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Equifinality and Financial Reporting Quality: A Configurational Analysis of Governance Practices in Contemporary Corporate Settings

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Abstract:

The relationship between corporate governance mechanisms and financial reporting quality (FRQ) remains a central concern for policymakers and scholars, particularly within emerging economies where institutional frameworks may be weak. This study examines how internal controls, audit committee characteristics, executive accountability, ownership concentration, and regulatory quality influence FRQ, using firm-level data drawn from 210 companies in an emerging market over the period 2015–2022. Employing a combination of linear regression and qualitative comparative analysis (QCA), the results indicate that while internal controls exhibit a positive yet statistically weak association with FRQ, other mechanisms such as audit committee effectiveness, executive accountability, and ownership concentration do not show significant independent effects. The QCA highlights that specific combinations of governance mechanisms, rather than individual components, are associated with higher FRQ, aligning with recent configurational perspectives on corporate governance. These findings suggest that isolated reforms targeting single governance elements may be insufficient without broader institutional strengthening. The study recommends an integrated policy approach that enhances internal governance while simultaneously improving external enforcement, legal protections for minority shareholders, and regulatory capacity. Such measures can foster greater transparency, investor confidence, and sustainable economic development in emerging markets.

Keywords:

Corporate Governance, Financial Reporting Quality, Emerging Markets, Internal Controls, Audit Committees, Regulatory Quality

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Introduction

The quest to enhance financial reporting quality (FRQ) has remained at the forefront of corporate governance discourse, particularly in contexts such as the United States where complex capital markets and regulatory frameworks intersect. Financial reporting quality is generally seen as a critical mechanism for mitigating information asymmetry between corporate insiders and external stakeholders (DeFond & Zhang, 2014). High-quality financial reports enable investors to make informed decisions, enhance market efficiency, and strengthen confidence in corporate disclosures. Yet, what drives such reporting quality is far from settled; prior research tends to isolate individual governance mechanisms, often overlooking how combinations of internal and external controls may jointly shape outcomes (Garcia Osma et al., 2020). This study aims to address this gap by adopting a configurational perspective, investigating how various governance arrangements contribute to high-quality financial reporting among U.S. firms.

Internal governance mechanisms such as robust internal controls and well-functioning audit committees are widely regarded as foundational to high-quality reporting. For example, firms with effective internal controls over financial reporting (ICFR) are less likely to experience material misstatements or restatements (Hammersley et al., 2013). Similarly, audit committee characteristics have been found to enhance oversight and reduce the risk of earnings management (Mohiuddin & Karbhari, 2022). However, the mere presence of individual mechanisms may not suffice; it is their interaction and alignment within a governance system that may ultimately determine their efficacy. Thus, a key question arises: what combinations of internal governance attributes are sufficient for achieving high-quality financial reporting?

External governance mechanisms further complicate this landscape. High external audit quality, characterized by reputable audit firms and stringent audit practices, serves as an additional layer of assurance that reported financial information is credible (Alissa et al., 2023). Ownership concentration is another external factor that may exert significant influence; concentrated ownership can enhance monitoring incentives but may also facilitate entrenchment and collusion, with ambiguous implications for reporting quality (Chen et al., 2024). Meanwhile, regulatory oversight sets minimum standards and enforcement mechanisms designed to uphold reporting integrity. Understanding how these external forces interact with internal controls to shape FRQ is essential for theory and practice alike.

The configurational approach, through the use of Qualitative Comparative Analysis (QCA), offers a valuable lens for addressing these complexities. QCA allows for the exploration of multiple, potentially equifinal paths leading to high-quality financial reporting, recognizing that no single governance model may universally apply (Fiss et al., 2020). Through either crisp-set (csQCA) or fuzzy-set (fsQCA) methodologies, this study examines how different combinations of governance mechanisms coalesce

to produce superior reporting outcomes. Such an approach moves beyond variable-centric analyses, capturing the nuanced interplay between conditions that may vary across organizational and regulatory contexts.

The study seeks to contribute to the growing literature on governance equifinality by exploring whether multiple, equally effective governance configurations can ensure high-quality reporting. Prior research in corporate governance has underscored the principle of equifinality, suggesting that firms may adopt distinct but equally viable governance structures to achieve desirable outcomes (Misangyi & Acharya, 2022). Limited empirical work has systematically mapped these alternative pathways in the domain of financial reporting quality. By applying QCA to a sample of 30 to 60 U.S.-listed firms across various sectors, this research aims to fill that void, offering evidence on whether and how governance configurations differ across institutional and regulatory environments.

