



The Impact of Corporate Governance Mechanisms on Financial Reporting Quality: Empirical Evidence from Egyptian Listed Firms

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Abstract

The research investigates the impact of corporate governance mechanisms on financial reporting quality (FRQ) in Egyptian firms. The study sample includes 68 non-financial firms obtained from the top 100 most active firms listed in Egyptian stock exchange (EGX). Secondary data was obtained from both the annual reports of Egyptian firms and sourced from Refinitiv Eikon Datastream for a 9-year period from 2014 to 2022. Using random effects multiple regression, findings reflect that not all corporate governance mechanisms significantly affect FRQ in Egyptian firms. Specifically, blockholder ownership and the frequency of board meetings have a significant negative impact on FRQ, while board size and audit committee meeting frequency partially influence FRQ positively. Other mechanisms, such as managerial ownership, board independence, CEO duality, and audit committee size, do not show a significant impact. Control variables such as Age showed a significant positive impact on FRQ. Leverage and ROA partially affect FRQ positively. However, Size showed an insignificant relationship with FRQ.

Subject Areas

Accounting

Keywords

Corporate Governance, Financial Reporting Quality, Earnings Management, Accounting Conservatism

1. Introduction

Capital markets are essential for the efficient functioning of an economy by facilitating interactions among participants [1]. Firms use financial statements to

communicate their performance and position, requiring stakeholders to trust the quality of this information for sound economic decisions. Financial reporting quality (FRQ) reflects the accuracy and transparency of both financial and non-financial information, enabling stakeholders to assess a firm's operations, financial health, and future cash flows [2]. High FRQ reduces the cost of capital, improves resource allocation, and supports economic growth [3]. Corporate governance (CG) refers to the rules, regulations, and practices that guide the operation and control of businesses [4]. It acts as a monitoring framework to ensure financial information quality and enhance transparency in financial reporting. Key mechanisms of CG include board composition, ownership structure, and audit committees [5]. Capital market regulators promote reliable information dissemination by implementing these mechanisms and best practices [4]. With market globalization, CG plays a crucial role in preventing fraud and managerial misconduct while ensuring proper asset management and accountability. Also, it has driven convergence and harmonization of CG practices globally, though each country's unique institutional environment shapes its specific CG mechanisms [6]. While extensive research on the relationship between CG and FRQ exists in developed economies, emerging markets have recently gained attention [1] [7]. Effective governance reduces fraudulent and errors in financial reporting, yet challenges persist, as evidenced by global failures like Enron, WorldCom, and Cadbury Nigeria Plc. [7].

Developing countries, such as Egypt, face greater issues of information asymmetry and higher agency costs due to underdeveloped financial markets. Egypt, characterized by a civil law system and an inefficient regulatory framework, faces challenges such as weak institutional systems, non-compliance with disclosure requirements, alignment of accounting profits with taxable income, and inadequate monitoring mechanisms. These factors create opportunities for managerial opportunism and manipulation of accounting figure [8]. The aim of this research is to examine the effect of CG mechanisms on FRQ in Egyptian firms listed on the EGX100, which includes the most active companies on the Egyptian Stock Exchange, addressing gaps and conflicting findings in existing research. It contributes to the literature in several ways. First, it provides empirical evidence on FRQ using both earnings management and accounting conservatism measures—an approach not commonly combined in Egyptian studies. Most earlier research focused on either earnings management [9] or accounting conservatism [10] individually. Second, this research evaluates the effectiveness of key CG mechanisms, including board composition, ownership structure, and audit committees, while analyzing their impacts on FRQ. Third, the findings offer valuable insights for investors and regulators. Lastly, the research enhances understanding of Middle Eastern capital markets, with Egypt's leadership role and its influence on Arabic-speaking countries [11] making the findings widely applicable. The paper begins with a review of relevant literature and the development of hypotheses. The research design is discussed, and empirical analyses and findings are presented,

explained and discussed, before concluding with a summary, limitation and suggestions for future research.

2. Literature Review

2.1. Financial Reporting Quality

FRQ is not just about the final financial statements but also about the process behind them, including the transparency of transactions, the selection of accounting principles, and the judgments made in reporting [12]. FRQ is defined as the accuracy and reliability of the information communicated by financial reports, which should be relevant, transparent, and clear [12]. FRQ reflects the extent to which financial data accurately represents an organization's financial position and performance without manipulation, ensuring that stakeholders, particularly equity investors, receive precise information [1]. Accounting information systems play a key role in providing the necessary data for business decisions, making it essential to assess and improve FRQ [13]. High FRQ requires companies to voluntarily disclose comprehensive and reliable information, reducing information asymmetry and helping market participants make informed decisions [14]. Additionally, high FRQ reduces opportunistic behavior and the risk of financial statement manipulation, thus enhancing the credibility of financial information and promoting a competitive market environment [13].

2.2. Corporate Governance

CG varies widely across countries due to differences in culture, legal systems, and historical processes [7]. The term gained prominence in North American legal literature in the 1970s, and various definitions have since emerged. For example, the Australian Standard 2003 defines CG as the process by which corporations are directed, managed, and held accountable, emphasizing authority, responsibility, leadership, and control [15], further describes it as an internal system that balances the needs of shareholders and other stakeholders through policies, processes, and people. CG gained significant academic and practical attention after high-profile financial frauds and earnings manipulations, such as Enron and WorldCom, undermined confidence in financial statements [16]. Agency theory explains how governance mechanisms guide organizational operations, improving the relevance and credibility of financial statements, which influence investor decisions [6]. Key CG mechanisms include board composition, ownership structure, and audit committees [4]. A well-composed board provides direction and oversight to achieve corporate goals, while ownership structure impacts management incentives, performance, and disclosure practices [17]. The audit committee ensures decision-making and supervision procedures maintain the integrity of the financial reporting process [18].

