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DO FOREIGN AND INSTITUTIONAL OWNERSHIPS ENHANCE THE QUALITY OF FINANCIAL REPORTS?

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Abstract

We observe the influence of foreign and institutional ownership on the quality of financial reports for 10 years (2013-2022) among the 151 publicly listed companies on the Nigerian Exchange (NGX). We employ quantitative analysis in our observations and use panel data of 1,510 observations. The results reveal that both foreign and institutional ownership positively affect the quality of financial reports. However, only firm size and profitability show positive significant effects among the control variables. We therefore conclude that foreign, institutional ownership, firm size, and profitability are drivers of quality financial reports in Nigeria. We recommend that firms include foreign and institutional owners in their equity capital. Nonetheless, this study is limited to Nigeria, and may not apply to non-emerging economies. Also, our R^2 is 22.95 percent, which suggests that more observations should be included; this is doable by either increasing the period covered or adding another economy with similar financial reporting frameworks. The work is novel because it is the first to use aggregate country-level panel data to estimate the influence of foreign and institutional owners on Nigeria's financial reports' quality.

Keywords: firm leverage, firm profitability, firm size, foreign ownership, institutional ownership, quality of financial reports.

JEL Classifications: C23, C58, C87, M21, M24, M48

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1. Introduction

Understanding the main drivers of the quality of financial reports is a contemporary issue of concern to scholars, regulators, policymakers, owners, managers, creditors, and other stakeholders (Abdullahi et al., 2018; Anthonio & Yahaya, 2024; Apeku et al., 2024; Baba & Yahaya, 2023; Chuma & Yahaya, 2024; Hassan & Yahaya, 2024; Ibrahim et al., 2019; Itopa et al., 2022; Petroski & Yahaya, 2024; Yahaya, 2022; Yahaya et al., 2015; Yahaya & Abdulfatah, 2022; Yahaya et al., 2017; Zubairu & Yahaya, 2024). The issue of quality of financial reports has deep roots inagency theory, which developed over time because of the separation of ownership from control, that is, the relationship between corporate owners and managers. There is often a potential clash of interests between owners and managers, which developed into the existence of board of directors to oversee and ensure the protection of owners' interest. There is also the added interest of potential investors (equity and debt). Similarly, other stakeholders are interested in the health of corporations, such as the government and its regulatory agencies, corporate current and potential employees, corporate income tax agencies, and researchers.

Despite the described importance of the quality of financial reports, to the best of public information available to us, onlya few studies analyzed the corporate governance determinants or drivers of the quality of financial reports in Nigeria. This scenario calls for further investigations. Also, the quality of financial reports defines the social utility of accounting information, consumed by users whether inside or outside the firm. Low quality of financial reports is a significant concern for various stakeholders, including scholars, regulators, owners, creditors, and others, due to its far-reaching implications.

Scholars rely on accurate financial data to conduct empirical research, develop theories, and test hypotheses. Low-quality financial reports can compromise the validity of their research findings. Poor reporting quality hampers the ability to understand economic phenomena accurately, affecting academic contributions to policy and practice. Regulators are concerned with maintaining market integrity and stability. Low-quality financial reports can lead to misinformation, market manipulation, and systemic risks. Ensuring that investors receive accurate and reliable information is a key regulatory objective. Misleading financial reports can lead to investor losses and undermine confidence in the financial markets.

Regulators need high-quality financial reports to enforce compliance with laws and standards effectively. Low-quality reports hinder regulatory oversight and enforcement actions. Shareholders depend on accurate financial reports to make informed investment decisions. Low-quality reports can lead to poor investment choices and financial losses. The value of a company is often assessed based on its financial performance and position. Poor-quality reports can distort company valuation, leading to incorrect pricing of shares. High-quality financial reporting is essential for effective corporate governance. It ensures transparency, accountability, and informed decision-making within the company.

Creditors use financial reports to assess the creditworthiness of borrowers. Inaccurate reports can lead to incorrect risk assessments and potential defaults. Financial institutions rely on quality reports to make lending decisions. Poor-quality reports can result in bad loans, affecting the financial stability of the lender. Credit agreements often include covenants based on financial metrics. Low-quality reporting can obscure covenant breaches, posing risks to creditors. Employees may use financial reports to assess the stability and profitability of their employer. Low-quality reports can lead to uncertainty and affect morale. Suppliers rely on financial reports to evaluate the financial health of their customers. Poor-quality reports can lead to misguided credit terms and potential losses. Customers may consider the financial stability of a company when engaging in long-term contracts. Low-quality financial reports can mislead them about the company's reliability. High-quality financial reporting contributes to corporate transparency and accountability, fostering trust with the public and the community. Poor-quality reports can damage a company's reputation and community relations.

High-quality financial reports are essential for the efficient functioning of capital markets. They ensure that resources are allocated based on accurate information. Poor-quality reporting can lead to resource misallocation and reduced market efficiency. Reliable financial reporting supports investment and economic growth. Conversely, low-quality reporting can deter

investment and hinder economic progress. Historical financial crises have often been linked to inadequate financial reporting and disclosure practices. Ensuring high-quality reporting can help prevent such crises. In conclusion, ensuring high-quality financial reporting is crucial for maintaining trust, transparency, and efficiency in financial markets. Stakeholders must work together to improve reporting standards, enhance oversight mechanisms, and promote best practices to mitigate the risks associated with low-quality financial reports.

Several strategies and measures have been proposed to address the issue of low-quality financial reports. Some commonly discussed solutions include enhanced regulatory oversight by strengthening regulatory frameworks and ensuring strict enforcement of accounting standards can help improve the quality of financial reports. Regulatory bodies can implement more rigorous auditing requirements and increase penalties for noncompliance. Improved corporate governance via strong corporate governance practices, including independent board oversight and robust internal controls, can ensure the integrity of financial reporting. This includes the establishment of audit committees and the appointment of qualified and independent auditors.

Adoption of International Financial Reporting Standards (IFRS) by standardizing financial reporting across borders by adopting IFRS can enhance the comparability and transparency of financial statements. This helps investors and other stakeholders make more informed decisions. Use of Technology and Data Analytics by leveraging advanced technologies such as artificial intelligence and data analytics can improve the accuracy and timeliness of financial reporting. Automated systems can help detect anomalies and reduce human errors. Increased Transparency and Disclosure Requirements by mandating more comprehensive and detailed disclosures in financial reports can provide stakeholders with a better understanding of a company's financial position and performance. This includes disclosures about accounting policies, risk factors, and nonfinancial information. Training and Education via continuous training and education for accountants, auditors, and financial professionals can ensure they stay updated with the latest standards, regulations, and best practices. This can improve the quality and reliability of financial reporting.

Stakeholder Engagement by encouraging active engagement with stakeholders, including investors, regulators, and analysts, can help companies understand their information needs and expectations. This can lead to more relevant and high-quality financial reporting. Ethical Standards and Professionalism by promoting high ethical standards and professionalism within the accounting and auditing profession can reduce instances of fraudulent reporting and enhance the overall quality of financial statements. This includes adherence to codes of conduct and ethical guidelines. Implementing these measures requires a collaborative effort from regulators, standard-setting bodies, corporations, and professionals in the financial reporting ecosystem.

However, in this article, the focus is to determine whether foreign and institutional ownership could remedy the low quality of financial reports among publicly traded companies in Nigeria. Foreign and institutional ownership can play a significant role in improving the quality of financial reports in companies. For example, foreign and institutional investors often bring advanced governance practices from developed markets, which can lead to better oversight and accountability within companies. These investors typically demand higher transparency and adherence to international financial reporting standards. Institutional investors, especially those managing large funds, have a vested interest in ensuring accurate and transparent financial reporting to protect their investments. Foreign investors may push for more robust financial disclosures to meet the regulatory requirements of their home countries or international standards.

Also, large institutional investors have the resources to conduct thorough due diligence, including forensic accounting and independent audits, thereby ensuring the accuracy of financial reports. They can also provide companies with access to better auditing and financial reporting technologies and practices. Companies with significant foreign and institutional ownership are often more concerned about their reputation in international markets. This can motivate them to maintain high-quality financial reports. Institutional investors can use their voting power to influence management decisions, including the hiring of reputable external auditors.

However, institutional investors may have other interests that could conflict to improve financial reporting quality. For instance, they might prioritize short-term gains over long-term

transparency. The effectiveness of foreign and institutional ownership in improving financial reporting quality depends on the level of activism and engagement from these investors. Passive investors may not exert sufficient pressure on companies. Foreign investors come from different regulatory environments with varying standards. This can lead to inconsistent expectations and practices in financial reporting. Institutional investors might also have varying levels of commitment to improving governance and financial reporting standards.