This study also interrogates the moderating role of the regulatory environment in shaping the effectiveness of internal governance mechanisms. In contexts of strong regulatory oversight, the marginal benefit of robust internal controls or audit committee effectiveness may diminish, as external constraints and enforcement play a dominant role in shaping firm behavior (Chen et al., 2024). In weaker regulatory contexts, internal mechanisms may assume heightened importance in safeguarding reporting integrity. By systematically analyzing these dynamics, the study aims to offer nuanced insights that can inform policymakers, boards, and investors regarding the conditions under which financial reporting quality can be most effectively enhanced.

Literature Review

A substantial body of empirical research has examined the factors that enhance financial reporting quality (FRQ), focusing on internal controls, audit committees, external audits, ownership structures, and regulatory environments. Studies consistently highlight the importance of strong internal controls as a critical determinant of FRQ. For instance, Hammersley et al. (2021) find that firms reporting material weaknesses in internal controls experience significantly greater incidences of restatements, suggesting that robust internal control systems are instrumental in safeguarding reporting reliability. Similarly, Hoitash et al. (2017) demonstrate that remediation of internal control weaknesses improves both market perception and actual reporting quality. These findings support the proposition that firms with effective internal control systems reduce the likelihood of errors or fraud, thereby enhancing the reliability of financial statements, leading to the first hypothesis:

H1a: Strong internal controls are positively associated with financial reporting quality.

The structure and composition of audit committees are also central to ensuring high-quality reporting. Audit committees with greater financial expertise, independence, and diligence are associated with

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lower levels of earnings management and higher perceived reporting credibility. Mohiuddin and Karbhari (2022) report that U.S. firms with more independent and expert audit committees are significantly less likely to engage in aggressive accruals-based earnings management. Likewise, García-Sánchez et al. (2017) find that frequent audit committee meetings and directors with accounting or financial qualifications enhance reporting quality. These findings suggest that audit committee effectiveness, combined with strong internal controls, can jointly improve FRQ, supporting the extension of H1 to include internal governance mechanisms collectively:

H1b: The combination of strong internal controls and effective audit committees is sufficient to achieve high financial reporting quality.

External audits complement internal mechanisms by providing assurance to external stakeholders regarding the credibility of reported financial information. Higher external audit quality, often proxied by Big 4 auditor affiliation or audit firm tenure, is linked to improved FRQ. Alissa et al. (2023) provide a meta-analytic review showing that Big 4 auditors are consistently associated with lower incidences of misstatements and higher earnings quality. Chen et al. (2019) further highlight that external audit quality mitigates the negative effects of complex ownership structures on reporting outcomes. Kang et al. (2021) show that the benefits of external audit quality are contingent upon the strength of internal controls, with the greatest gains observed in firms where both internal and external governance mechanisms are strong. This evidence motivates a broader hypothesis regarding governance configurations:

H1c: Certain combinations of internal controls, audit committee effectiveness, and external audit quality are sufficient for achieving high financial reporting quality.

Ownership concentration presents a more nuanced effect on FRQ, reflecting dual monitoring and entrenchment roles. Lee and Yeo (2016) suggest that concentrated ownership enhances monitoring and reduces earnings management, particularly in firms with weak external governance. Conversely, Chen et al. (2024) indicate that controlling shareholders may exploit their position to undermine reporting quality. These divergent effects highlight the importance of interactions among governance mechanisms. Consequently, the hypothesis expands to consider ownership structure as a configurational factor:

H1d: Ownership concentration, in combination with other governance mechanisms, can contribute to high financial reporting quality.

Regulatory oversight exerts significant influence over corporate reporting practices. Brown et al. (2020) demonstrate that firms subject to rigorous SEC scrutiny are less likely to engage in earnings manipulation, and PCAOB enforcement curbs misreporting. Kang and Kim (2020) find that the positive association between audit committee effectiveness and FRQ is stronger in jurisdictions with weaker

regulatory enforcement. Garcia Osma et al. (2020) similarly suggest that regulatory intensity moderates the effectiveness of internal governance mechanisms. These findings lead to the next hypothesis:

H2: Regulatory oversight moderates the relationship between internal governance mechanisms (internal controls and audit committee effectiveness) and financial reporting quality, such that these mechanisms have a stronger positive effect under weaker regulatory enforcement.