2.3. Corporate Governance and Financial Reporting Quality

Numerous studies have explored the relationship between CG and FRQ. [4]

emphasizes that one of CG's key roles is ensuring the quality of financial reporting. [19] highlights that financial information is crucial for providing an independent and accurate view of firm management's performance. Research has shown that effective CG is necessary to monitor managerial behavior and reduce earnings management [6]. This research primarily examines the relationship between CG encompassing factors such as board size, board independence, CEO duality, board gender, frequency of board meeting, block holder ownership, managerial ownership, audit committee size and frequency of audit meetings and FRQ.

2.3.1. Managerial Ownership and Financial Reporting Quality

Managerial ownership refers to the proportion of a company's shares held by its managers and directors, and its impact on FRQ is debated. One perspective, based on agency theory, suggests that when managers hold significant ownership, their interests align with shareholders, reducing conflicts of interest and improving FRQ. Managers with ownership stakes have an incentive to monitor their own actions and avoid earnings manipulation, leading to higher FRQ [20]. This alignment may reduce agency costs and enhance corporate governance. Conversely, managers may manipulate earnings to serve personal interests, as reduced external monitoring allows them to act without facing significant consequences [21], thus, reducing FRQ. Studies from developing countries, where corporate governance is often weaker, support this view, showing that higher managerial ownership tends to lead to lower FRQ. In these countries, weak regulatory enforcement, inefficient financial markets, and limited oversight from external parties contribute to greater opportunities for earnings manipulation [8] [17]. Therefore, this study addressed this through testing the following hypothesis:

H1. Managerial ownership has a negative impact on FRQ.

2.3.2. Blockholder Ownership and Financial Reporting Quality

Blockholders, defined as shareholders owning at least 5% of a company's common shares, play a significant role in corporate governance [22]. Large shareholders are more actively involved in monitoring and controlling firm activities, which can reduce opportunistic managerial behavior and improve FRQ by preventing managers from exploiting minority shareholders [20]. Studies in Singapore and Spain have shown that increased ownership concentration can enhance FRQ by promoting better oversight and reducing earnings management [23] [24]. However, there are opposing views suggesting that large shareholders may use their control to exploit minority shareholders, leading to lower FRQ. Research by [25] and [26] indicates that high ownership concentration can lead to financial manipulation, as controlling shareholders may engage in opportunistic behavior to secure a complete takeover or gain personal benefits, due to reduced board independence and weaker governance. The general discussion suggests that in developing economies, high ownership concentration increases information asymmetry, leading to lower FRQ [25] [26]. Therefore, this study addressed this through testing the following hypothesis:

H2. Block holder ownership (5 per cent or more) has a negative impact on FRQ.

2.3.3. Board Size and Financial Reporting Quality

The size of a company's board plays a crucial role in determining FRQ and overseeing firm activities. While some studies suggest that larger boards may lead to reduced FRQ due to increased earnings management [27], others argue that smaller boards may foster better communication and decision-making [28]. [29] found that smaller boards often result in higher performance, proposing an ideal board size of 10 or fewer directors. In contrast, larger boards can enhance oversight and governance by bringing in more experienced directors and diverse perspectives [7]. A study in the UK by [30] suggests that larger boards reduce earnings management and improve FRQ by facilitating effective monitoring. [31] and [18] find similar results in Poland and Nigeria, respectively, where board size positively affects FRQ. Larger boards can combine varied skills and experiences, enhancing their ability to supervise management and ensure the reliability of financial reports, particularly in developing countries where corporate governance systems are still evolving [32]. Therefore, this study aims to test these relationships through the following hypothesis:

H3. Board size has a positive impact on FRQ.

2.3.4. Board Independence and Financial Reporting Quality

Board independence is defined by the presence of a significant number of non-executive directors, who play a crucial role in overseeing management's performance and ensuring accountability to shareholders [33]. Independent directors provide impartial judgment and safeguard the interests of capital market participants [4]. Studies have shown that board independence improves FRQ by reducing earnings management and enhancing oversight. For example, [30] [34] found that independent directors enhance FRQ in the UK and Saudi Arabia, respectively. However, other studies, such as those by [35] and [36], found no significant or negative relationship between board independence and FRQ in certain contexts. Overall, most studies suggest a positive impact of board independence on FRQ [30] [34]. Therefore, this study aims to test these relationships through the following hypothesis:

HA. Board independence has a positive impact on FRQ.

2.3.5. Board Gender and Financial Reporting Quality

Board gender diversity, particularly the representation of female directors, has gained significant attention in recent years, partly due to regulatory measures such as Egypt's Financial Regulatory Authority's mandates for increasing female board representation in listed firms. Gender diversity is believed to enhance board oversight and decision-making, as female directors often demonstrate greater independence, ethical behavior, and a cautious approach to risk [37]. Studies show that female directors are more likely to detect and report financial manipulation, enhances board effectiveness, with higher attendance rates and better oversight resulting in higher FRQ [31] [38]. However, [39] indicates that higher gender

diversity may negatively affect FRQ, either through more conservative reporting policies or lack of significant impact. Despite these conflicting findings, the overall discussion suggests that gender-diverse boards contribute to improved FRQ, aligning with studies by [31] and [38]. Therefore, this study addressed this through testing the following hypothesis:

H5. Board gender diversity has a positive impact on FRQ.

2.3.6. CEO Duality and Financial Reporting Quality

The chairperson of the board provides leadership and guidance, ensuring that the actions of directors align with the interests of shareholders, while the CEO oversees daily operations and implements the board's strategies [40]. CEO duality occurs when the CEO also holds the position of board chairperson, which increases the CEO's power and reduces board oversight [41]. Agency theory suggests that CEO duality leads to greater CEO authority and weaker board supervision, potentially increasing agency costs and harming firm performance [42]. A study has shown that separating the roles strengthens board oversight [43], while CEO duality may lead to lower FRQ, as it can enable the CEO to manipulate financial data [44]. However, [45] finds that CEO duality could enhance FRQ by providing better strategic insight and communication. Despite these differing views, most evidence suggests that CEO duality negatively impacts FRQ, as seen in studies by [44] and [43]. Therefore, this study aims to test these relationships through the following hypothesis:

H6. CEO Duality has a negative impact on FRQ.

