reporting quality measures.

Correlation Analysis

Table 2 presents the correlation matrix for the main variables. Board independence (BIND) and audit committee effectiveness (ACE) are positively correlated with all financial reporting quality measures, providing preliminary support for H1 and H2. Ownership concentration (OC) shows mixed correlations with reporting quality measures, consistent with the competing theoretical perspectives in H3. Executive compensation structure (ECS) is negatively correlated with reporting quality, aligned with H4, while risk management framework strength (RMFS) shows positive correlations, supporting H5.

The correlation analysis also reveals significant associations among governance variables. Board independence and audit committee effectiveness are positively correlated (r = 0.65), suggesting complementarity between these mechanisms. The moderate correlations among governance variables (all below 0.7) indicate that multicollinearity is not a severe concern.

Table 2: Correlation Matrix

FRQI	DLLP	C-Score	Fog	DQI	BIND	ACE	OC	ECS	RMFS	Size	ROA	EAR
FRQI	1.000											
DLLP	-0.651	1.000										
C-Score	0.748	-0.417	1.000									
Fog	-0.592	0.385	-0.324	1.000								
DQI	0.714	-0.462	0.481	-0.396	1.000							
BIND	0.485	-0.329	0.418	-0.276	0.352	1.000						
ACE	0.461	-0.315	0.382	-0.251	0.338	0.647	1.000					
OC	0.126	-0.095	0.187	-0.104	0.145	-0.218	-0.143	1.000				
ECS	-0.287	0.246	-0.221	0.183	-0.195	-0.124	-0.156	0.114	1.000			
RMFS	0.374	-0.265	0.298	-0.212	0.327	0.382	0.415	-0.095	-0.143	1.000		
Size	0.184	-0.156P	0.142	-0.082	0.219	0.216	0.284	-0.231	0.132	0.317	1.000	
ROA	0.147	-0.198	0.089	-0.072	0.132	0.018	0.046	0.085	0.218	0.074	0.014	1.000
EAR	0.053	-0.127	0.036	-0.021	0.095	0.097	0.031	-0.066	-0.124	0.087	-0.41	0.376	1.000

Presents Pearson correlation coefficients between the main variables. FRQI = Composite Financial Reporting Quality Index, DLLP = Absolute Discretionary Loan Loss Provisions, C-Score = Timely Loss Recognition measure, Fog = Financial Statement Readability (Fog Index), DQI = Disclosure Quality Index, BIND = Board Independence, ACE = Audit Committee Effectiveness, OC = Ownership Concentration, ECS = Executive Compensation Structure, RMFS = Risk Management Framework Strength, Size = Bank Size (log of total assets), ROA = Return on Assets, EAR = Equity-to-Assets Ratio.*, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Multivariate Analysis

Board Independence and Financial Reporting Quality

Table 3 presents the results of panel regressions examining the association between board independence and various measures of financial reporting quality. Consistent with H1, board independence (BIND) is positively and significantly associated with the composite financial reporting quality index (FRQI) ($\beta = 0.38$, $p < 0.01$). This relationship holds across individual reporting quality measures, with stronger effects for timely loss recognition ($\beta = 0.42$, $p < 0.01$) and disclosure quality ($\beta = 0.35$, $p < 0.01$).

These findings suggest that independent boards enhance financial reporting quality in banks by improving monitoring effectiveness and reducing information asymmetry. The results are robust to different model specifications and endogeneity tests, including 2SLS and system GMM estimations.

Table 3: Board Independence and Financial Reporting Quality

Variable	FRQI	DLLP	C-Score	Fog Index	DQI
BIND	0.375***	-0.283***	0.421***	-0.248***	0.345***
	(4.42)	(-3.82)	(4.87)	(-3.17)	(4.18)
Bank Size	0.114**	-0.098*	0.082	-0.045	0.147**
	(2.18)	(-1.95)	(1.52)	(-0.87)	(2.43)
ROA	0.098*	-0.154**	0.062	-0.043	0.087
	(1.75)	(-2.47)	(1.08)	(-0.79)	(1.59)
EAR	0.032	-0.081	0.026	0.013	0.067
	(0.57)	(-1.42)	(0.45)	(0.24)	(1.12)
AGR	-0.068	0.094*	-0.051	0.076	-0.079
	(-1.21)	(1.70)	(-0.93)	(1.38)	(-1.42)
BC	-0.089*	0.075	-0.067	0.118**	-0.095*
	(-1.68)	(1.45)	(-1.24)	(2.14)	(-1.67)
RQI	0.173***	-0.128**	0.149**	-0.095*	0.186***
	(3.27)	(-2.31)	(2.54)	(-1.72)	(3.42)
RLI	0.142**	-0.105*	0.129**	-0.084	0.157***
	(2.48)	(-1.82)	(2.23)	(-1.46)	(2.78)
GDPG	0.043	-0.037	0.031	-0.022	0.056
	(0.78)	(-0.68)	(0.56)	(-0.41)	(1.02)
FMD	0.127**	-0.097*	0.115**	-0.078	0.139**
	(2.31)	(-1.78)	(2.07)	(-1.42)	(2.45)
Constant	-1.842***	0.043***	-0.127*	24.875***	0.247***
	(-5.87)	(4.92)	(-1.95)	(18.42)	(3.67)
Year FE	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Observations	750	750	750	750	750
R-squared	0.294	0.226	0.272	0.195	0.247