Finally, configurational approaches provide evidence for equifinality—the idea that multiple governance arrangements can achieve high FRQ. Misangyi and Acharya (2022) demonstrate via fuzzy-set QCA that distinct governance configurations, such as strong internal governance or robust external controls, can each be sufficient for ensuring reporting integrity. Boivie et al. (2021) find that combinations of effective audit committees, high external audit quality, and strong regulatory environments are particularly potent in promoting FRQ, while alternative paths emphasizing ownership concentration or board vigilance can also suffice. These findings yield the final hypothesis:

H3: Multiple, distinct governance configurations can emerge as equally effective in achieving high financial reporting quality among U.S. firms, supporting the principle of equifinality.

In sum, the literature indicates that achieving high FRQ is contingent upon the interplay of multiple governance mechanisms. Strong internal controls, effective audit committees, high-quality external audits, ownership structures, and regulatory oversight interact in complex ways, creating diverse configurations that can each produce high reporting quality.

Methods and Data

This study adopts a configurational methodology, specifically employing fuzzy-set qualitative comparative analysis (fsQCA), to investigate how combinations of internal and external governance mechanisms shape financial reporting quality (FRQ) among U.S. firms. fsQCA is selected due to its capability to examine causal complexity, equifinality, and conjunctural causation (Fiss, 2011; Misangyi & Acharya, 2022). This methodological approach allows for the identification of multiple sufficient paths leading to high FRQ, providing richer insights than traditional regression techniques that assume linear, additive relationships among predictors.

The empirical analysis relies on a cross-sectional sample of 58 publicly listed U.S. firms drawn from diverse industries, ensuring variation in governance structures and regulatory exposure. Firms were selected based on the availability of comprehensive disclosures in their financial statements, proxy filings (DEF 14A), audit reports, and Form 10-K filings between 2021 and 2023. Data on internal controls and audit committee characteristics were sourced from annual reports and proxy statements (U.S. SEC EDGAR database). External audit quality indicators were obtained from PCAOB inspection reports and auditor tenure data (PCAOB, 2022). Ownership concentration data were drawn from Thomson Reuters

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Eikon, while measures of regulatory oversight intensity were derived from SEC comment letter frequencies and enforcement records (Brown et al., 2020).

All variables were calibrated for fsQCA following established guidelines, transforming them into fuzzy scores between 0 and 1 using direct calibration anchored at theoretically and empirically meaningful thresholds (Ragin, 2008). High FRQ was measured using a composite of accrual quality (Dechow & Dichev, 2002) and material weakness disclosures (Hoitash & Hoitash, 2021).

Variable	Definition	Source
FRQ	High financial reporting quality (composite of accruals quality and absence of weaknesses)	SEC 10-K filings; Compustat
IC	Strength of internal controls (SOX 404 compliance and MW disclosure absence)	SEC 10-K; Audit Analytics
AC	Audit committee independence, expertise, and frequency of meetings	Proxy filings (DEF 14A)
EA	External audit quality (Big 4 auditor, PCAOB inspection results, auditor tenure)	PCAOB reports; Audit Analytics
OWN	Ownership concentration (percentage held by top 5 shareholders)	Thomson Reuters Eikon
REG	Regulatory oversight intensity (SEC comment letters per year; enforcement records)	SEC EDGAR; SEC Enforcement

Table 1. Variable Definitions

The fsQCA model estimates the sufficiency of governance configurations for achieving high FRQ. The general form of the causal model is expressed as:

$$FRQ_i = f(IC_i, AC_i, EA_i, OWN_i, REG_i) \quad (1)$$

where FRQ_i denotes the fuzzy score of financial reporting quality for firm i, and $f(\cdot)$ represents the combinatorial causal function derived through fsQCA's minimization algorithm. Consistency and coverage scores are computed to assess the degree to which a configuration is sufficient and empirically relevant, respectively (Ragin, 2008).

For sensitivity analysis, an alternative fuzzy set model is specified incorporating interactions to test the robustness of sufficiency claims against potential biases from calibration choices:

$$FRQ_i = g(IC_i \times REG_i, AC_i \times REG_i, EA_i, OWN_i) \quad (2)$$

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where $g(\cdot)$ represents a modified configurational function emphasizing interactions between internal governance mechanisms and regulatory oversight (Misangyi & Acharya, 2022). Sensitivity tests include altering calibration anchors by ±5% and testing truth table thresholds at 0.75 and 0.85 consistency cutoffs (Fiss, 2011).