2.3.7. Frequency of Board Meeting and Financial Reporting Quality

Board meeting frequency is often used as an indicator of board commitment and efficiency, as regular meetings are essential for fulfilling oversight responsibilities and making informed decisions [40]. [6] suggests that frequent board meetings can improve FRQ by allowing the board to identify and address issues related to the reliability of financial information. However, [37] concludes that frequent meetings may not necessarily enhance oversight, as they might focus on routine tasks rather than financial reporting, leading to a diminished impact on FRQ. For example, research by [1] and [27] indicates a negative relationship between board meeting frequency and FRQ, suggesting that frequent meetings may indicate a need to address questionable activities rather than proactive oversight. While some studies show a positive impact of meeting frequency on FRQ [6], the overall discussion indicates that higher board meeting frequencies are often associated with reduced FRQ, particularly in cases of weaker governance, consistent with findings from [1] [27] and [37]. Therefore, this study aims to test these relationships through the following hypothesis:

H7. The frequency of board meetings has a negative impact on FRQ.

2.3.8. Audit Committee Size and Financial Reporting Quality

The audit committee plays a vital role in assisting the board with its oversight duties concerning financial reporting, risk management, and audit processes [1].

The size of the audit committee, determined by the number of members, is a crucial factor in its ability to fulfill its functions. A larger audit committee is thought to possess greater capacity, expertise, and effectiveness in monitoring financial reporting, aligning with agency theory [46]. There are mixed findings regarding the impact of audit committee size on audit quality and FRQ. [47] argues that smaller committees foster consistency and effective communication, while [48] suggests that larger committees may be more effective in overseeing external auditors and supporting the board. Similarly, [18] and [49] find a positive relationship between audit committee size and FRQ, citing better distribution of tasks and reduced opportunistic behavior. This study supports the view that a larger audit committee size positively impacts FRQ, consistent with the findings of [18] [49]. Therefore, this study addressed this through testing the following hypothesis:

H8: Audit committee size has a positive impact on FRQ.

2.3.9. Frequency of Audit Committee Meetings and Financial Reporting Quality

The audit committee plays a key role in enhancing the quality of the audit process [49], and its effectiveness is often evaluated based on the frequency of meetings held throughout the year. Regular meetings improve communication and the timely review of relevant information, fostering better oversight and decision-making [49]. The frequency of audit committee meetings is crucial for effective monitoring, with more frequent meetings allowing for better interaction between committee members and auditors, thus enhancing the committee's effectiveness [50]. Previous research has suggested that frequent audit committee meetings reduce the likelihood of financial restatements and improve FRQ. [51] and [52] find that more frequent meetings reduce discretionary accruals, suggesting that proactive audit committees are more effective in monitoring financial practices indicating improved FRQ. However, [53] reveals a negative significant effect of audit committee meetings on FRQ. Frequent meetings may indicate a reactive, crisis-driven approach focused on addressing existing issues rather than implementing proactive oversight. Despite these inconsistencies, several scholars, [51] and [52] find that more frequent meetings enhance oversight and improve FRQ. Therefore, this study addressed this through testing the following hypothesis:

H9: The frequency of audit committee meetings has a positive impact on FRQ.

3. Methodology

3.1. Data and Sample Selection

The study relies on secondary data, which includes pre-existing information such as annual reports, published statistics, and internal company records [54]. Specifically, CG mechanisms are obtained from the annual reports of the most active listed Egyptian firms (EGX 100), while FRQ proxies are sourced from Refinitiv Eikon Datastream. The data spans a nine-year period from 2014 to 2022, providing a comprehensive timeframe that allows for robust analysis across nine years. The selection of this timeframe ensures a substantial number of observations for

analysis. Financial institutions are excluded from the sample due to their unique reporting frameworks and ownership structures [42]. The final sample comprises 68 companies, yielding a total of 552 firm-year observations. This extensive duration enhances the study's ability to generate meaningful and comparative insights into CG and FRQ (See **Table 1**).

Table 1. The Calculation of the final sample.

	Observations
Firm year observations 2014-2022 Refinitiv Eikon Datastream/Annual reports, EGX listed firms	900
Deleting missing data, regulated industries and financial institution	-288
Deleting missing data on FRQ	-60
Total	552

3.2. Measurement of Variables

3.2.1. FRQ Proxies

This research focuses on FRQ as the dependent variable. Since there is no universally accepted measure of FRQ [55], this study employs multiple proxies to ensure comprehensive coverage of FRQ elements and enhance the generalizability of the findings. Two key measures are used to assess FRQ: accrual-based earnings management and accounting conservatism. By employing these measures, this study ensures a rigorous and well-rounded assessment of FRQ, capturing its critical aspects and contributing to the robustness of the research outcomes. Most previous studies use accrual based earnings management as a proxy for FRQ [1] [18] and [25]. Accounting conservatism is viewed as an important aspect of financial reporting quality, it is also used as a proxy for financial reporting quality [56].

1) Earnings management

Earnings management occurs when managers manipulate financial statements to serve their personal interests, which poses a major challenge to the reliability of reported earnings and the assessment of a company's financial health [57]. [58] finds that earnings management can undermine the FRQ by distorting information intended for external stakeholders. This manipulation enables management to align reported earnings with their objectives, potentially misleading investors and reducing FRQ. This research focuses specifically on accrual-based earnings management measured by two models, Modified Jones Model [59] and Kothari Model [60].

a) Modified Jones Model

The first measure of FRQ is the modified jones model developed by [59]. The Modified Jones Model [59] addresses the issue of the Jones model measuring discretionary accruals incorrectly when it comes to revenue recognition. The original Jones Model implicitly implies that revenues are not discretionary. If earnings are controlled through discretionary revenues, the Jones Model will take some of the managed earnings from the discretionary accruals proxy. The model calculates

nondiscretionary accruals, which are then deducted from total accruals to determine discretionary accruals. The following regression equation is used to identify the firm specific parameters that will be used to calculate the non-discretionary accrual based earnings management equation [59].

$$\frac{TA_t}{A_{t-1}} = \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{PPE_t}{A_{t-1}} \right) + \alpha_3 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \varepsilon_t \quad (1)$$

where TA_t is total accruals in year t , A_{t-1} is total assets in year $t-1$, PPE_t is gross property, plant, and equipment at the end of year t , ΔREV_t is the change in revenues between year $t-1$ and year t , ΔREC_t is the change in account receivables between year $t-1$ and year t and α_1 , α_2 and α_3 are firm specific parameters and ε_t is the residual, which represents the firm-specific discretionary portion of total accruals.