The impact of foreign and institutional ownership can be significantly influenced by the regulatory environment of the host country. Stronger regulations and enforcement mechanisms can amplify the positive effects. Some countries have regulations that encourage or mandate the participation of institutional investors in corporate governance, which can enhance financial reporting quality. Examining case studies of companies that have experienced changes in ownership structure can provide insights into how foreign and institutional investors have influenced financial reporting quality. Comparative studies between countries with high foreign and institutional ownership versus those with low levels can highlight the differences in financial reporting quality. Furthermore, the adoption of advanced financial reporting and auditing technologies by institutional investors can help improve the accuracy and timeliness of financial reports. Technologies such as blockchain, AI, and big data analytics can be leveraged to enhance transparency and reduce the likelihood of financial misreporting. In conclusion, foreign and institutional ownership can significantly contribute to improving the quality of financial reports in companies. However, the extent of their impact depends on various factors including the level of investor activism, the regulatory environment, and the adoption of advanced technologies.

The remaining part is organized as follows. Section 2 provides a literature review of the key concepts of the paper and review most important works that focus on the evaluation of the nexus between foreign and institutional ownerships and the quality of financial reports. Section 3 describes the methodology that was used. Section 4 provides the results of the empirical analysis, while Section 5 provides some managerial and policy implications and concludes and recommends.

2. Literature Review

Many studies have focused on the topic of ownership structure and quality of financial reports (Allen & Rai 1996, Berger & Mester 1997, Bauer et al. 1998, Coelli et al. 2005, Beccalli et al. 2006, Halkos & Tzeremes 2013, Tsionas et al. 2015, McKee & Kagan 2016, Quaranta et al. 2018). However, few studies have examined the components of ownership structure about the quality of financial reports. In this paper, therefore, variables of interest include quality of financial reports, foreign ownership, institutional ownership, firm size, firm leverage, and firm profitability. See Figure 1 for schematic illustration.

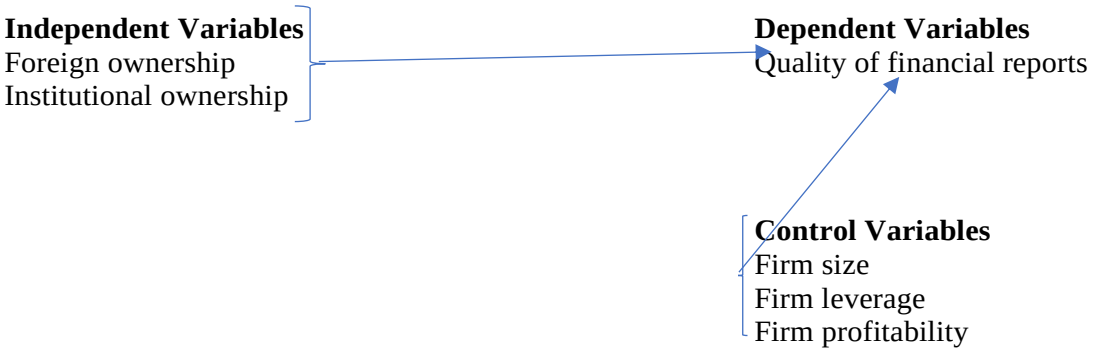

Figure 1: ***Analytical Framework***
Source: The Authors

The quality of financial reports (QFR) is crucial for stakeholders such as investors, creditors, and regulators who rely on these documents to make informed decisions. High-quality financial reports should possess accuracy: Financial data should accurately represent the financial

position and performance of the company. Importance: Ensures that the financial statements reflect the true financial condition of the business, preventing misleading information. Frequent restatements, and significant discrepancies between reported figures and actual results. Relevance: The information provided should be relevant to the decision-making needs of the users. Importance: Relevant information aids in predicting future trends, assessing past performance, and making economic decisions. Outdated information, failure to disclose material events or changes. Completeness: Reports should provide a full view of the financial activities, including all necessary disclosures. Importance: Ensures that all aspects of financial performance and risks are reported, allowing for a holistic understanding. Missing disclosures, incomplete financial statements, omission of off-balance sheet items.

Consistency: The application of accounting methods should be consistent over time. Importance: Consistency allows stakeholders to compare financial data across different periods and make trend analyses. Frequent changes in accounting policies without justification, and inconsistent reporting formats. Comparability: Financial reports should be comparable with those of other companies in the same industry. Importance: Enables stakeholders to benchmark a company's performance against its peers. Non-standardized reporting, lack of segmental information. Transparency: Financial reports should be clear, understandable, and free of any complex jargon or obfuscation. Importance: Stakeholders need to easily interpret the financial data to make informed decisions. Overly complex notes, and lack of clarity in the presentation of financial data. Timeliness: Financial reports should be delivered promptly, allowing stakeholders to make decisions based on the most recent data. Importance: Timely information is essential for stakeholders to react to financial developments promptly. Delays in reporting, and late filings.

Integrity and Objectivity: Reports should be free from bias and should reflect true and fair financial performance. Importance: Integrity ensures that the financial data is trustworthy, and objectivity ensures that reports are not influenced by the preparer's personal bias. Presence of aggressive accounting practices, evidence of management manipulation. Adherence to Standards: Financial reports should comply with the applicable accounting standards (e.g., IFRS, GAAP). Importance: Compliance ensures that reports are prepared based on recognized principles, promoting uniformity and credibility. Non-compliance with accounting standards, and auditor qualifications on the financial statements. Auditability: Financial reports should be verifiable through audits. Importance: Auditability ensures that the financial data can be independently verified, enhancing reliability. Poor audit trails, and lack of documentation supporting financial figures.

Some of the common issues in low-quality financial reports include earnings management: and manipulating earnings to meet targets or expectations. Lack of disclosure: Failing to provide enough information about key risks or uncertainties. Complexity: Using overly complex structures or financial instruments that obscure true financial health. Furthermore, the importance of High-Quality Financial Reporting: Investor Confidence: High-quality reports build trust with investors and the market. Regulatory Compliance: Ensures that the company meets all legal and regulatory requirements. Decision-Making: Provides accurate data for strategic planning and operational decisions. Thus, assessing the quality of financial reports involves examining these characteristics to ensure the reports serve their purpose of providing useful and reliable information to stakeholders. For this article, QFR is defined based on Dechow and Dichev (2002) discretionary accrual.

Foreign ownership (FORE) refers to the situation where a business, property, or assets within a country are owned by individuals, corporations, or governments from another country. This concept is significant in the context of globalization and international investment, and it has various implications for the host country, the foreign investor, and the global economy. Key aspects of foreign ownership: Direct Foreign Ownership (Foreign Direct Investment FDI): Involves a foreign entity acquiring a significant stake (often more than 10%) in a domestic company. May include the establishment of new operations or the acquisition of existing businesses. Portfolio Investment: Refers to foreign ownership of stocks, bonds, or other financial assets in a country without direct control over the businesses. More passive compared to FDI and often involves a smaller stake in the company. Real Estate Ownership: Involves

foreign entities purchasing land or property in another country. Often subject to specific regulations and restrictions, depending on the country.

The motivations for Foreign Ownership include Market Expansion: Companies may seek foreign ownership to enter new markets, diversify their customer base, and increase revenue. Access to Resources: Foreign ownership can provide access to natural resources, technology, and skilled labor that may not be available domestically. Strategic Alliances: Foreign investors may seek ownership to form strategic partnerships, gain competitive advantages, or share technology and expertise. Diversification: Investing in foreign assets allows for diversification of risk across different markets and economies.

The benefits of Foreign Ownership include Economic Growth: Foreign investment can stimulate economic growth by providing capital, creating jobs, and increasing productivity in the host country. Technology Transfer: Foreign ownership often leads to the transfer of technology and knowledge, enhancing local industries and improving efficiency. Increased Competition: The presence of foreign companies can drive competition, leading to better products and services for consumers. Improved Infrastructure: FDI often involves investments in infrastructure, which can have long-term benefits for the host country's economy.