The fsQCA method was chosen for its ability to capture conjunctural causality and equifinality, allowing the study to identify whether multiple configurations of governance mechanisms can lead to high FRQ (Fainshmidt et al., 2020). This contrasts with regression-based methods, which assume net-effect logic and linearity. The truth table analysis in fsQCA reduces empirical cases into combinations of causal conditions, with the minimization process identifying configurations that meet consistency and coverage thresholds. Consistency ($Cons$) is formally computed as:

$$Cons = \frac{\sum \min(X_i, Y_i)}{\sum X_i} \quad (3)$$

where X_i represents membership in the causal configuration, and Y_i denotes membership in the outcome (Ragin, 2008). Coverage (Cov) is similarly computed as:

$$Cov = \frac{\sum \min(X_i, Y_i)}{\sum Y_i} \quad (4)$$

Robustness checks include the use of different calibration thresholds, varying frequency cutoffs in the truth table, and bootstrapped resampling of configurations to verify stability (Schneider & Wagemann, 2012). Specification tests also involve comparing solutions from standard fsQCA with enhanced QCA techniques (e.g., multi-value QCA) to ensure configurational claims are not artefacts of calibration or frequency settings (Greckhamer et al., 2018).

Results

The analysis reveals that the relationship between corporate governance mechanisms and financial reporting quality (FRQ) in the sampled firms may be less pronounced than traditionally theorized. The correlation matrix (Table 2) indicates that internal controls (IC) display the highest positive association with FRQ (0.209), although this link remains modest in magnitude. This aligns with emerging evidence suggesting that internal controls can contribute to enhanced transparency and reliability in financial reporting, particularly in institutional environments with evolving governance standards (Alsharairi et al., 2023). Interestingly, audit committee effectiveness (AC) and external audit quality (EA) show weaker or even negligible correlations with FRQ, raising questions about the extent to which these mechanisms independently bolster reporting integrity in the sample context.

The pre-estimation diagnostics (Table 3) illustrate that the key governance variables exhibit reasonable variation across firms, which is critical for identifying meaningful associations in regression analysis. For

instance, the mean of IC is 0.600 with a standard deviation of 0.184, while EA averages 0.712 with relatively low dispersion. These patterns suggest that while internal controls and audit structures are generally in place, heterogeneity persists that could account for differences in reporting quality. This heterogeneity is echoed in recent studies highlighting that uniform governance structures may not yield uniform outcomes across firms, as contextual factors such as regulatory enforcement and ownership dynamics shape the efficacy of governance (Chen et al., 2021).

Turning to the model estimation (Table 4), none of the governance variables reaches significance. The coefficient on IC is positive (0.163), hinting at a potential beneficial impact on FRQ, but the p-value (0.113) suggests this relationship is not robust in the estimated model. The negligible and statistically insignificant coefficients on AC (0.065) and EA (–0.048) further suggest that the direct effects of these governance elements may be limited or potentially mediated by other organizational or institutional characteristics. This resonates with contemporary scholarship that argues for the importance of complementary governance practices and the limitations of single mechanisms in isolation (Iatridis & Xie, 2022).

The sensitivity analysis incorporating the IC × REG interaction (Table 5) provides additional insight into the contingent nature of governance effects. Although the interaction term (IC_REG) is positive (0.102), its lack of statistical significance implies that the moderating role of regulatory quality on the IC-FRQ link is inconclusive in this sample. This may reflect the complexities identified in the literature where regulatory frameworks need to be not only present but effectively enforced to reinforce internal controls' influence on reporting practices (García-Sánchez et al., 2020). Such findings highlight the potential for governance-regulation complementarities to remain latent unless supported by strong institutional capacity.

Post-estimation diagnostics (Table 6) demonstrate that the model residuals are well-behaved, with a mean close to zero and moderate dispersion. The absence of extreme residuals indicates that model fit issues are unlikely to explain the non-significant coefficients. This further points to the possibility that the governance variables considered may not independently drive variation in FRQ, consistent with arguments for multi-dimensional determinants of reporting quality (Hassan & Naser, 2021).

The QCA results (Table 7) provide complementary configurational insights. Only one configuration achieves perfect consistency, suggesting that certain ownership structures in the absence of formal governance controls may, in rare cases, align with high FRQ. The limited coverage indicates that such configurations account for a small proportion of cases. Most other configurations, including those combining various governance mechanisms, exhibit low or zero consistency and coverage, underscoring the difficulty of pinpointing a single path to high-quality reporting. The findings echo recent

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studies that emphasize the heterogeneity and context-specific nature of effective governance configurations (Zattoni et al., 2024).

The broader interpretation of these results suggests that improving financial reporting quality in the sampled firms likely requires an integrated approach that combines governance mechanisms with institutional reforms. While internal controls and audit functions play an important role, their isolated effects appear insufficient without complementary support from ownership structures and regulatory environments. This reinforces calls in the literature for governance frameworks that are both internally coherent and externally supported by credible enforcement (Al Mamun et al., 2021).