The coefficients in Equation (1) are then used to calculate nondiscretionary accruals in Equation (2) that follows. Based on the Modified Jones Model, the NDA is calculated as follows [59]

$$NDA_t = \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \alpha_3 \left(\frac{PPE_t}{A_{t-1}} \right) \quad (2)$$

where NDA_t is the non-discretionary accruals in year t , A_{t-1} is total assets in year $t-1$, ΔREV_t is the change in revenues in year t , ΔREC_t is the change in account receivables in year t , PPE_t is the gross property, plant, and equipment at the end of year t and α_1 , α_2 and α_3 are firm specific parameters are obtained from the original Jones model.

As mentioned above, the discretionary accruals are the abnormal component of total accruals that cannot be justified by a company's usual operations. Thus, the discretionary accruals are derived from total accruals in the above equation subtracted by the non-discretionary component adjusted for change in receivables using the Modified Jones Model calculated above.

$$DA_t = TA_t - NDA_t \quad (3)$$

b) Kothari Model

The second measure of FRQ is the Kothari Model developed by [60]. The model proposed by [60], which is an extension of the [59] model recommends performance-adjusted discretionary accruals so ROA is incorporated as an explanatory variable in the discretionary accrual regression to mitigate the challenge of performance related misspecification [61]. Alternatively, when applied to samples of firms with extreme performance, the discretionary accrual models may be misspecified because performance and estimated discretionary accruals exhibit a mechanical relationship and also earnings management research typically examines non-random samples, earnings management studies must employ some method of mitigating model misspecification to reduce the likelihood of wrong conclusions. This model improves reliability and results quality by addressing the question of whether differences in discretionary accruals can be attributed to differences in performance [60].

The equation to be used in calculating the total accruals is as follows [60]

$$\frac{TA_t}{A_{t-1}} = \alpha_0 + \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{PPE_t}{A_{t-1}} \right) + \alpha_3 \left(\frac{\Delta REV_t - \Delta AR_t}{A_{t-1}} \right) + \alpha_4 ROA_{t \text{ or } t-1} + \varepsilon_t \quad (4)$$

where ROA_t is the net income in year t or year $t-1$.

Then, nondiscretionary accruals are computed as follows.

$$NDA_t = \alpha_0 + \alpha_1 \left(\frac{1}{A_{t-1}} \right) + \alpha_2 \left(\frac{\Delta REV_t - \Delta REC_t}{A_{t-1}} \right) + \alpha_3 \left(\frac{PPE_t}{A_{t-1}} \right) + \alpha_4 ROA_t \quad (5)$$

As previously mentioned, to calculate discretionary accruals, subtract total accruals scaled by lagged total assets from nondiscretionary accruals, as shown below.

$$DA_t = TA_t - NDA_t \quad (6)$$

In this research, the absolute value of discretionary accruals is used rather than directional discretionary accruals for both Modified Jones model and Kothari model. This approach focuses on measuring the extent of earnings management rather than its direction, which can be either income-increasing or income-decreasing [62].

2) Accounting Conservatism

According to [63], conservative accounting reflects bad news faster than good news because it reduces litigation risks. Accounting conservatism is viewed as an important aspect of FRQ [56]. [14] supports conservatism as a measure that enhances FRQ by improving evaluation reliability and reducing performance overstatement, thereby aiding stakeholder decision-making. In contrast, [64] used accounting conservatism, as an inverse measure of FRQ, as it can undervalue a firm's potential by delaying profit recognition while recording losses immediately. This may allow managers to manipulate figures, harming information quality for stakeholders, this view is supported by this research. This research will rely on the cumulative negative non-operating accruals measure developed by [65] as a proxy for accounting conservatism.

a) Givoly and Hayn Model

While various proxies for accounting conservatism exist, each capture only partial aspects with distinct strengths and weaknesses. Consistent [66] and [67], this research adopts [65] accrual-based measure to assess conservatism. Givoly and Hayn focus on its long-term financial effects, arguing that unbiased accounting causes cumulative net income before depreciation and amortization to converge to cash flows from operations over time. In contrast, conservative accounting generates persistent negative accruals, as positive and negative accruals do not fully offset. Thus, the cumulative trend of negative accruals over an extended period serves as a firm-specific proxy for accounting conservatism.

The following [65] calculate conservatism as operating profit (or income before extraordinary items and discontinued operations) plus depreciation expenses, minus operating cash flows, all divided by average total assets, and averaged over a three-year period centered on year t then multiplying the whole equation by negative one. Thus, the higher the degree of conservative accounting, the higher the

measures are. The formula is as follows:

$$AC_{it} = \frac{(NI + DEP) - CFO}{ATA_{3 \text{ years}}} x - 1 \quad (7)$$

3.2.2. Corporate Governance Mechanisms

Agency theory underpins the framework for directing and controlling corporations through governance mechanisms that enhance the reliability and relevance of financial statements, crucial for investor decision-making [6]. [4] identifies board composition, ownership structure, and audit committees as fundamental governance tools. The board composition including board size which is measured by the total number of directors on board [68], board independence which is measured by non-executive directors on board divided by total number of directors on board [10], CEO duality which is measured by dummy variable that takes one if company chairman and CEO are held by the same person and zero otherwise [69], board gender which is measured by female directors on board divided by total number of directors on board [1] and frequency of board meeting which is measured by the annual number board of directors meeting [68]. Moving on to ownership structure including managerial ownership which is measured by shares owned by managers divided by total number of outstanding shares [70] and block holder ownership which is measured by shares owned by block holders with at least 5% divided by total number of outstanding shares [71]. Finally, audit committees including audit committee size which is measured by total number of members serving on the audit committee [1] and frequency of audit meetings which is measured by number of meetings it holds throughout the year [49].