*Notes: This table presents the results of panel regressions examining the relationship between board independence (BIND) and financial reporting quality measures. FRQI = Composite Financial Reporting Quality Index, DLLP = Absolute Discretionary Loan Loss

Provisions, C-Score = Timely Loss Recognition measure, Fog = Financial Statement Readability (Fog Index), DQI = Disclosure Quality Index. Control variables include: Bank Size = log of total assets, ROA = Return on Assets, EAR = Equity-to-Assets Ratio, AGR = Asset Growth Rate, BC = Business Complexity, RQI = Regulatory Quality Index, RLI = Rule of Law Index, GDPG = GDP Growth Rate, FMD = Financial Market Development. T-statistics are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Audit Committee Effectiveness and Financial Reporting Quality

Table 4 presents the results for audit committee effectiveness (ACE). Supporting H2, ACE is positively and significantly associated with the composite financial reporting quality index ($\beta = 0.31$, $p < 0.01$). Among the individual dimensions of ACE, financial expertise shows the strongest association with reporting quality ($\beta = 0.36$, $p < 0.01$), followed by independence ($\beta = 0.29$, $p < 0.01$) and meeting frequency ($\beta = 0.24$, $p < 0.05$).

These findings highlight the importance of audit committee quality in enhancing financial reporting in banks, particularly the value of financial expertise in overseeing complex banking operations and accounting practices.

Table 4: Audit Committee Effectiveness and Financial Reporting Quality

VARIABLE	FRQI	DLLP	C-SCORE	FOG INDEX	DQI
ACE	0.312***	-0.243***	0.287***	-0.213***	0.296***
	(3.87)	(-3.42)	(3.51)	(-2.89)	(3.64)
ACE COMPONENTS:					
INDEPENDENCE	0.285***	-0.227***	0.256***	-0.195***	0.274***
	(3.48)	(-3.18)	(3.12)	(-2.58)	(3.35)
FINANCIAL EXPERTISE	0.359***	-0.284***	0.325***	-0.247***	0.342***
	(4.31)	(-3.82)	(3.91)	(-3.17)	(4.17)
MEETING FREQUENCY	0.241**	-0.197**	0.218**	-0.169**	0.232**
	(2.53)	(-2.29)	(2.34)	(-2.04)	(2.47)
SIZE	0.127*	-0.113	0.104	-0.089	0.115
	(1.72)	(-1.59)	(1.42)	(-1.26)	(1.58)
CONTROL VARIABLES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES
BANK FE	YES	YES	YES	YES	YES
OBSERVATIONS	750	750	750	750	750
R-SQUARED	0.272	0.218	0.246	0.183	0.235

Notes: This table presents the results of panel regressions examining the relationship between audit committee effectiveness (ACE) and financial reporting quality measures. The first row shows the effect of the composite ACE index, while subsequent rows show the effects of individual ACE components. All control variables from Table 3 are included but not reported for brevity. T-statistics are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Ownership Concentration and Financial Reporting Quality

Table 5 presents the results for ownership concentration (OC). Consistent with H3, OC has a significant but non-linear relationship with financial reporting quality. At moderate levels, ownership concentration is positively associated with reporting quality ($\beta = 0.27$, $p < 0.05$), suggesting enhanced monitoring. However, at high levels, the relationship becomes negative ($\beta = -0.23$, $p < 0.05$), indicating potential entrenchment effects.

Further analysis reveals that the relationship between ownership concentration and reporting quality is moderated by investor protection regimes. In countries with strong investor protection, the positive monitoring effect dominates, while in countries with weak protection, the negative entrenchment effect is more pronounced.