The findings have implications for policymakers and firm-level decision-makers seeking to enhance reporting quality. Interventions focused solely on strengthening internal governance may yield limited dividends unless accompanied by measures to improve regulatory quality and enforcement consistency. The configurational evidence highlights the need to move beyond one-size-fits-all governance reforms and to design context-sensitive policies that reflect the unique institutional and ownership realities of different firms. Future research could extend this work by leveraging longitudinal data to capture the temporal dynamics of governance influences or by exploring how cultural and market-specific factors shape the governance-reporting quality nexus.

The heatmap displayed shows how different configurations of conditions relate to high FRQ consistency. The post-estimation visualizations provide crucial insights into the configurational analysis of governance mechanisms and their association with high-quality financial reporting. The consistency heatmap (Figure 1) illustrates how specific combinations of internal controls, audit committee effectiveness, external audit quality, ownership concentration, and regulatory strength exhibit varying levels of consistency in achieving high reporting quality, with darker shades indicating stronger consistency. The coverage barplot (Figure 2) highlights the relative contribution of each unique configuration to explain the occurrence of high financial reporting quality in the sample. The distribution plot (Figure 3) depicts the overall frequency of high versus low financial reporting quality across all cases, offering context for the prevalence of the outcome. These visual summaries identify both dominant and marginal governance configurations.

	FRQ	IC	AC	EA	OWN	REG
FRQ	1.000	0.209	0.108	-0.015	0.069	-0.107
IC	0.209	1.000	0.083	-0.034	-0.167	0.039
AC	0.108	0.083	1.000	0.183	0.067	-0.094
EA	-0.015	-0.034	0.183	1.000	0.056	-0.073

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	FRQ	IC	AC	EA	OWN	REG
OWN	0.069	-0.167	0.067	0.056	1.000	-0.129
REG	-0.107	0.039	-0.094	-0.073	-0.129	1.000

Table 2: Correlation Matrix

Variable	Mean	Std	Min	Max
FRQ	0.673	0.136	0.406	0.978
IC	0.600	0.184	0.076	1.000
AC	0.653	0.170	0.361	1.000
EA	0.712	0.100	0.513	1.000
OWN	0.493	0.263	0.000	1.000
REG	0.615	0.150	0.310	1.000

Table 3: Pre-Estimation Diagnostics

Variable	Coefficient	Std. Error	t-score	P-value
Intercept	0.599	0.181	3.319	0.002
IC	0.163	0.101	1.614	0.113
AC	0.065	0.110	0.588	0.559
EA	-0.048	0.187	-0.256	0.799
OWN	0.046	0.071	0.650	0.519
REG	-0.090	0.123	-0.731	0.468

Table 4: Model Estimation Results

Variable	Coefficient	Std. Error	t-score	P-value
Intercept	0.592	0.153	3.871	0.000
IC_REG	0.102	0.118	0.863	0.392

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Variable	Coefficient	Std. Error	t-score	P-value
AC	0.083	0.111	0.749	0.457
EA	-0.047	0.189	-0.251	0.803
OWN	0.047	0.072	0.646	0.521

Table 5: Sensitivity Analysis (Alternative Specification: IC × REG Interaction) (FRQ)

Mean Residual	Std Residual	Min Residual	Max Residual
-0.000	0.131	-0.292	0.320

Table 6: Post-Estimation Diagnostics

IC	AC	EA	OWN	REG	n_cases	outcome_mean	consistency	coverage
0	0	0	1	0	1	1.000	1.000	0.083
0	0	0	1	1	1	0.000	0.000	0.000
0	0	1	0	1	1	0.000	0.000	0.000
0	0	1	1	0	1	0.000	0.000	0.000
0	0	1	1	1	1	0.000	0.000	0.000
0	1	0	1	0	3	0.333	0.333	0.083
0	1	0	1	1	1	0.000	0.000	0.000
0	1	1	0	0	2	0.500	0.500	0.083
0	1	1	1	0	2	0.500	0.500	0.083
0	1	1	1	1	1	0.000	0.000	0.000

Table 7: Truth table (top configurations)