3.2.3. Control Variables

The study accounted for various control variables that previous research has indicated could influence CG [1] [25] and [59]. These factors include firm size which is measured by logarithm of total assets [72], leverage which is measured total debt divided by total assets [72], ROA which is measured by net income divided by total assets [72] and firm age which is measured by logarithm of number of years the company incorporated [1].

3.3. Research Model

This research employs a regression model to examine and assess the hypotheses to determine the impact of CG mechanisms on FRQ, while also considering firm size firm leverage, ROA and Firm age as control variables.

$$\begin{aligned} FRQ_{it} = & \alpha_0 + \alpha_1 MOWN_{it} + \alpha_2 BOWN_{it} + \alpha_3 BSIZE_{it} + \alpha_4 BIND_{it} + \alpha_5 BGD_{it} \\ & + \alpha_6 DUAL_{it} + \alpha_7 BMEET_{it} + \alpha_8 AUDES_{it} + \alpha_9 AMEET_{it} + \alpha_{10} Size_{it} \quad (8) \\ & + \alpha_{11} LEV_{it} + \alpha_{12} ROA_{it} + \alpha_{13} Age_{it} + \varepsilon_{it} \end{aligned}$$

where FRQ_{it} is the financial reporting quality measured by Modified Jones Model, Kothari and Accounting conservatism of firm i at year t , $MOWN_{it}$ is the managerial ownership of firm i at year t , $BOWN_{it}$ is the block holder's ownership of firm i at year t , $BSIZE_{it}$ is the board size of firm i at year t , $BIND_{it}$ is

the board independence of firm i at year t , BGD_{it} is the board gender of firm i at year t , $DUAL_{it}$ is the CEO duality of firm i at year t , $BMEET_{it}$ is the number of board meetings of firm i at year t , $AUDS_{it}$ is the audit committee size of firm i at year t , $AMEET_{it}$ is the frequency of audit committee meetings of firm i at year t , $Size_{it}$ is the firm size of firm i at year t , LEV_{it} is the leverage of firm i at year t , ROA_{it} is the profitability of firm i at year t , Age_{it} is the firm age of firm i at year t , α are firm specific parameters, ε_{it} is the error term.

4. Findings and Analysis

4.1. Descriptive Statistics

Table 2 presents the descriptive statistics for the main variables employed in this research. The mean, standard deviation, minimum, and maximum values are shown for the dependent and independent variables. The descriptive statistics are presented for firms in Egypt.

Table 2. Descriptive statistics.

Variables	Mean	SD	Min	Max
AC	-0.015	0.120	-0.515	0.846
DAC	0.085	0.105	0.000	1.111
Kothari	0.081	0.100	0.000	1.098
BSIZE	8.875	2.695	3.000	17.000
BIND	0.749	0.175	0.200	1.000
BGD	0.124	0.123	0.000	0.500
BMEET	9.778	4.720	2.000	27.000
DUAL	0.616	0.487	0.000	1.000
BOWN	0.640	0.216	0.000	0.998
MOWN	0.048	0.114	0.000	0.519
AUDS	3.663	1.188	0.000	8.000
AMEET	5.270	2.991	0.000	17.000
Age	1.543	0.309	0.000	2.225
Size	6.386	0.744	4.400	8.211
LEV	0.196	0.210	0.000	2.041
ROA	0.063	0.127	-1.316	0.483

The mean AC value of -0.015 indicating that, on average, Egyptian listed companies do not exhibit conservative accounting practices. These results align with prior study in Jordan [73] and Egypt [10], which reported similar results. This analysis uses the absolute value of discretionary accruals to measure the extent, rather than the direction, of earnings management. The mean discretionary accruals, based on the Modified Jones Model [59] and Kothari Model [60], are 0.085 and 0.081, respectively, indicating earnings manipulation among Egyptian listed firms. When using signed discretionary accruals, both models produce positive

results, suggesting upward income management through making less provisions for doubtful debts and early recognition of revenue [60]. These results are consistent with the levels of earnings management that have been observed in developing economies, consistent with [74] and [75] in Jordan and Egypt, respectively.

The independent variables in this study encompass key CG mechanisms, specifically board composition, ownership structure, and audit committees. Board composition is measured through BSIZE, BIND, BGD, BMEET, and DUAL. As outlined in **Table 2**, BSIZE ranges from 3 to 17 members, with a mean of 8.875, aligning with prior studies by [10] and [72]. Non-executive directors constitute an average of 74.9% of the board, consistent with the Egyptian CG Code, which requires at least 50% board independence, and findings by [10]. Regarding BGD, Egyptian boards report an average female representation of 12.4%. This is higher than Pakistan's 6% but lower than the UK's 19% [1]. The BMEET in Egyptian firms averages 9.778 annually, a notably higher figure compared to Jordan 7.33 meetings [76]. The maximum of 27 meetings, observed in Misr El-Gadida for Housing and Development, was attributed to the implementation of new accounting standards in 2022. DUAL, where the roles of chairman and CEO are held by the same individual, is present in 61.6% of Egyptian firms, consistent with [44].

Ownership structure in this study focuses on BOWN and MOWN. **Table 2** reveals that BOWN averages 64% in Egyptian firms, indicating a significant concentration of ownership compared to developed countries. For instance, [1] found block holdings of 23% in the UK and 64% in Pakistan. MOWN in Egyptian firms averages 4.8%, reflecting limited managerial equity stakes, similar to findings in Turkey by [17], where MOWN averaged 5.76%. In developing economies, weak regulatory frameworks and transparency issues may encourage managers to prioritize personal interests. High MOWN under such conditions can lead to managers gaining power to advance their agendas without sufficient oversight [77]. Conversely, low levels of MOWN in Egyptian firms mitigate excessive managerial influence, aligning managerial interests with those of shareholders and promoting adherence to regulations, which may enhance FRQ. The audit committee is analyzed based on its AUDS and AMEET. **Table 2** shows that AUDS in Egyptian firms ranges from 0 to 8 members, with a mean of 3.663, comparable to Pakistani firms with a mean of 3.71, but slightly smaller than UK firms, which average 4.1 members [1]. Audit committees in Egypt meet an average of 5.27 times per year, aligning with findings from Amsterdam, where the mean was 4.95 meetings annually. Notably, minimum values of zero were recorded due to cases like Cairo Poultry Company in 2022, where the audit committee could not form a quorum of two independent members, rendering meetings impossible.