The challenges and concerns of foreign ownership include National Security Risks: Foreign ownership in strategic sectors (e.g., defense, telecommunications) can raise concerns about national security and control over critical infrastructure. Economic Sovereignty: Extensive foreign ownership can lead to concerns about losing economic control and decision-making power to foreign entities. Profit Repatriation: Foreign companies may repatriate profits to their home countries, leading to a potential outflow of capital from the host country. Cultural Impact: The influence of foreign businesses can lead to cultural changes and concerns about the erosion of local traditions and values. Regulations and Policies: Restrictions on Foreign Ownership: Many countries have regulations limiting foreign ownership in certain sectors (e.g., real estate, media, agriculture) to protect national interests. Incentives for Foreign Investment: Some governments offer tax breaks, subsidies, or relaxed regulations to attract foreign investment and boost economic growth. Investment Screening: Countries may have mechanisms to review and approve foreign investments, particularly in sensitive industries.

The impact on Host Countries includes Economic Impact: Foreign ownership can lead to increased investment, job creation, and technological advancement, but it can also result in income inequality or dependence on foreign capital. Political Impact: The influence of foreign investors can affect domestic policies and lead to concerns about foreign interference in local affairs. Social Impact: Foreign ownership can contribute to cultural exchange and diversity, but it may also lead to social tensions if local communities feel marginalized. In conclusion, foreign ownership plays a critical role in the global economy, offering both opportunities and challenges for host countries. While it can bring economic benefits, such as increased investment and technology transfer, it also requires careful management to balance national interests with the advantages of global integration. In this paper, foreign ownership is defined as a dummy where "1" is assigned when there is 5% and above block foreign institutional shareholders and "0" for otherwise.

Furthermore, institutional ownership (INST) refers to the ownership of a company's shares by large organizations, such as mutual funds, pension funds, insurance companies, hedge funds, banks, and other financial institutions. These entities often manage large pools of capital on behalf of individual or institutional investors and therefore can hold significant stakes in publicly traded companies. Key aspects of institutional ownership include Mutual Funds: Pooled funds managed by professional investment managers, investing in a diversified portfolio of securities. Pension Funds: Investment pools that collect and invest funds on behalf of pensioners to provide retirement income. Hedge Funds: Private investment funds that engage in a wide range of strategies, often including leverage and short selling, to generate high returns. Insurance Companies: Invest premiums collected from policyholders to meet future liabilities and earn returns. Sovereign Wealth Funds: State-owned investment funds that invest in a variety of assets, including equities, real estate, and infrastructure. Endowment Funds: Investment funds established by institutions like universities, charities, and foundations, intended to grow over time and provide a steady income stream.

The impact of Institutional Ownership include Market Influence: Institutional investors often hold large percentages of a company's shares, giving them significant influence over market prices and company decisions. Corporate Governance: With substantial ownership, institutions can influence management decisions, including executive compensation, mergers and acquisitions, and strategic direction. Voting Power: Institutional investors often vote on shareholder proposals and board elections, impacting corporate policies and leadership. Stability: Long-term institutional ownership can provide stability to a company's stock price, as these investors are less likely to engage in frequent buying and selling. Pressure on Management: Institutions may pressure management for better performance, efficiency, and transparency, aligning the company's goals with shareholder interests.

The advantages of Institutional Ownership include Expertise and Resources: Institutional investors have access to extensive research, sophisticated tools, and professional management, which can lead to informed investment decisions. Liquidity: High levels of institutional ownership can increase the liquidity of a company's stock, making it easier to trade without significantly impacting the price. Long-term Perspective: Many institutional investors, especially pension funds and endowments, have a long-term investment horizon, which can contribute to the sustained growth of a company. Support for Innovation: Institutions may provide the capital necessary for companies to invest in innovation, research and development, and expansion.

The challenges and concerns include Market Volatility: Large institutional trades can lead to significant short-term market volatility, especially if several institutions decide to buy or sell simultaneously. Concentration Risk: High levels of institutional ownership can lead to a concentration of influence, where a few large institutions have outsized control over the company's direction. Conflict of Interest: Institutional investors may have conflicting interests, such as balancing short-term profits with long-term growth or managing different client objectives. Activist Investing: Some institutions, particularly hedge funds, engage in activist investing, where they push for changes in management or strategy that may not align with the long-term interests of the company or all shareholders.

The regulatory and Reporting Requirements include Transparency: Institutional investors are often required to disclose their holdings, especially if they own more than a certain percentage of a company's shares (e.g., 5% in Nigerian under SEC rules). Filing Requirements: In Nigeria, institutional investors must file forms such as the 13F with the SEC, disclosing their equity holdings each quarter. Influence on Corporate Decisions: Regulatory bodies may scrutinize the influence of institutional investors, particularly in mergers and acquisitions, to ensure fair practices and prevent monopolistic behaviour. In conclusion, institutional ownership plays a pivotal role in the financial markets and corporate governance. While it can bring benefits such as stability, liquidity, and professional management, it also poses challenges like concentration risk and potential market volatility. The influence of institutional investors is likely to continue growing, shaping the landscape of corporate governance and investment strategies worldwide. For this article, institutional ownership is defined as the share's ownership concentration of all the block institutional shareholders with 5% and above shares ownership (%).

Firm size (FS) refers to the scale or magnitude of a company in terms of various metrics, such as revenue, number of employees, market capitalization, assets, and production capacity. The size of a firm has significant implications for its operations, strategy, market power, and overall economic impact. Key metrics to measure firm size include Revenue: The total income generated by a company from its business activities, typically measured on an annual basis. Importance: Revenue is a primary indicator of a firm's size and its ability to generate sales. Larger firms usually have higher revenue, reflecting their capacity to capture a significant market share. Number of Employees: The total number of full-time, part-time, and contractual employees working for the company. Importance: The workforce size indicates the company's capacity to manage large-scale operations and deliver products or services at a broad scale. Market Capitalization: The total market value of a company's outstanding shares of stock, calculated by multiplying the share price by the total number of shares. Importance: Market capitalization provides a measure of a company's size in the stock market, reflecting investor perceptions of its value and future growth potential. Furthermore, total assets: The sum of

everything a company owns, including cash, inventory, property, equipment, and intellectual property. Importance: Total assets indicate the resources a firm has at its disposal for generating revenue and sustaining operations. Production Capacity: The volume of products or services a firm can produce or deliver within a given time frame. Importance: Production capacity highlights a company's ability to meet market demand, scale operations, and maintain competitive advantage.

The implications of Firm Size include Economies of Scale: Larger firms often benefit from economies of scale, where the cost per unit of output decreases as the scale of production increases. Importance: This allows large firms to operate more efficiently, reduce costs, and offer competitive pricing. Market Power: Larger firms typically have more market power, allowing them to influence prices, supply chains, and market dynamics. Importance: Market power can lead to dominance in certain industries, affecting competition and consumer choices. Innovation and R&D: Larger firms usually have more resources to invest in research and development (R&D), driving innovation and technological advancement. Importance: This enables large firms to stay ahead of competitors by continuously improving their products or services. Global Reach: Large firms often operate on a global scale, with operations, subsidiaries, and markets in multiple countries. Importance: This global presence allows them to tap into diverse markets, mitigate risks through geographical diversification, and achieve growth beyond domestic markets. Financial Stability: Larger firms tend to have more financial stability due to diversified revenue streams, access to capital markets, and the ability to weather economic downturns. Importance: Financial stability allows large firms to invest in growth, withstand market volatility, and manage debt more effectively.

The challenges faced by Large Firms include Bureaucracy and Inflexibility: As firms grow, they often become more bureaucratic, leading to slower decision-making and reduced flexibility. Importance: This can hinder a large firm's ability to respond quickly to market changes or innovate as rapidly as smaller, more agile competitors. Public Scrutiny and Regulation: Large firms are often subject to greater public scrutiny and more stringent regulatory oversight, especially in areas like antitrust, labor practices, and environmental impact. Importance: Compliance with regulations can be costly and time-consuming, potentially limiting growth opportunities. Risk of Complacency: Large, established firms may become complacent, relying on their market position and failing to innovate or adapt to new market trends. Importance: Complacency can lead to a loss of competitive edge, allowing more nimble competitors to gain market share. In conclusion, firm size is a critical determinant of a company's market power, operational efficiency, and ability to influence its industry. While large firms benefit from economies of scale, market power, and financial stability, they also face challenges such as bureaucracy, regulatory scrutiny, and the risk of becoming complacent. Understanding firm size is essential for analyzing a company's competitive position and long-term prospects. For this article, firm size is defined as the natural logarithm of total assets.