Table 5: Ownership Concentration and Financial Reporting Quality

VARIABLE	FRQI	DLLP	C-SCORE	FOG INDEX	DQI
OC	0.265**	-0.187**	0.243**	-0.172*	0.228**
	(2.42)	(-2.13)	(2.31)	(-1.87)	(2.19)
OC^2	-0.231**	0.195**	-0.212**	0.157*	-0.203**
	(-2.18)	(2.07)	(-2.15)	(1.74)	(-2.09)
CONTROL VARIABLES	YES	YES	YES	YES	YES
YEAR FE	YES	YES	YES	YES	YES
BANK FE	YES	YES	YES	YES	YES
OBSERVATIONS	750	750	750	750	750
R-SQUARED	0.198	0.175	0.183	0.142	0.178

Notes: This table presents the results of panel regressions examining the relationship between ownership concentration (OC) and financial reporting quality measures. OC^2 represents the squared term of ownership concentration to capture non-linear effects. All control variables from Table 3 are included but not reported for brevity. T-statistics are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Executive Compensation and Financial Reporting Quality

Table 6 presents the results for executive compensation structure (ECS). Supporting H4, the proportion of performance-based compensation is negatively associated with financial reporting quality ($\beta = -0.25$, $p < 0.05$). This relationship is stronger for short-term incentives ($\beta = -0.32$, $p < 0.01$) than for long-term incentives ($\beta = -0.18$, $p < 0.10$).

Interestingly, the negative effect of performance-based compensation on reporting quality is mitigated by stronger board independence (interaction term: $\beta = 0.21$, $p < 0.05$) and risk management frameworks (interaction term: $\beta = 0.19$, $p < 0.05$). This suggests that other governance mechanisms can constrain the adverse incentives created by certain compensation structures.

Table 6: Executive Compensation and Financial Reporting Quality

Variable	FRQI	DLLP	C-Score	Fog Index	DQI
ECS	-0.247**	0.215**	-0.209**	0.183**	-0.213**
	(-2.37)	(2.21)	(-2.12)	(2.08)	(-2.15)
ECS Components:					
Short-term Incentives	-0.318***	0.271***	-0.289***	0.237**	-0.293***
	(-3.27)	(3.14)	(-3.02)	(2.42)	(-3.05)
Long-term Incentives	-0.176*	0.152*	-0.143*	0.127	-0.158*
	(-1.85)	(1.69)	(-1.68)	(1.61)	(-1.73)
Interaction Terms:					
ECS × BIND	0.208**	-0.187**	0.192**	-0.154*	0.198**
	(2.21)	(-2.13)	(2.15)	(-1.84)	(2.18)
ECS × RMFS	0.185**	-0.167*	0.173*	-0.142*	0.177*
	(2.04)	(-1.92)	(1.94)	(-1.78)	(1.96)
Control Variables	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Observations	750	750	750	750	750
R-squared	0.243	0.204	0.225	0.176	0.218

Notes: This table presents the results of panel regressions examining the relationship between executive compensation structure (ECS) and financial reporting quality measures. The first row shows the effect of the composite ECS measure, while subsequent rows show the effects of short-term and long-term incentive components. Interaction terms with board independence (BIND) and risk management framework strength (RMFS) are also included. All control variables from Table 3 are included but not reported for brevity. T-statistics are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Risk Management Frameworks and Financial Reporting Quality

Table 7 presents the results for risk management framework strength (RMFS). Supporting H5, RMFS is positively associated with financial reporting quality ($\beta = 0.29$, $p < 0.01$). Among the components of RMFS, the presence of a CRO with direct board reporting lines shows the strongest association ($\beta = 0.34$, $p < 0.01$).

The relationship between risk management and reporting quality is particularly pronounced during periods of financial stress, suggesting that strong risk governance becomes more valuable when banks face challenging economic conditions.

Table 7: Risk Management Frameworks and Financial Reporting Quality

Variable	FRQI	DLLP	C-Score	Fog Index	DQI
RMFS	0.289***	-0.235***	0.267***	-0.208**	0.278***
	(3.27)	(-2.93)	(3.12)	(-2.48)	(3.21)
RMFS Components:					
Risk Committee	0.263***	-0.217**	0.241**	-0.185**	0.249***
	(2.98)	(-2.57)	(2.54)	(-2.17)	(2.83)
CRO Presence	0.337***	-0.283***	0.311***	-0.247***	0.325***
	(3.81)	(-3.32)	(3.58)	(-2.87)	(3.72)
Board Risk Expertise	0.248***	-0.204**	0.227**	-0.179**	0.236**
	(2.64)	(-2.32)	(2.51)	(-2.03)	(2.58)
Financial Stress Periods	0.352***	-0.297***	0.328***	-0.265***	0.341***
	(3.97)	(-3.58)	(3.78)	(-3.12)	(3.89)
Normal Periods	0.241**	-0.198**	0.219**	-0.173**	0.232**
	(2.54)	(-2.27)	(2.42)	(-1.98)	(2.48)
Control Variables	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Bank FE	Yes	Yes	Yes	Yes	Yes
Observations	750	750	750	750	750
R-squared	0.258	0.214	0.237	0.185	0.246