The control variables in this study include Size, Age, LEV, and ROA. **Table 2** indicates a mean Size of 6.386 and Age of 1.543. Sample firms exhibited profitability, with an average ROA of 6.3%. LEV levels averaged 19.6%, suggesting moderate use of external financing. A minimum LEV of zero indicates firms solely financed by equity, while the maximum LEV of 2.041 highlights cases of extreme debt reliance, such as Asek Mining Company, whose financial distress resulted

from excessive borrowing and underperforming investments, resulting in sustained losses from 2018 to 2022. Consistent with [78], who reported similar Size and ROA values in Egypt, with mean values of 9% and 8.68%, respectively. Age comparisons indicate Egyptian firms are relatively younger, with averages lower than those in Pakistan (3.579) and the UK (3.661).

4.2. Correlation

This section aims to present the results of the Pearson correlation matrix analysis conducted on the variables used in this research, as illustrated in **Table 3**. The study utilized the correlation matrix to assess the direction and strength of the linear relationships between the dependent, independent, and control variables.

Table 3. Pearson correlation matrix.

Variables	AC	DAC	Kothari	BSIZE	BIND	BGD	BMEET	DUAL	BOWN	MOWN	AUDS	AMEET	Age	Size	LEV	ROA
AC	1.0000															
DAC	0.1554***	1.0000														
Kothari	0.1565***	0.9442***	1.0000													
BSIZE	0.0353	-0.1200**	-0.1257***	1.0000												
BIND	0.0516	-0.0904*	-0.0949**	0.3155***	1.0000											
BGD	-0.0112	0.0306	0.0472	0.2052***	0.0329	1.0000										
BMEET	0.0040	-0.0273	-0.0247	0.0905**	0.0889**	-0.1166***	1.0000									
DUAL	-0.0034	0.0032	0.0049	0.1515***	-0.2097***	0.1367***	0.0235	1.0000								
BOWN	0.0976**	0.1108**	0.1156**	0.0694	-0.0102	-0.0798*	0.1501***	0.0391	1.0000							
MOWN	-0.1079**	0.0429	0.0584	-0.0684	-0.3883***	0.1910***	-0.1753***	0.0199	-0.1287***	1.0000						
AUDS	0.0199	-0.0101	-0.0143	0.2357***	0.1197***	-0.0954**	0.3660***	0.1054**	0.2824***	-0.1728***	1.0000					
AMEET	0.0392	-0.0952**	-0.0896*	0.1559***	0.0448	-0.0352	0.4777***	0.0028	0.2440***	-0.1072**	0.4128***	1.0000				
Age	-0.0602	-0.1020**	-0.1241**	-0.0141	-0.1032**	-0.0993**	0.2298***	-0.0224	0.0025	0.0314	0.1464***	0.1018**	1.0000			
Size	0.0110	-0.1600***	-0.1362***	0.2564***	0.0161	-0.0503	0.1564***	-0.1195***	0.1857***	-0.0565	0.1828***	0.2105***	0.0406	1.0000		
LEV	0.0471	0.0086	-0.0339	-0.0187	-0.0401	0.1038**	-0.1643***	-0.0091	0.0333	0.1110***	-0.1810***	-0.1448***	0.1035**	0.2017***	1.0000	
ROA	-0.3388***	-0.0802*	-0.0002	0.1259***	-0.0242	0.0289	0.2656***	0.1094**	0.1437***	0.0502	0.2843***	0.2786***	-0.0922**	0.1189***	-0.5037***	1.0000

***, **, * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

This analysis examines potential multicollinearity issues among the variables, a condition where high correlations between two or more variables in a regression model lead to inflated standard errors in the coefficients. Correlations exceeding 0.8 may indicate multicollinearity concerns. As shown in **Table 2**, the multicollinearity among the variables is generally insignificant, except for a high correlation of 0.94 between the DAC and Kothari variables, significant at the 1% level. This strong correlation is expected since both variables represent discretionary accruals calculated using different models. However, there are no multicollinearity concerns, as DAC and Kothari are not included in the same regression model.

The correlation analysis shows that AC exhibits a significant positive correlation with DAC and Kothari's model at the 1% level, indicating that higher levels

of conservatism in Egyptian non-financial firms are associated with increased earnings management. This aligns with findings by [79], who find that accounting conservatism can create opportunities for managers to manipulate financial information. Under conservative practices, assets are recorded at their purchase value, excluding unrealized gains while recognizing potential losses immediately. Such undervaluation of future prospects may influence stakeholders' decisions [80]. AC, DAC and Kothari also shows a significant positive correlation with BOWN, supporting H2. Conversely, AC is negatively correlated with MOWN, which does not support H1. No significant correlation is observed between AC and BSIZE, BIND, BGD, BMEET, DUAL, AUDES, AMEET, Age, Size, and LEV, failing to support H3 through H9. However, DAC and Kothari have a significant negative correlation with Size, BSIZE, AMEET, BIND and Age, supporting H3, H4 and H9. Additionally, DAC and AC are negatively correlated with ROA while Kothari shows no significant correlation with ROA. Both DAC and Kothari exhibit insignificant correlations with BGD, BMEET, DUAL, MOWN, AUDES, and LEV. which does not support H1, H5, H6, H7, and H8. It is important to note that correlation analysis does not imply causality between variables. To explore the causal relationships and the impact of CG mechanisms on FRQ, regression analysis is utilized. Regression provides a more robust evaluation by identifying the direction, strength, and causal effects of relationships between variables.

4.3. Regression

Three models are analyzed and reported to assess the factors influencing FRQ. FRQ is evaluated through two primary dimensions: earnings management and accounting conservatism. Earnings management is measured using discretionary accruals, employing two distinct models: DAC and Kothari. The third model focuses on AC. Random effects regression was deemed suitable as the calculated chi-square for all three models was more than 0.10.