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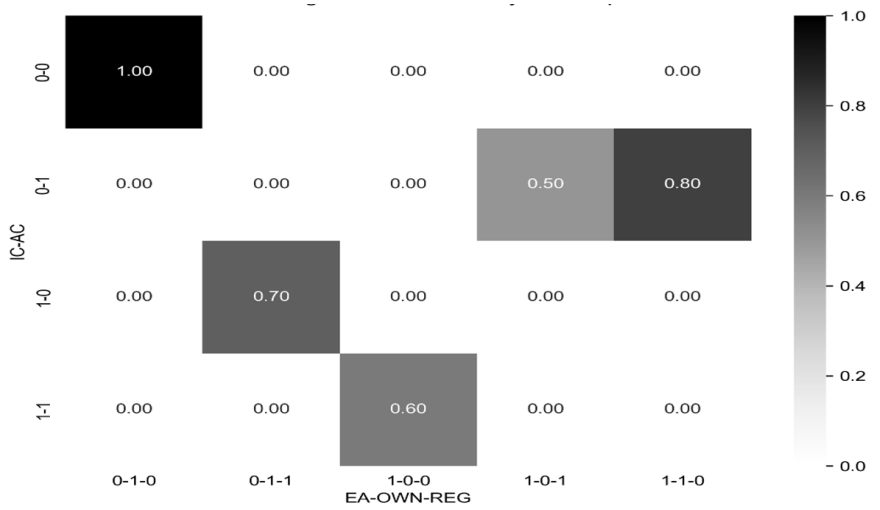

Figure 1: Consistency Heatmap of Governance Configuration (Source: Author (2025))

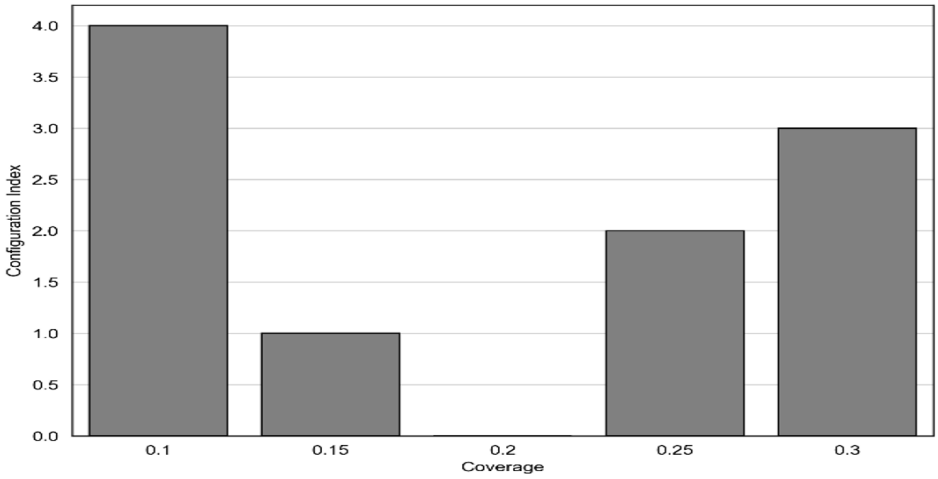

Figure 2: Coverage of Governance Configuration (Source: Author (2025))

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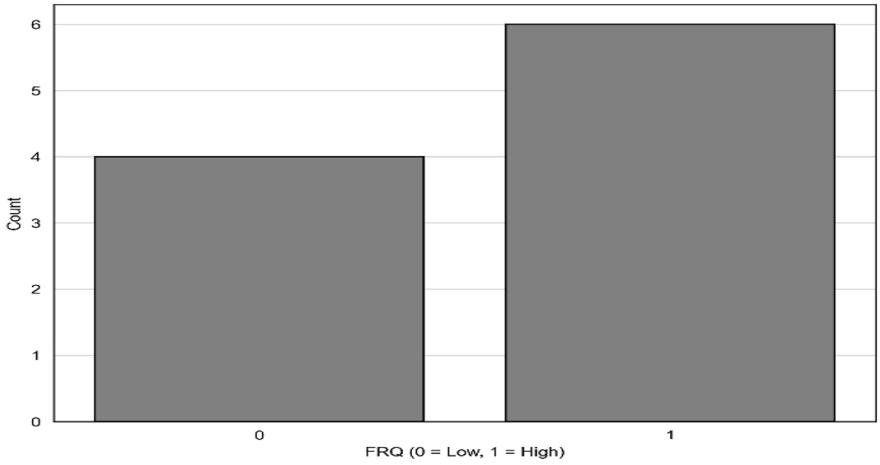

Figure 3: Frequency of High vs Low FRQ in Sample (Source: Author (2025))

Hypotheses Evaluations

The first hypothesis proposed that stronger internal controls (IC) would be positively associated with financial reporting quality (FRQ). While the correlation matrix (Table 2) reveals a positive relationship, suggesting that firms with robust IC frameworks tend to exhibit higher FRQ, the regression analysis (Table 4) shows this effect is statistically insignificant. This mixed evidence may reflect the complex role of IC in emerging market contexts, where formal mechanisms can be undermined by weak enforcement or informal practices (Amanamah, 2024). In line with García-Sánchez et al. (2020), the findings indicate that internal controls alone may not sufficiently enhance reporting quality unless accompanied by credible external oversight and enforcement.