Using firm leverage (LEV) as a control variable in the analysis of the quality of financial reports is a common and insightful approach. Leverage, typically measured as the ratio of a firm's debt to its equity or assets, can influence various aspects of a company's financial reporting practices. The following describe how leverage can serve as a control variable in studying the quality of financial reports: Leverage and Financial Reporting Quality: Incentives for Earnings Management: Highly leveraged firms may face pressure to meet debt covenants or maintain credit ratings, creating incentives for earnings management. Managers might manipulate earnings to appear more financially stable, impacting the quality of financial reports. Risk Disclosure: Firms with higher leverage typically face greater financial risk, which should be reflected in their financial reports. The extent and accuracy of risk disclosures are crucial for stakeholders to assess the firm's financial health. Transparency: To mitigate the risks associated with high leverage, companies may need to provide more transparent and detailed financial information to satisfy creditors and investors. However, if transparency is lacking, it can signal poor financial reporting quality. Auditor Scrutiny: Auditors may apply more rigorous scrutiny to the financial reports of highly leveraged firms due to the increased risk of financial distress, which can influence the quality of financial reporting.

Also, when analyzing the quality of financial reports, it's important to control for leverage to isolate the impact of other variables, such as corporate governance, management behaviour, or external market conditions. By controlling for leverage (LEV), you can better understand whether variations in financial reporting quality are due to leverage itself or other factors. In regression models, leverage is often included as a control variable to account for its potential impact on financial reporting quality. For example, you might regress financial reporting quality (measured by metrics like accrual quality, restatements, or earnings management) on various independent variables, controlling for leverage. A positive relationship between leverage and financial reporting quality might suggest that highly leveraged firms enhance transparency to satisfy creditor demands. Conversely, a negative relationship could indicate that higher leverage leads to greater earnings management and lower financial reporting quality. Leverage could also moderate the relationship between other variables and financial reporting quality. For example, the impact of corporate governance on financial reporting quality might be stronger or weaker in firms with high leverage. Studies often find that higher leverage is associated with increased earnings management, as firms try to meet debt covenants, which could lower the quality of financial reports. Highly leveraged firms might be more likely to engage high-quality auditors to ensure that their financial reports are perceived as credible by creditors, potentially improving reporting quality. Firms with higher leverage may disclose more detailed financial information to reassure investors and creditors, potentially enhancing the quality of financial reports.

The challenges and considerations include Endogeneity: There is a potential endogeneity issue where leverage itself might be influenced by factors that also affect financial reporting quality, such as firm size, profitability, or market conditions. It's important to address this in the analysis, perhaps by using instrumental variables or fixed-effects models. Industry-Specific Factors: The impact of leverage on financial reporting quality might differ across industries. For instance, capital-intensive industries might naturally have higher leverage, which should be considered when interpreting results. In conclusion, firm leverage is a crucial control variable when studying the quality of financial reports, as it can significantly influence the financial reporting behavior of firms. By controlling for leverage, researchers and analysts can more accurately assess the effects of other factors on financial reporting quality, leading to more robust and reliable conclusions. For this article, firm leverage is defined as total liabilities divided by total assets.

Also, using firm profitability (PROF) as a control variable in the analysis of the quality of financial reports is a common practice in financial research. Profitability, typically measured by metrics such as return on assets (ROA), return on equity (ROE), or net profit margin, can have significant effects on how financial information is reported. The following statements are how profitability can be used as a control variable in examining financial reporting quality: Profitability and Financial Reporting Quality: Incentives for Earnings Management: Firms with lower profitability might be more incentivized to engage in earnings management to present a more favorable financial picture. Conversely, highly profitable firms might also manage earnings to smooth profits or avoid setting high benchmarks for future performance. Transparency and Disclosure: Profitable firms often have less need to manipulate earnings and may be more transparent in their financial disclosures. However, firms with extreme profitability (either high or low) may still have specific incentives that affect the quality of their financial reporting. Stakeholder Perception: Stakeholders, including investors, creditors, and analysts, closely monitor profitability as a key indicator of financial health. Firms might adjust their reporting practices to influence these perceptions, impacting the quality of financial reports. Regulatory Scrutiny: Highly profitable firms might attract more regulatory scrutiny or public attention, leading them to ensure higher quality in financial reporting to avoid reputational damage or regulatory penalties.

When analyzing the quality of financial reports, it is important to control for profitability to isolate the impact of other variables, such as corporate governance, market conditions, or management practices. Profitability can affect how firms present their financial statements, so controlling for it allows a clearer view of other influences on financial reporting quality. In empirical studies, profitability is often included as a control variable in regression models. For example, financial reporting quality (measured by metrics like accrual quality, restatements, or

earnings management) could be regressed on various independent variables while controlling for profitability. A positive relationship between profitability and financial reporting quality might suggest that profitable firms are less likely to engage in aggressive accounting practices, leading to higher quality reports. A negative relationship could indicate that firms manipulate reports to maintain appearances or meet expectations despite profitability. Profitability could also act as a moderating variable, influencing the relationship between other factors (e.g., corporate governance, external auditing) and financial reporting quality. For instance, the impact of strong corporate governance on financial reporting quality might be more pronounced in less profitable firms.

Research often shows that less profitable firms are more likely to engage in earnings management, which can reduce the quality of financial reports. Conversely, highly profitable firms might engage in income smoothing, which also affects financial report quality, though in a different way. Profitable firms might invest in higher quality audits to ensure the accuracy of their financial reports, enhancing reporting quality. Alternatively, profitable firms might face less stringent audits if auditors perceive them as lower risk, potentially lowering reporting quality. Profitable firms may have more resources and incentives to provide detailed disclosures, potentially improving the quality of financial reports. However, excessive profitability could lead to strategic disclosures that might obscure rather than clarify financial performance.

The challenges and considerations: Endogeneity: There is a potential endogeneity issue where profitability itself might be influenced by factors that also affect financial reporting quality, such as firm size, leverage, or market conditions. Addressing endogeneity, perhaps through the use of instrumental variables or fixed-effects models, is important in empirical research. Industry-Specific Factors: The impact of profitability on financial reporting quality may vary across industries. For example, industries with cyclical profitability might show different patterns in how profitability influences reporting quality. In conclusion, firm profitability is a crucial control variable in studies of financial reporting quality. Profitability can significantly influence a firm's financial reporting practices, making it essential to account for it when analyzing the effects of other variables. By controlling for profitability, researchers can obtain a clearer understanding of what drives financial reporting quality, leading to more robust and reliable findings. For this article, firm profitability is defined as gross profit, which is sales revenue less the cost of goods sold.

Furthermore, in terms of theories, The relationship between foreign and institutional ownership and the quality of financial reports has been extensively studied in the finance and accounting literature. Theories linking these ownership structures with financial reporting quality generally focus on the monitoring effects, information asymmetry, agency costs, and the incentives of different types of shareholders. The following are robust discussion of these theories:

Monitoring Hypothesis - Institutional Ownership: Institutional investors, such as pension funds, mutual funds, and insurance companies, often have the resources and expertise to monitor management effectively. This enhanced monitoring reduces the likelihood of earnings management, fraud, or other manipulations, leading to higher-quality financial reports. Institutional investors can exert significant pressure on management to maintain transparency and adhere to best practices in financial reporting. Foreign Ownership: Foreign investors, particularly those from developed markets with stringent regulatory environments, may bring similar pressures for high-quality financial reporting. They often demand transparency and accuracy to reduce information asymmetry, especially in emerging markets where reporting standards might be lower. The presence of foreign investors can thus lead to an improvement in financial reporting practices to meet international standards.

Agency Theory - Institutional Ownership: According to agency theory, there is a conflict of interest between managers (agents) and shareholders (principals). Institutional investors, because of their significant ownership stakes, are incentivized to reduce agency costs by ensuring that management acts in the shareholders' best interests. High-quality financial reporting is one way to align the interests of managers and shareholders, as it provides a clearer picture of the company's performance and reduces the potential for managers to act opportunistically. Foreign Ownership: Foreign owners may be more concerned about agency problems due to the geographical and cultural distance between them and the firm. They might

push for better corporate governance and financial reporting practices to mitigate these agency issues. Additionally, foreign investors often rely more on publicly available information due to the difficulty of obtaining private information, making them more dependent on the quality of financial reports.

Information Asymmetry - Institutional Ownership: Institutions have better access to information and the capability to process complex financial data. Their presence in the ownership structure can reduce information asymmetry between management and shareholders. By demanding high-quality financial reports, institutional investors can ensure that all market participants have access to the same information, leading to more efficient markets. Foreign Ownership: The presence of foreign investors, who might not have the same access to information as local investors, can lead to demands for better financial reporting. These investors rely heavily on publicly disclosed information, so they have a strong incentive to ensure that the financial reports are accurate, comprehensive, and timely. High-quality financial reporting reduces information asymmetry between foreign investors and the firm, making the firm more attractive to international capital.