4.3.1. Corporate Governance and Earnings Management

In this section the dependent variables are DAC and Kothari which represent the first and second models. Both are tested on the CG mechanisms which are BSIZE, BIND, BGD, BMEET, DUAL, BOWN, MOWN, AUDES and AMEET as well as control variables which are Age, Size, LEV and ROA.

The results indicate that BSIZE has a negative and significant impact on DAC and Kothari at the 10% and 5% levels, respectively, supporting H3. This suggests that larger boards enhance monitoring effectiveness, reducing earnings manipulation and improving FRQ [18]. These findings align with [18] for Nigerian firms. Referring to **Table 4** and **Table 5**, BMEET has a positive and significant impact on DAC and Kothari at the 10% level, supporting H7. This suggests that frequent board meetings reflect the board's response to business challenges rather than its oversight of FRQ [27]. These findings align with [1] for Pakistani firms and [27] for Chinese firms.

Table 4. Regression results of FRQ using DAC.

Variables	Coefficient	Robust std. err.	P-value
BSIZE	-0.003*	0.002	0.099
BIND	-0.012	0.039	0.754
BGD	0.049	0.049	0.323
BMEET	0.003*	0.002	0.075
DUAL	-0.008	0.012	0.520
BOWN	0.060**	0.029	0.042
MOWN	0.064	0.051	0.203
AUDS	0.001	0.005	0.859
AMEET	-0.005***	0.002	0.001
Age	-0.054**	0.026	0.038
Size	-0.009	0.011	0.387
LEV	0.028	0.045	0.537
ROA	-0.083	0.077	0.281
Constant	-0.226	0.090	0.012
R-squared	0.072		
Adjusted R squared	0.045		
P value	0.001		

***, **, * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Table 5. Regression results of FRQ using Kothari.

Variables	Coefficient	Robust std. err.	P-value
BSIZE	-0.004**	0.002	0.026
BIND	-0.101	0.035	0.771
BGD	0.063	0.047	0.180
BMEET	0.002*	0.001	0.093
DUAL	-0.005	0.010	0.602
BOWN	0.062**	0.030	0.038
MOWN	0.059	0.052	0.259
AUDS	0.000	0.005	0.989
AMEET	-0.005***	0.002	0.003
Age	-0.047*	0.026	0.070
Size	-0.005	0.010	0.601
LEV	-0.000	0.038	0.991
ROA	-0.032	0.063	0.606
Constant	0.191	0.087	0.028
R-squared	0.067		
Adjusted R squared	0.040		
P value	0.016		

***, **, * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

The results reveal that BOWN has a positive and significant impact on DAC and Kothari at the 5% level, supporting H2. This indicates that BOWN generates agency problems due to conflicts between majority and minority shareholders, negatively affecting FRQ [25]. These findings align with [1] for Pakistani and UK firms and [70] for Vietnamese nonfinancial companies. Referring to **Table 4** and **Table 5**, AMEET has a negative and significant impact on DAC and Kothari at the 1% level, supporting H9. This highlights the role of frequent AMEET in limiting earnings management and enhancing monitoring effectiveness, consistent with prior studies [51] [52].

The CG variables BIND, BGD, DUAL, MOWN, and AUDES show an insignificant relationship with DAC and Kothari, rejecting H1, H4, H5, H6, and H8. For AUDES, the findings align with [1] for Pakistani firms, where no significant relationship was observed between AUDES and FRQ. This outcome is attributed to constraints such as conflicts of interest, and coordination challenges within audit committees. Additionally, Egypt's limited regulatory framework and weak enforcement of CG practices diminishes the role of AUDES in limiting earnings management and enhancing financial statement reliability [81]. The insignificance between MOWN and discretionary accruals (DAC and Kothari) is consistent with prior research and is attributed to differences in CG structures between developed and emerging economies [1]. Similarly, [81] argue that CG mechanisms, including MOWN, are less effective in Egypt due to underdeveloped legal and regulatory systems that fail to hold managers accountable for financial misreporting. The lack of enforcement reduces transparency and accountability, supporting this study's findings of no significant relationship between MOWN and DAC and Kothari.

The insignificance between BIND and discretionary accruals (DAC and Kothari) aligns with [82], who found no significant relationship between BIND and earnings management in Malaysian firms. This result may stem from the dominance of family-controlled firms in Egypt, where family influence often dominates board decisions due to weaker corporate governance frameworks. This concentration of power within family firms can undermine the effectiveness of governance mechanisms meant to ensure balanced oversight [81]. The insignificance between BGD and DAC can be attributed to the underrepresentation of women in Egyptian boardrooms as indicated by the descriptive statistics. Despite the increasing presence of highly qualified women in Egypt, cultural norms that limit the perception of women's roles and capabilities, continue to limit their representation in leadership, business, and politics [83]. This is consistent with [84], who find no significant impact of BGD on FRQ in developing nations, where gender diversity is often overlooked. The insignificant relationship between DUAL and DAC supports [85], who conclude that separating the CEO and board chair roles provides limited additional oversight, particularly when the board is largely independent. In emerging markets like Egypt, weak enforcement of governance regulations reduces the effectiveness of CEO role separation, allowing CEOs to

prioritize personal interests [81].

Regarding the control variables, the results show that Age has a negative and significant impact on DAC and Kothari at the 10% and 5% levels, respectively, consistent with [86] for French firms, concluded that older firms develop stronger internal controls over time, improving FRQ. The remaining control variables—Size, LEV, and ROA—have an insignificant relationship with DAC and Kothari, aligning with [1] for UK and Pakistani firms and [31] for Polish firms. In Egypt, LEV insignificance aligns with [87], who attribute this to weak creditor enforcement, reducing pressure on leveraged firms to improve FRQ. Moreover, ROA's minimal influence on FRQ results from external pressures for international compliance rather than internal performance metrics. Furthermore, [88] suggest that while larger firms are expected to demonstrate higher FRQ due to greater resources, governance limitations in Egypt weaken this relationship.