*Notes: This table presents the results of panel regressions examining the relationship between risk management framework strength (RMFS) and financial reporting quality measures. The first row shows the effect of the composite RMFS measure, while subsequent rows show the effects of individual RMFS components. The table also reports the effects of RMFS during financial stress periods versus normal periods. Financial stress periods are defined as quarters with negative GDP growth or banking sector stress (based on the Federal Reserve's Financial Stress Index). All control variables from Table 3 are included but not reported for brevity. T-statistics are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Integrated Model of Corporate Governance and Financial Reporting Quality

Table 8 presents the results of an integrated model incorporating all governance mechanisms simultaneously. Board independence ($\beta = 0.33$, $p < 0.01$) and audit committee effectiveness ($\beta = 0.28$, $p < 0.01$) remain the strongest predictors of financial reporting quality, followed by risk management framework strength ($\beta = 0.25$, $p < 0.01$). The coefficients for ownership concentration and executive compensation structure are reduced in magnitude but remain significant.

These results suggest that while individual governance mechanisms matter, their collective impact on financial reporting quality is not simply additive. Some mechanisms appear to be substitutes (e.g., board independence and ownership concentration), while others are complementary (e.g., board independence and audit committee effectiveness).

Table 8: Integrated Model of Corporate Governance and Financial Reporting Quality

Variable	FRQI	DLLP	C-Score	Fog Index	DQI
BIND	**0.327*** **	**-0.267*** **	**0.302*** **	**-0.231*** **	**0.315*** **
	(3.89)	**(-3.57)**	**(3.62)**	**(-2.85)**	**(3.76)**
ACE	**0.281*** **	**-0.224*** **	**0.258*** **	**-0.196** **	**0.269*** **
	(3.24)	**(-3.13)**	**(3.04)**	**(-2.34)**	**(3.15)**
OC	**0.156* **	**-0.127* **	**0.142* **	**-0.113**	**0.149* **
	(1.81)	**(-1.68)**	**(1.73)**	**(-1.51)**	**(1.78)**
OC^2	**-0.139* **	**0.114**	**-0.127* **	**0.102**	**-0.132* **
	(-1.72)	**(1.59)**	**(-1.67)**	**(1.43)**	**(-1.69)**
ECS	**-0.198** **	**0.165* **	**-0.178** **	**0.143* **	**-0.187** **
	(-2.21)	**(1.94)**	**(-2.07)**	**(1.75)**	**(-2.15)**
RMFS	**0.247*** **	**-0.202** **	**0.223** **	**-0.175** **	**0.235*** **
	(2.75)	**(-2.41)**	**(2.53)**	**(-2.06)**	**(2.64)**
Interaction Terms:					
BIND × ACE	**0.189** **	**-0.155* **	**0.168* **	**-0.132* **	**0.177** **
	(2.17)	**(-1.88)**	**(1.96)**	**(-1.67)**	**(2.04)**
BIND × OC	**-0.142* **	**0.118**	**-0.128* **	**0.103**	**-0.135* **
	(-1.75)	**(1.57)**	**(-1.65)**	**(1.45)**	**(-1.69)**
Control Variables	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Year FE	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Bank FE	**Yes**	**Yes**	**Yes**	**Yes**	**Yes**
Observations	**750**	**750**	**750**	**750**	**750**
R-squared	**0.358**	**0.293**	**0.326**	**0.251**	**0.317**

*Notes: This table presents the results of panel regressions examining the integrated effect of multiple corporate governance mechanisms on financial reporting quality measures. BIND = Board Independence, ACE = Audit Committee Effectiveness, OC = Ownership Concentration, OC^2 = Squared Ownership Concentration, ECS = Executive Compensation Structure, RMFS = Risk Management Framework Strength. Interaction terms between selected governance mechanisms are also included. All control variables from Table 3 are included but not reported for brevity. T-statistics are reported in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.*

Additional Analyses and Robustness Checks

Cross-Country Analysis

To examine how institutional contexts affect the governance-reporting quality relationship, we conducted separate analyses for different country groups based on legal origin, regulatory stringency, and financial development. The results indicate that board independence has a stronger effect on reporting quality in common law countries ($\beta = 0.45$, $p < 0.01$) than in civil law countries ($\beta = 0.29$, $p < 0.05$). Conversely, ownership concentration has a stronger effect in civil law countries ($\beta = 0.31$, $p < 0.01$) than in common law countries ($\beta = 0.18$, $p < 0.10$). These findings suggest that the effectiveness of specific governance mechanisms depends on the broader institutional environment, supporting the contingency perspective from institutional theory.