Signaling Theory - Institutional Ownership: Firms with significant institutional ownership might have an incentive to produce high-quality financial reports as a signal of good governance and financial health. This signal can attract more institutional investors, leading to a positive feedback loop where increased institutional ownership further improves reporting quality. Foreign Ownership: Companies with substantial foreign ownership might enhance the quality of their financial reports as a signal to international markets that they adhere to global standards. This signaling can attract additional foreign investment, which is often associated with lower costs of capital and improved market valuation.

Resource Dependence Theory - Institutional Ownership: Large institutional investors often have significant influence over the companies they invest in. Firms may depend on these investors for future capital and, therefore, might improve their financial reporting quality to maintain a positive relationship. High-quality financial reporting is one way to secure continued support from these influential investors. Foreign Ownership: Firms with foreign ownership may depend on access to international markets for financing or other resources. To maintain this access, they may improve their financial reporting quality to meet the expectations of foreign investors and comply with international standards.

Political Cost Hypothesis - Institutional Ownership: High institutional ownership can increase the visibility of a firm, making it more susceptible to scrutiny by regulators, policymakers, and the public. To mitigate potential political costs (e.g., taxes, fines, or stricter regulations), firms might improve their financial reporting quality to demonstrate compliance and avoid drawing negative attention. Foreign Ownership: Foreign-owned firms might face additional political risks, especially in countries with strong nationalist sentiments or protectionist policies. To reduce these risks, they may enhance the quality of their financial reports to show transparency and build trust with local stakeholders.

Stewardship Theory - Institutional Ownership: Unlike agency theory, which assumes a conflict of interest between managers and shareholders, stewardship theory posits that managers act as stewards of the firm, motivated by organizational success rather than self-interest. Institutional investors may support this stewardship approach by advocating for high-quality financial reporting, which helps managers in their role as stewards by providing accurate and reliable information for decision-making. Foreign Ownership: Foreign investors, particularly those with long-term investment horizons, may view management as stewards of the firm’s resources and advocate for high-quality financial reporting to ensure the firm's sustainable success. They may also support management in adopting best practices from international contexts.

Regulatory Influence - Institutional Ownership: In markets with a high concentration of institutional ownership, there might be greater pressure on regulators to enforce stricter financial reporting standards. Institutional investors can lobby for regulatory changes that enhance transparency and reporting quality, benefiting the overall market. Foreign Ownership: Foreign investors may bring expectations from their home countries regarding regulatory standards. Their presence can lead to a push for better regulatory oversight and improved financial reporting standards in the host country, particularly in emerging markets.

Empirical studies generally support the idea that both foreign and institutional ownership are associated with higher financial reporting quality. For example, research has shown that firms with higher institutional ownership tend to have less earnings management and are more likely to adopt conservative accounting practices. Similarly, foreign ownership has been linked to improved financial reporting standards, especially in countries with weaker legal environments. Practical Implications: Companies seeking to attract institutional or foreign investors may benefit from improving their financial reporting practices. Policymakers could encourage foreign and institutional investment as a way to improve corporate governance and financial transparency within markets. Investors might use the presence of foreign and institutional ownership as a signal of a firm's commitment to high-quality financial reporting. In conclusion, the presence of foreign and institutional ownership typically exerts a positive influence on the quality of financial reporting. This relationship is mediated by various theories, including monitoring, agency theory, information asymmetry, signaling, resource dependence, political cost, stewardship, and regulatory influence. Each theory highlights different mechanisms through which these ownership structures contribute to more accurate, transparent, and reliable financial reports.

The following are empirical studies on the effect of foreign ownership on the quality of financial reports. Douma, S. et al. (2006) in "Foreign and Domestic Ownership, Business Groups, and Firm Performance: Evidence from a Large Emerging Market" examine the impact of foreign ownership on firm performance and the quality of financial reporting in Indian companies. Period Covered: 1999-2003. The study uses a panel data regression analysis of publicly traded firms in India, focusing on the relationship between ownership structure and financial performance. The study finds that firms with significant foreign ownership tend to have higher quality financial reports, characterized by less earnings management and greater transparency. Foreign ownership improves the quality of financial reporting, primarily due to the higher standards and expectations of foreign investors. Companies should seek to attract foreign investors to enhance their reporting quality and overall governance. The presence of foreign ownership can be a catalyst for improving corporate governance practices in emerging markets. The study is limited to Indian firms, which may not be generalizable to other markets. This study contributes to the understanding of how foreign ownership influences financial reporting in emerging markets.

Also, Gul, F. et al. (2010) in "Foreign Institutional Ownership and Quality of Earnings: Evidence from Japanese Firms" investigate the impact of foreign institutional ownership on the quality of earnings reported by Japanese firms. Period Covered: 2000-2007. The study employs regression analysis on a sample of publicly listed Japanese firms, focusing on the relationship between foreign institutional ownership and earnings quality. The results indicate that firms with higher levels of foreign institutional ownership exhibit higher earnings quality, with reduced earnings manipulation. Foreign institutional ownership enhances earnings quality in Japanese firms, promoting more accurate and reliable financial reporting. Japanese companies should consider increasing their foreign institutional ownership to improve financial reporting quality. This study provides evidence that foreign institutional investors can positively influence corporate governance and financial reporting practices in Japan. The study is limited to Japan and may not apply to other countries with different ownership structures. This research is among the first to analyze the impact of foreign institutional ownership on earnings quality in Japan.

Furthermore, Haniffa, R. et al. (2006) in "Board Characteristics and Voluntary Disclosure in Malaysian Listed Companies" explore the relationship between foreign ownership and the extent of voluntary disclosure in the financial reports of Malaysian listed companies. Period Covered: 2000-2002. The study uses content analysis to measure voluntary disclosure and regression analysis to test the impact of foreign ownership on disclosure practices. Companies with higher foreign ownership tend to disclose more voluntary information, leading to higher quality financial reporting. Foreign ownership encourages greater transparency and disclosure, improving the overall quality of financial reports. Malaysian firms should increase their foreign ownership to enhance their voluntary disclosure practices and overall reporting quality. The study highlights the role of foreign ownership in promoting better disclosure practices in emerging markets. The study focuses on Malaysia, and results may not be generalizable to other emerging markets. This research provides valuable insights into the influence of foreign ownership on voluntary disclosure in an emerging market context.

Also, the following are empirical studies on the effect of institutional ownership on the quality of financial reports. Bushee (1998) in The Influence of Institutional Investors on Myopic R&D Investment Behavior investigate the effect of institutional ownership on firms' tendencies to engage in myopic behavior, specifically the underinvestment in R&D to meet short-term earnings targets. Period Covered: 1983–1994. The study utilized a large sample of U.S. firms and applied regression analysis to assess the relationship between institutional ownership and the likelihood of reducing R&D expenditures to meet earnings benchmarks. Institutional ownership, particularly by transient investors, was associated with a higher likelihood of myopic behavior in firms, including reduced R&D spending. The study concludes that institutional ownership can lead to short-termism in managerial decision-making, affecting the quality of financial reporting through earnings management. It recommends enhancing the monitoring role of long-term institutional investors to mitigate short-term behavior and improve the quality of financial reporting. The findings suggest that institutional ownership structure significantly influences managerial decisions and financial reporting quality, with implications for corporate governance. The study is limited to U.S. firms and focuses on R&D investment behavior as a proxy for short-termism. The study is one of the first to empirically link institutional ownership with myopic behavior and its impact on financial reporting quality.

Ramalingegowda and Yu (2012) in Institutional Ownership and Conservatism examine how institutional ownership influences the conservatism of financial reporting. Period Covered: 1994–2006. The study used a sample of publicly traded U.S. firms and conducted a regression analysis to explore the relationship between institutional ownership and accounting conservatism. The results show that higher institutional ownership is associated with more conservative financial reporting, as institutional investors demand more cautious accounting practices to reduce litigation risk. The study concludes that institutional ownership enhances the quality of financial reporting by promoting conservatism. The study recommends fostering institutional ownership as a means to enhance financial reporting quality through conservative accounting practices. The findings suggest that institutional ownership can act as a governance mechanism, promoting higher quality financial reporting. The study is limited to U.S. firms and may not capture the nuances of institutional ownership in different regulatory environments. This study provides new insights into the role of institutional investors in promoting accounting conservatism.