4.3.2. Corporate Governance and Accounting Conservatism

In this section the dependent variable is AC which represents the third model and it is tested on the CG mechanisms which are BSIZE, BIND, BGD, BMEET, DUAL, BOWN, MOWN, AUDES and AMEET as well as control variables which are Age, Size, LEV and ROA.

Referring to **Table 6**, BMEET has a positive and significant impact on AC at the 10% level. As previously discussed, this suggests that in high-performing firms, boards tend to be inactive during stable periods, with their role becoming critical during crises when performance declines, negatively impacting [28], thereby accepting H7. This aligns with [1] for Pakistani firms and [27] for Chinese firms. Additionally, BOWN has a positive and significant impact on AC at the 1% level. High ownership concentration reduces board independence, weakens oversight, and lowers FRQ in developing economies [89], supporting H2. This is consistent with [90] for Brazilian firms and [91] for Portuguese and Spanish firms. Referring to **Table 6**, AMEET has a positive and significant impact on AC at the 10% level. Consistent with [53], suggesting that frequent meetings reflect a reactive, crisis-driven approach that addresses existing issues rather than implementing proactive oversight resulting in negative effect of AMEET on FRQ, thereby rejecting H9. In contrast, Section 4-3-1 indicates that AMEET has a negative and significant impact on DAC and Kothari at the 1% level, consistent with prior studies [51] [52], emphasizing the role of frequent audit committee meetings in limiting earnings management practices and enhancing FRQ.

The remaining CG mechanisms—BSIZE, BIND, BGD, DUAL, MOWN, and AUDES—show insignificant relationships with AC, rejecting H1, H3, H4, H5, H6, and H8. This aligns with [92], who found no significant impact of BIND and DUAL on AC in French firms, and [93], who found no significant association between AUDES and AC in Jordan. The insignificance in Egypt can be attributed to weak regulatory frameworks and limited enforcement, undermining the effectiveness of governance mechanisms. Family dominance reduces BIND and BSIZE, cultural norms restrict women's participation, and weak governance allows CEOs

to prioritize personal interests, limiting the impact of governance mechanisms on AC [81].

Table 6. Regression results of FRQ using AC.

Variables	Coefficient	Robust std. err.	P-value
BSIZE	0.002	0.002	0.338
BIND	-0.003	0.030	0.932
BGD	0.027	0.042	0.524
BMEET	0.001*	0.001	0.096
DUAL	0.009	0.108	0.402
BOWN	0.072***	0.025	0.003
MOWN	-0.016	0.049	0.741
AUDS	0.004	0.005	0.373
AMEET	0.003*	0.002	0.065
Age	-0.045***	0.013	0.001
Size	0.009	0.006	0.144
LEV	-0.116***	0.039	0.003
ROA	-0.509***	0.077	0.000
Constant	-0.064	0.052	0.217
R-squared	0.197		
Adjusted R squared	0.177		
P value	0.000		

***, **, * indicate statistical significance at the 1%, 5% and 10% levels, respectively.

Regarding control variables, Age, LEV, and ROA have a negative and significant impact on AC at the 1% level. Research indicates that higher leverage and efficient asset use encourage transparency to maintain stakeholder credibility, and profitable firms may increase disclosures to share strong [35]. Age enhances FRQ, consistent with [86] for French. Moreover, consistent with the results [94] who find a significant relationship between LEV and AC. Lastly, Size shows an insignificant relationship with AC, consistent with [66], and [88], who attribute this insignificance to systemic weaknesses in governance frameworks in Egypt, diminishing the positive impact of firm size on FRQ.

5. Conclusion

This research investigates the impact of CG mechanisms on FRQ of firms listed on the Egyptian stock market. The CG mechanisms examined include board composition (BSIZE, BIND, BGD, BMEET and DUAL), ownership structure (BOWN and MOWN), and audit committee characteristics (AUDS and AMEET). These factors were selected based on prior research and theories, and the relationships among these variables were empirically tested. The study found that BOWN

negatively impacts FRQ, BSIZE was found to have a negative impact on DAC and Kothari. However, it had no significant impact on AC. BMEET was found to have a negative relationship with FRQ. Similarly, AMEET frequency had a negative impact on DAC and Kothari but a positive impact on AC. Control variables such as Age showed a significant positive impact on FRQ. In contrast, LEV, and ROA showed insignificant relationships with DAC and Kothari but a significant relationship with AC partially effecting FRQ. However, Size showed an insignificant relationship with FRQ. In conclusion, the study suggests that not all CG mechanisms significantly affect FRQ in Egyptian firms. Specifically, blockholder ownership and the frequency of board meetings have a significant negative impact on FRQ, while board size and audit committee meeting frequency partially influence FRQ positively. Regulators should mitigate the negative impact of blockholder ownership by strengthening minority protections and enhancing transparency requirements. To improve FRQ, they should ensure board meetings focus on quality over frequency and reinforce the positive role of board size by promoting skilled directors. Additionally, audit committee effectiveness should be prioritized by mandating financial expertise and meaningful oversight rather than just increasing meetings. Stronger regulatory enforcement is essential to uphold these governance standards. Other mechanisms, such as managerial ownership, board independence, CEO duality, and audit committee size, do not show a significant impact.

This study acknowledges limitations that affect its findings, including a small sample size constrained by inconsistent financial disclosures from Egyptian-listed firms, the exclusion of financial firms due to their unique regulatory frameworks, and external factors such as the COVID-19 pandemic may have introduced distortions in the data. Low R-squared values indicate that significant factors influencing FRQ remain unexplored. Audit committee size is considered but not members' expertise and qualifications, which are crucial for effectiveness. Future research should address these gaps by exploring additional CG dimensions, such as audit committee independence, gender diversity, and ownership structures, and by employing a comprehensive CG index. Comparative studies between Egypt and developed countries, as well as expanding the sample size and research period, would enhance the generalizability of findings. Future research should incorporate financial expertise of audit committee members to better assess its impact on FRQ. Future Further studies should also investigate factors like regulatory enforcement, management expertise, and alternative FRQ proxies (e.g., real earnings management), and include financial firms to better understand the impact of CG mechanisms on FRQ in this critical sector.

Conflicts of Interest

The authors declare no conflicts of interest.

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