Bank Size and Complexity Effects

We also examined whether the governance-reporting quality relationship varies with bank size and complexity. For large, complex banks, board independence ($\beta = 0.41$, $p < 0.01$) and risk management frameworks ($\beta = 0.37$, $p < 0.01$) have stronger effects on reporting quality compared to smaller, less complex banks ($\beta = 0.28$ and $\beta = 0.21$, respectively, $p < 0.05$). This suggests that as organizational complexity increases, formal governance mechanisms become more important for ensuring financial reporting quality.

Endogeneity Concerns

To address potential endogeneity arising from reverse causality or omitted variables, we employed several econometric approaches: Instrumental variables: Using lagged governance variables and external instruments (e.g., industry-level governance averages) in a 2SLS framework. Dynamic panel models: Using system GMM estimators that account for the persistence in reporting quality and governance structures. Difference-in-differences: Exploiting regulatory changes affecting corporate governance as exogenous shocks. The results from these approaches are consistent with our main findings, increasing confidence in the causal interpretation of the governance-reporting quality relationship

5. Conclusions

Summary of Findings

This study examined how corporate governance mechanisms influence financial reporting quality in banking institutions. The results provide strong support for the hypothesis that board independence and audit committee effectiveness enhance financial reporting quality. We also find that ownership concentration has a non-linear relationship with reporting quality, executive compensation structure is negatively associated with reporting quality, and risk management frameworks positively influence reporting quality.

The integrated analysis reveals that governance mechanisms operate as a system, with complementary and substitutive effects. Moreover, their effectiveness varies across institutional contexts and bank characteristics, highlighting the contingent nature of corporate governance.

Theoretical Implications

Our findings contribute to the corporate governance and financial reporting literature in several ways. First, they extend agency theory by demonstrating how specific governance mechanisms mitigate information asymmetry in the complex banking context. Second, they support the resource dependence perspective by highlighting how board expertise enhances monitoring capabilities. Third, they contribute to institutional theory by showing how the effectiveness of governance mechanisms depends on the regulatory and legal environment.

The study also advances our understanding of financial reporting quality in banks by identifying specific governance attributes that constrain earnings management, promote timely loss recognition, and enhance disclosure quality. The multi-dimensional approach to measuring reporting quality provides a more comprehensive assessment than previous studies focused on single metrics.

Practical Implications

The findings have important implications for various stakeholders: Bank boards and management: The results highlight the value of board independence, audit committee expertise, and robust risk governance in enhancing financial reporting quality. Banks should prioritize these attributes in their governance structures.

Regulators: The findings inform regulatory policies aimed at improving banking transparency and stability. Regulators should consider mandating minimum standards for board independence, audit committee composition, and risk governance.

Investors: The results help investors identify governance attributes associated with more reliable financial reporting, potentially improving investment decisions and market discipline.

Standard setters: The findings suggest that accounting standards for banks should consider the mediating role of governance in financial reporting outcomes.

Limitations and Future Research

While this study provides valuable insights, several limitations should be acknowledged. First, despite our efforts to address endogeneity, causal inferences should be made cautiously. Second, our measures of financial reporting quality, though comprehensive, may not capture all dimensions of reporting quality. Third, the study period (2019-2023) may not reflect longer-term relationships between governance and reporting quality.

Future research could address these limitations and extend our findings in several directions: Examining how digital transformation and financial technology affect the governance-reporting quality relationship in banks. Investigating how informal governance mechanisms (e.g., corporate culture, ethics) complement formal structures in enhancing reporting quality. Exploring how governance mechanisms influence specific accounting choices and disclosures in banks, such as loan loss provisioning models under IFRS 9 and CECL frameworks. Conducting longitudinal case studies to provide deeper insights into the processes through which governance affects reporting quality in specific bank contexts. In conclusion, this study enhances our understanding of how corporate governance influences financial reporting quality in banks, offering valuable insights for theory, practice, and policy. As banks continue to face complex challenges in an evolving regulatory landscape, effective governance remains crucial for ensuring transparent and reliable financial reporting.

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