Hsu and Koh (2005) in Does the Presence of Institutional Investors Influence Accruals Management? explore the impact of institutional ownership on accruals management, a key aspect of earnings management, and thus, the quality of financial reporting. Period Covered: 1995–2001. The study utilized a sample of U.S. firms and employed regression models to analyze the relationship between institutional ownership and the extent of accruals management. Findings: The study found that firms with higher levels of institutional ownership were less likely to engage in accrual management, indicating better financial reporting quality. The presence of institutional investors contributes to higher-quality financial reporting by discouraging accruals-based earnings management. It recommends strengthening institutional ownership as a means to improve the integrity of financial reporting. The study's results suggest that institutional investors play a crucial role in enhancing the transparency and reliability of financial reports. The study is limited by its focus on U.S. firms and may not account for different institutional contexts. This study adds to the literature by providing empirical evidence on the role of institutional investors in curbing earnings management practices. These summaries should provide a strong foundation for understanding the impact of institutional ownership on the quality of financial reports.

In addition, the following are empirical studies on the effect of firm size on the quality of financial reports. Dechow and Dichev (2002) in The Quality of Accruals and Earnings: The Role of Accrual Estimation Errors examine how firm size influences the quality of financial reporting, particularly through the quality of accruals. Period Covered: 1987–1999. The study used a sample of U.S. firms and employed regression analysis to investigate the relationship between firm size and the quality of accruals. Accrual quality was measured by the magnitude of estimation errors in accruals. Larger firms tend to have higher accrual quality, which implies better overall financial reporting quality. This is attributed to better internal controls and more

resources dedicated to accurate financial reporting in larger firms. The study concludes that firm size positively affects the quality of financial reporting, primarily through improved accrual quality. The study recommends that smaller firms enhance their internal controls and financial reporting processes to improve their accrual quality. The findings suggest that policymakers and auditors should pay closer attention to the financial reporting practices of smaller firms, which are more prone to accrual estimation errors. The study is limited by its focus on U.S. firms and the use of accrual quality as the sole measure of financial reporting quality. This study provides empirical evidence linking firm size with the quality of accruals, contributing to the understanding of how firm characteristics influence financial reporting quality.

Lang and Lundholm (1993) in Cross-Sectional Determinants of Analyst Ratings of Corporate Disclosures investigate the impact of firm size on the quality of financial disclosures, as reflected in analysts' ratings of corporate disclosures. Period Covered: 1985–1990. The study utilized a cross-sectional analysis of U.S. firms, examining the relationship between firm size and the quality of corporate disclosures as rated by financial analysts. The study employed regression models to analyze this relationship. Larger firms generally received higher ratings for their financial disclosures, indicating better disclosure quality. The findings suggest that larger firms are more likely to provide comprehensive and transparent financial reports. Firm size is positively associated with the quality of financial disclosures, as larger firms tend to have better resources and incentives to produce high-quality financial reports. The study recommends that smaller firms improve their disclosure practices and invest in better reporting systems to enhance the quality of their financial disclosures. The findings highlight the importance of firm size as a determinant of financial reporting quality, suggesting that analysts and investors may need to exercise more caution when interpreting the financial reports of smaller firms. The study's focus on analyst ratings as a proxy for disclosure quality may not capture all aspects of financial reporting quality. This study is among the first to empirically link firm size with the quality of financial disclosures, providing insights into the role of firm characteristics in shaping financial reporting practices.

Titman and Trueman (1986) in Information Quality and the Valuation of New Issues examine how firm size influences the quality of information disclosed in initial public offerings (IPOs), focusing on the accuracy of earnings forecasts. Period Covered: 1975–1984. The study used a sample of U.S. IPOs and applied econometric models to analyze the relationship between firm size and the accuracy of earnings forecasts provided in IPO prospectuses. Larger firms were found to provide more accurate earnings forecasts in their IPO disclosures, reflecting higher information quality. The study suggests that larger firms are better able to manage and report financial information accurately. The study concludes that firm size is a significant determinant of the quality of financial information provided during IPOs, with larger firms offering higher-quality disclosures. It recommends that regulators pay attention to the quality of financial information disclosed by smaller firms during IPOs and consider additional scrutiny or guidance for these firms. The findings imply that investors should be cautious when interpreting financial information from smaller firms during IPOs, as they may be less reliable. The study is limited to IPOs in the U.S. and focuses specifically on the accuracy of earnings forecasts, which may not fully capture overall financial reporting quality. This study provides early empirical evidence on the link between firm size and information quality in IPOs, contributing to the literature on financial disclosure practices. These studies offer insights into how firm size impacts the quality of financial reports, highlighting key findings and contributions to the field.

The following is a synthesis of empirical studies on the effect of firm leverage on the quality of financial reports. Thompson (2022) in The Impact of Firm Leverage on Financial Reporting Quality: Evidence from U.S. Corporations investigates how varying levels of firm leverage influence the quality of financial reports among publicly traded U.S. companies. Period Covered: 2010-2020. The study employed a quantitative approach, using regression analysis on panel data collected from 500 publicly traded firms. Data sources included financial statements and leverage ratios obtained from Compustat. The study controlled for firm size, industry, and profitability. The study found a significant negative relationship between firm leverage and financial reporting quality. Higher leverage was associated with increased earnings management and lower transparency in financial statements. High leverage can compromise the quality of

financial reporting due to the increased pressure on management to meet debt obligations. The study recommends that regulators should enhance disclosure requirements for highly leveraged firms and that firms should be encouraged to maintain optimal leverage levels to ensure high-quality financial reporting. The findings suggest that stakeholders, including investors and regulators, need to closely monitor firms with high leverage to ensure accurate financial reporting. The study is limited by its focus on U.S. companies, which may not be generalizable to other contexts. Additionally, the use of secondary data limits the ability to explore causal relationships. This study contributes to the literature by providing empirical evidence on the relationship between firm leverage and financial reporting quality in a U.S. context.

Kumar (2021) in Leverage and Financial Reporting Quality: An Analysis of Indian Manufacturing Firms examine the effect of leverage on the quality of financial reporting among manufacturing firms in India. Period Covered: 2015-2019. The study utilized a mixed-method approach, combining qualitative interviews with financial managers and quantitative analysis of financial statements from 200 manufacturing firms. The analysis included the application of the Jones model to detect earnings management. The study revealed that firms with higher leverage were more likely to engage in earnings management, reducing the quality of financial reports. However, this effect was moderated by the presence of strong internal controls. The quality of financial reporting in highly leveraged firms is compromised, particularly in the absence of robust internal control mechanisms. The study recommends strengthening internal controls in leveraged firms and implementing stricter auditing standards to mitigate the risk of earnings manipulation. The study's results indicate that policymakers should focus on enhancing corporate governance practices in leveraged firms to safeguard financial reporting quality. The study's focus on the manufacturing sector in India limits the generalizability of the findings to other sectors and regions. This study is one of the few to explore the interaction between leverage, earnings management, and internal controls in an emerging market context.

Wang (2023) in The Influence of Leverage on Financial Reporting Quality: Evidence from Chinese SMEs assess how leverage affects the financial reporting quality of small and medium-sized enterprises (SMEs) in China. Period Covered: 2018-2022. The research adopted a longitudinal design, tracking 150 SMEs over five years. The study employed structural equation modeling (SEM) to analyze the data, focusing on the relationship between leverage and various indicators of financial reporting quality. The results indicated a complex relationship where moderate levels of leverage were associated with high financial reporting quality, while both very high and very low leverage levels were linked to poor financial reporting quality. The relationship between leverage and financial reporting quality in SMEs is non-linear, suggesting that both under-leveraging and over-leveraging can be detrimental. The study suggests that SMEs should aim for a balanced leverage level to optimize financial reporting quality and recommends that policymakers guide optimal leverage ratios. The findings highlight the need for SMEs to carefully manage their debt levels to maintain high-quality financial reporting, which is crucial for their long-term sustainability. The study's findings are limited to SMEs in China and may not apply to larger firms or those in different geographical regions. This study is among the first to explore the non-linear effects of leverage on financial reporting quality in SMEs, offering new insights into financial management practices. These studies offer diverse perspectives on how firm leverage affects financial reporting quality across different contexts and types of firms.