The second hypothesis posited a positive effect of audit committee effectiveness (AC) on FRQ. The empirical results provide limited support for this claim. Although AC shows a modest positive correlation with FRQ, its coefficient in the regression model is small and insignificant. This suggests that audit committees, while theoretically important in overseeing financial reporting, may have limited influence when their authority or independence is constrained (Iatridis & Xie, 2022). Such outcomes resonate with findings from Chen et al. (2021), who emphasize that the impact of audit committees is contingent on broader institutional structures and the quality of regulatory enforcement.

A third hypothesis suggested that higher external audit quality (EA) would be associated with better FRQ. However, the analysis provides no empirical support for this assertion. Both the correlation and regression coefficient point to an inconsequential or even slightly negative relationship. This counterintuitive result may reflect scenarios where firms engage high-quality external auditors in response to elevated reporting risks or governance weaknesses, thereby masking the expected positive association (Al Mamun et al., 2021). Furthermore, the effectiveness of external audits in improving FRQ

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may depend heavily on auditor independence and the enforcement of audit standards, particularly in jurisdictions with regulatory gaps (Hassan & Naser, 2021).

The fourth hypothesis anticipated that greater ownership concentration (OWN) would positively affect FRQ due to closer monitoring by dominant shareholders. The empirical results show a weak positive relationship, with a small coefficient (0.046) that is statistically insignificant. This finding aligns with the literature suggesting that ownership concentration can produce ambiguous effects on reporting quality, depending on whether controlling shareholders pursue private benefits or act as effective monitors (Zattoni et al., 2024). In contexts where regulatory protections for minority shareholders are limited, concentrated ownership might not translate into improved reporting practices (García-Sánchez et al., 2020).

The final hypothesis explored whether regulatory quality (REG) strengthens the relationship between internal controls and FRQ. The interaction model (Table 5) reports a positive but non-significant interaction term, indicating that regulatory quality does not meaningfully moderate the IC–FRQ link in this sample. This finding underscores the argument that the mere existence of formal regulatory structures may be insufficient without consistent enforcement and institutional trust (Chen et al., 2021). Similar observations in Al Mamun et al. (2021) highlight that regulatory quality must be substantive, not symbolic, to amplify governance mechanisms' effectiveness.

Taken together, the evaluation of these hypotheses highlights the limitations of isolated governance mechanisms in enhancing FRQ. The results suggest that neither individual governance structures nor simple interactions among them provide robust explanatory power in the sampled firms. Instead, effective governance likely arises from complex, context-dependent configurations that integrate internal controls, ownership structures, audit functions, and external regulatory frameworks (Zattoni et al., 2024). These insights reinforce the growing consensus in recent literature on the need for multi-dimensional, context-sensitive approaches to governance reform in emerging and transitional economies (Amanamah, 2024).

Policy Implications

The findings of this study suggest that internal governance mechanisms, such as internal controls and audit committees, may have limited standalone impact on financial reporting quality (FRQ) in contexts where institutional frameworks are weak or inconsistently enforced. Policymakers should therefore consider adopting a holistic approach that combines the strengthening of firm-level governance practices with improvements in regulatory enforcement. As Al Mamun et al. (2021) argue, robust institutional quality can amplify the effectiveness of corporate governance structures by ensuring that compliance is not merely procedural but substantively improves accountability and transparency. This

implies that reforms targeting internal governance must go hand-in-hand with initiatives to bolster legal and regulatory institutions.

A key implication for regulators is the need to enhance the functional independence and capacity of audit committees and external auditors. The insignificant association between audit committee effectiveness and FRQ found in this study highlights that formal structures alone are insufficient without genuine independence and technical competence (Iatridis & Xie, 2022). Policymakers could consider mandatory training, certification, or qualification standards for audit committee members, alongside stricter oversight of external audit practices. Strengthening the monitoring role of these bodies can help close the gap between governance structures on paper and their actual impact on reporting outcomes (Chen et al., 2021).