Below are summaries of empirical studies on the effect of firm profitability on the quality of financial reports. Dechow, Ge, & Schrand (2010) in Understanding earnings quality: A review of the proxies, their determinants, and their consequences review and synthesize empirical evidence on earnings quality, focusing on how firm profitability affects the quality of financial reports. Period Covered: 1980–2009. The authors conducted a comprehensive literature review and meta-analysis of empirical studies related to earnings quality and firm profitability, with a focus on accruals, earnings management, and other financial reporting metrics. The study found that more profitable firms tend to exhibit higher earnings quality, as measured by lower levels of earnings management and higher persistence of earnings. However, it also noted that profitability is not the only determinant of earnings quality, and other factors such as firm size, growth opportunities, and industry characteristics play a significant role. The study concludes

that firm profitability is positively associated with the quality of financial reports, but it is essential to consider other firm-specific and external factors. The authors recommend that future research should focus on the interaction between profitability and other factors influencing earnings quality, and on developing more robust measures of earnings quality. The findings imply that investors and regulators should consider firm profitability as a key indicator of financial reporting quality but should also be aware of its limitations. The study is limited by its reliance on existing literature, which may include publication bias and outdated methods. The study provides a comprehensive synthesis of the relationship between profitability and earnings quality, offering new insights into the determinants of high-quality financial reporting.

Ball et al. (2000) in The effect of international institutional factors on properties of accounting earnings examines how profitability and international institutional factors affect the quality of accounting earnings, focusing on earnings management and financial report transparency. Period Covered: 1985–1995. The study employs a cross-country regression analysis, using a sample of firms from 20 countries with varying levels of profitability and institutional development. The authors analyze the relationship between firm profitability and earnings quality, controlling for institutional factors such as legal systems and market structure. The study finds that in countries with strong institutional frameworks, more profitable firms tend to have higher earnings quality, characterized by lower earnings management and higher transparency. Conversely, in countries with weaker institutions, the relationship between profitability and earnings quality is less pronounced. The study concludes that the effect of firm profitability on earnings quality is moderated by the strength of a country's institutional environment. The authors recommend that policymakers in countries with weaker institutions focus on strengthening regulatory frameworks to enhance the quality of financial reporting among profitable firms. The findings suggest that profitability alone is not a sufficient indicator of financial reporting quality; institutional factors must also be considered. The study is limited by potential measurement errors in institutional variables and the generalizability of results across different countries. The study provides a unique cross-country perspective on the interaction between firm profitability and institutional factors in determining earnings quality.

Francis et al. (2004) in Costs of Equity and Earnings attributes investigate the relationship between firm profitability, earnings attributes, and the cost of equity, with a focus on how these factors influence the quality of financial reports. Period Covered: 1990–2001. The authors use a large sample of U.S. firms and employ regression analysis to examine the impact of profitability on various earnings attributes, including accrual quality, earnings persistence, and earnings predictability. The study also analyzes the relationship between these earnings attributes and the cost of equity. The study finds that higher profitability is associated with better earnings attributes, such as lower accrual volatility and higher earnings persistence, which in turn lead to a lower cost of equity. This suggests that profitable firms tend to have higher-quality financial reports, as indicated by more stable and predictable earnings. The study concludes that firm profitability is a key determinant of earnings quality and that higher earnings quality reduces the cost of equity for firms. The authors recommend that managers focus on improving profitability to enhance earnings quality and reduce capital costs. Additionally, investors should consider earnings attributes when evaluating firm profitability and financial reporting quality. The findings imply that profitability not only affects the quality of financial reports but also has significant implications for firm valuation and capital market outcomes. The study is limited by its focus on U.S. firms, which may not be generalizable to firms in other countries with different accounting standards and market conditions. The study provides new evidence on the link between profitability, earnings attributes, and the cost of equity, offering insights into the broader implications of financial reporting quality. These summaries provide a comprehensive overview of the studies, highlighting their methodologies, findings, and contributions to the literature on firm profitability and financial report quality.

3. Methodology

This empirical study investigates the effect of foreign and institutional ownership on the quality of financial reports of companies. The research employs a quantitative approach, using a combination of descriptive and inferential statistics to analyze the data. The study adopts a longitudinal design, examining the data over 10 years to capture trends and changes over time. The population consists of all publicly listed companies on the Nigerian Exchange (NGX) during the study period. A census sampling technique is employed pick select the sample that represents the population of the study. The population and sample size are 151 companies (See details in Table 1).

Table 1. ***Population and Sample Size***

Serial	Sector	Number
1	Agriculture	6
2	Conglomerates	6
3	Construction/Real estate	9
4	Consumer goods	21
5	Financial services	46
6	Healthcare	8
7	Information & communications technology	8
8	Industrial goods	12
9	Natural resources	4
10	Oil and gas	10
11	Services	21
	Total	151

Source: Extracts from NGX (2024)

The study employs a panel regression model to analyze the data. The model specification is as follows:

$$QFR_{i,t} = \alpha + \beta_1 FORE_{i,t} + \beta_2 INST_{i,t} + \beta_3 FS_{i,t} + \beta_4 LEV_{i,t} + \beta_5 PROF_{i,t} + \mu_{i,t}$$

Whereas:
QFR = Quality of financial reports of company (i) at time (t)
i = Firm script
t = Time script
FOR = Foreign Ownership of company (i) at time (t)
INST = Institutional Ownership of company (i) at time (t)
FS = Company size (control variable)
LEV = Leverage (control variable)
PROF = Profitability, gross profit (control variable)
epsilon = Error term

The Variables are Dependent Variable: Financial Reporting Quality (FRQ): Measured using a combination of discretionary accruals and other financial reporting metrics. Independent Variables: Foreign Ownership (FOR): a dummy where 1 represents foreign investors otherwise 0. Institutional Ownership (INST): Percentage of shares held by institutional investors. Control Variables: Company Size (SIZE): Logarithm of total assets. Leverage (LEV): Debt-to-equity ratio. Profitability: Gross profit, sales less cost of goods sold.
These variables, their measures and signs are reported in Table 2.

Table 2. ***Variables, Measures, and Signs***

Serial	Variables	Measures	Signs
1	Y, QFR, Quality of financial reports	Measured as discretionary accruals by Dechow and Dichev (2002)	
2	X_1, FORE, Foreign ownership	Measured as a dummy where "1" is assigned when there is 5% and above block foreign institutional shareholders and "0" for otherwise.	+
3	X_2, INST, Institutional ownership	Measured as the share's ownership concentration of all the block institutional shareholders with 5% and above shares ownership (%).	+
+4	X_3, FS, Firm size	Measured as the natural logarithm of total assets.	+
5	X_4, LEV, Leverage	Measured as total liabilities divided by total assets	-
6	X_5, PROF, Gross profit	Measured as sales less cost of goods sold	+

Source: The Authors

Thus, from Table 2, our a priori expectations are stated as follows:

$X_1>0$, a rise in foreign ownership leads to a rise in the quality of financial reports.

$X_2>0$, a rise in institutional ownership leads to a rise in the quality of financial reports.

$X_3>0$, a rise in firm size leads to a rise in the quality of financial reports.

$X_4>0$, a rise in firm leverage leads to a decrease in the quality of financial reports.

$X_5>0$, a rise in firm profitability leads to a rise in the quality of financial reports.

Furthermore, data sources include Financial Data: Collected from company annual reports, and financial databases like NGX. Ownership Data: Obtained from the NGX, and company disclosures. Control Variables: Derived from financial statements and relevant industry reports. Data Analysis Techniques include Descriptive Statistics: Summarize the basic features of the data, including mean, median, standard deviation, minimum, and maximum values for each variable. Correlation Analysis: Examine the relationships between the independent and dependent variables to check for multicollinearity. Panel Regression Analysis: Conduct Fixed Effects or Random Effects regression based on the Hausman test to account for unobserved heterogeneity across companies. Post-Estimation Tests include Breusch-Pagan Test: Test for heteroscedasticity. Variance Inflation Factor (VIF): Assess multicollinearity among independent variables. A significance level of 5% (0.05) is used to test the hypotheses. Results with p-values less than 0.05 are considered statistically significant, indicating that the independent variables have a significant impact on the dependent variable. This methodology provides a comprehensive approach to understanding the effect of foreign and institutional ownership on the quality of financial reports, ensuring robust and reliable results through rigorous data analysis and testing.

4. Empirical Results and Discussion

The set of observations considered for the analysis in the period 2013–2022 consists of 1,510 observations, made up of 151 companies over 10 years. For reasons of comparability of results, we used a balanced data set. Table 3 presents the descriptive statistics, showing the number of

observations, mean, standard deviation, minimum mean, and maximum mean. Table 4 presents the Pearson Pairwise Correlations. Table 5 reports the regression results, including the results of post-estimation tests.