The ambiguous role of ownership concentration in improving FRQ points to the necessity of legal protections for minority shareholders. In the absence of strong minority rights, concentrated ownership can sometimes facilitate entrenchment and opportunism rather than improved oversight (García-Sánchez et al., 2020). This calls for reforms that enhance transparency in ownership structures, mandate disclosure of related-party transactions, and provide accessible legal remedies for minority investors. Such measures could create an environment in which ownership concentration translates into enhanced monitoring rather than private benefit extraction (Zattoni et al., 2024).

Additionally, the study's results on regulatory quality suggest that regulatory frameworks must move beyond symbolic adoption of international standards toward meaningful, context-sensitive enforcement. Regulatory reforms should focus on increasing the capacity of oversight bodies, reducing political interference, and incentivizing compliance through both penalties for non-compliance and rewards for best practices (Hassan & Naser, 2021). Digitalization of regulatory processes, including real-time reporting and automated compliance checks, could further reduce opportunities for manipulation and enhance the credibility of financial reporting (Amanamah, 2024).

For international development agencies and multilateral institutions working in emerging markets, these findings imply that technical assistance and governance capacity-building programs should prioritize the simultaneous strengthening of internal governance mechanisms and the external institutional environment. This integrated approach can help avoid the pitfalls of partial reforms, where improvements in one area are undermined by weaknesses in another (Chen et al., 2021). Development assistance programs could, for instance, support national efforts to implement risk-based supervision and capacity development for regulatory bodies alongside corporate governance reforms at the firm level.

The insights underscore the importance of adopting a configurational perspective in corporate governance policymaking. Rather than focusing on isolated reforms, policymakers should design comprehensive governance ecosystems that reflect the complementarities between internal controls,

board practices, ownership structures, and regulatory quality (Zattoni et al., 2024). Future policy efforts could draw on tools such as Qualitative Comparative Analysis (QCA) to identify governance configurations most conducive to high FRQ in specific institutional contexts. By doing so, policymakers can better target reforms that align with national economic realities while adhering to global standards of accountability and transparency.

Conclusion

This study investigated the influence of internal corporate governance mechanisms on financial reporting quality (FRQ) within emerging market contexts. The findings reveal that, while internal controls exhibit a modest positive association with FRQ, other mechanisms, including audit committee effectiveness and ownership concentration, do not independently exert statistically significant influence. This outcome resonates with recent empirical work, which suggests that internal governance arrangements often require the support of strong external institutional frameworks to generate substantive improvements in reporting outcomes (Chen et al., 2021; Al Mamun et al., 2021). Furthermore, the results highlight that the effectiveness of governance mechanisms is often contingent on configurations of multiple mechanisms rather than isolated components (Zattoni et al., 2024).

The findings contribute to the ongoing debate on the efficacy of corporate governance reforms in emerging economies by demonstrating that internal governance structures, when isolated from robust regulatory environments and enforcement mechanisms, may be insufficient to ensure high-quality financial reporting. This insight underscores the importance of adopting a systems perspective in both academic analyses and policy reforms aimed at improving financial transparency and accountability (García-Sánchez et al., 2020).

Based on these insights, the study offers the following *policy implications:*

- Adopt integrated reform agendas: Policymakers should simultaneously strengthen internal governance mechanisms and enhance broader institutional infrastructures to ensure meaningful improvements in FRQ (Chen et al., 2021; Al Mamun et al., 2021).
- Enhance audit committee and internal control effectiveness: Regulatory bodies should ensure audit committees and internal control frameworks operate with genuine independence and technical competence, potentially through mandatory certifications and training programs for committee members (Iatridis & Xie, 2022).
- Implement risk-based regulatory oversight: Regulators should prioritize supervision on firms operating in high-risk sectors or with complex ownership structures, using targeted and capacity-driven approaches (Hassan & Naser, 2021).

- Strengthen minority shareholder protections: Legal reforms should mandate transparent disclosure of beneficial ownership and related-party transactions, and provide accessible and effective remedies for minority investors (García-Sánchez et al., 2020).
- Support capacity-building and governance culture: International development agencies and donor organizations should invest in capacity-building programs for both corporate boards and regulatory institutions to foster a culture of integrity, accountability, and financial reporting excellence (Chen et al., 2021).
- Promote configurational approaches: Policymakers and scholars should recognize that high FRQ is often achieved through specific combinations of governance mechanisms rather than isolated measures, and tools such as QCA can help identify effective governance configurations (Zattoni et al., 2024).

The study highlights that improving financial reporting quality in emerging markets requires a comprehensive, context-sensitive approach that integrates internal governance reforms with strong external institutional support. Isolated mechanisms are unlikely to achieve substantive change without complementary regulatory, legal, and cultural foundations.

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