Table 3. ***Descriptive statistics***

Variable	Obs	Mean	Std. Dev.	Min	Max
QFR	1,510	.006	.007	0	.063
FORE	1,510	.453	.499	0	1
INST	1,510	28.327	24.334	0	89
FS	1,510	9.391	.424	8.119	10.098
LEV	1,510	.911	.223	.717	2.547
PROF	1,510	60.216	10.713	28.19	82.73

Source: Outputs from STATA 18.4

Analysis of Descriptive Statistics in Table 3 includes QFR (Quality of Financial Reports): Observations: 1510; Mean: 0.006; Standard Deviation: 0.007; Minimum: 0; Maximum: 0.063; FORE (Foreign Ownership): Observations: 1510; Mean: 0.453; Standard Deviation: 0.499; Minimum: 0; Maximum: 1. INST (Institutional Ownership): Observations: 1510; Mean: 28.327; Standard Deviation: 24.334; Minimum: 0; Maximum: 89. FS (Firm Size): Observations: 1510; Mean: 9.391; Standard Deviation: 0.424; Minimum: 8.119; Maximum: 10.098. LEV (Leverage): Observations: 1510; Mean: 0.911; Standard Deviation: 0.223; Minimum: 0.717; Maximum: 2.547; PROF (Profitability): Observations: 1510; Mean: 60.216; Standard Deviation: 10.713; Minimum: 28.19; Maximum: 82.73.

Furthermore, the mean QFR is 0.006, with a relatively small standard deviation of 0.007, indicating that most firms have similar levels of financial reporting quality. The minimum QFR is 0, suggesting that some firms might have poor or no financial reporting quality. The maximum QFR is 0.063, which is significantly higher than the mean, indicating that a few firms have exceptionally high-quality financial reporting. The mean foreign ownership is 0.453, with a standard deviation of 0.499. This suggests that about 45.3% of the firms have some level of foreign ownership, with significant variation across firms. The minimum value is 0, and the maximum is 1, indicating the presence of firms with no foreign ownership and some firms fully owned by foreign entities. The mean institutional ownership is 28.327, with a large standard deviation of 24.334, suggesting a wide variation in institutional ownership across firms. The minimum institutional ownership is 0, and the maximum is 89, indicating that some firms have no institutional ownership, while others have substantial institutional ownership.

Also, the mean firm size is 9.391, with a small standard deviation of 0.424. This suggests that the sizes of the firms are relatively similar. The minimum and maximum values (8.119 and 10.098, respectively) indicate that the firm sizes do not vary drastically. The mean leverage is 0.911, with a standard deviation of 0.223, indicating moderate variation in the leverage ratios of the firms. The minimum leverage is 0.717, and the maximum is 2.547, suggesting that while most firms have leverage close to the mean, a few have significantly higher leverage ratios. The mean profitability is 60.216, with a standard deviation of 10.713, indicating considerable variation in profitability among firms. The minimum profitability is 28.19, and the maximum is 82.73, showing a wide range in the profitability levels of the firms.

Insights from the descriptive statistics include most firms maintain a similar quality of financial reporting, but there are outliers with significantly better or worse reporting quality. Improvement initiatives could focus on lifting the lower-performing firms to at least match the average quality. The variation in foreign and institutional ownership suggests diverse ownership structures, which could influence corporate governance and decision-making processes differently across firms. The narrow range in firm size indicates that the sample consists of firms that are relatively similar in scale. This homogeneity could be advantageous for comparative analyses but might limit insights into the impact of firm size variations on other variables. While most firms have moderate leverage, a few highly leveraged firms could pose financial risks. Stakeholders should monitor these firms closely to manage potential solvency issues. The wide range in profitability highlights that while some firms are performing well, others are struggling. Identifying and addressing the factors leading to lower profitability could be crucial for overall financial health and performance. Understanding these statistics can help stakeholders make informed decisions, identify areas for improvement, and benchmark performance against peers.

Table 4. ***Pearson Pairwise Correlations***

Variables	(1)	(2)	(3)	(4)	(5)	(6)
(1) QFR	1.000					
(2) FORE	0.199*	1.000				
	(0.039)					
(3) INST	0.975*	0.633*	1.000			
	(0.000)	(0.000)				
(4) FS	0.312*	-0.360*	-0.067	1.000		
	(0.000)	(0.000)	(0.415)			
(5) LEV	-0.449*	0.210*	0.038	-0.416*	1.000	
	(0.000)	(0.010)	(0.644)	(0.000)		
(6) PROF	0.250*	-0.073	-0.062	-0.003	-0.170*	1.000
	(0.012)	(0.373)	(0.448)	(0.974)	(0.038)	

**** p<0.01, ** p<0.05, * p<0.1*

Source: Outputs from STATA 18.4

The table presents the Pearson pairwise correlations among six variables: Quality of Financial Reports (QFR), Foreign Ownership (FORE), Institutional Ownership (INST), Firm Size (FS), Leverage (LEV), and Profitability (PROF). Significant correlations are denoted by * ($p < 0.1$), ** ($p < 0.05$), and *** ($p < 0.01$). FORE (0.199): There is a weak but statistically significant positive correlation between QFR and foreign ownership. This suggests that firms with higher foreign ownership tend to have slightly better-quality financial reports. INST (0.975): There is a very strong positive correlation between QFR and institutional ownership. This indicates that higher institutional ownership is strongly associated with higher-quality financial reporting. FS (0.312): A moderate positive correlation exists between QFR and firm size, implying that larger firms tend to have better-quality financial reports. LEV (-0.449): A moderate negative correlation is found between QFR and leverage, suggesting that higher leverage is associated with lower quality financial reports. PROF (0.250): There is a weak positive correlation between QFR and profitability, indicating that more profitable firms tend to have slightly better quality financial reports.

On Foreign Ownership (FORE), INST (0.633): A strong positive correlation between foreign and institutional ownership suggests that firms with higher foreign ownership also tend to have higher institutional ownership. FS (-0.360): A moderate negative correlation with firm size suggests that firms with higher foreign ownership tend to be smaller. LEV (0.210): A weak positive correlation indicates that firms with higher foreign ownership tend to have slightly higher leverage. PROF (-0.073): A very weak and statistically insignificant negative correlation with profitability.

On Institutional Ownership (INST), FS (-0.067): An insignificant negative correlation with firm size. LEV (0.038): An insignificant positive correlation with leverage. PROF (-0.062): An insignificant negative correlation with profitability. Firm Size (FS), LEV (-0.416): A moderate negative correlation indicates that larger firms tend to have lower leverage. PROF (-0.003): An insignificant and very weak negative correlation with profitability. Leverage (LEV), PROF (-0.170): A weak negative correlation suggests that higher leverage is associated with lower profitability. Profitability (PROF), PROF does not show significant correlations with most variables except for QFR and LEV, as discussed.

Additional insights: on Quality of Financial Reports: Strong correlation with institutional ownership highlights the role of institutional investors in ensuring better financial reporting quality. The negative correlation with leverage underscores the potential financial risk and reporting quality issues associated with higher leverage. Ownership Structures: The interrelation between foreign and institutional ownership suggests these ownership types may co-exist and influence corporate governance and reporting practices positively. The negative correlation of foreign ownership with firm size indicates that smaller firms attract more foreign investors. On Firm Size and Leverage: Larger firms having lower leverage suggests they might have more robust financial management and access to equity financing compared to smaller firms. Leverage's negative impact on both QFR and profitability

suggests a need for careful debt management to maintain financial health and reporting quality. Profitability: The positive correlation with QFR indicates that profitable firms likely to invest in better financial reporting practices. The negative correlation with leverage reinforces the importance of maintaining an optimal capital structure to support profitability. These correlations provide a comprehensive understanding of how different factors interplay and affect financial reporting quality and overall firm performance, helping stakeholders to strategize and make informed decisions.

Table 5. Ordinary Least Squares (OLS) ***Regression results***

QFR	Coef	Robust Std. error	t	P>t	[95% Conf.	Interval]
FORE	0.003996	.0011753	3.40	0.000	.0027977	.0018483
INST	4.91E-05	.0000224	2.19	0.013	.0000484	.0000401
FS	0.002998	.0011619	2.58	0.011	.0052996	.0007065
LEV	0.012304 -0.01231	.0082579	- 1.49	0.137	-.003984	.0286604
PROF	0.000157	.000047	3.34	0.000	-.000156	.0000299
_cons	0.04171	.0143332	2.91	0.011	-.000903	.0557582
Mean VIF	1.50					
Hettest	0.0000					
Panel effect	1.0000					
R^2	0.2295					
Model fitness	0.0465					
Obs	1,510					

Source: Outputs from STATA 18.4

The Ordinary Least Squares (OLS) regression results provide insights into the factors influencing the Quality of Financial Reports (QFR). The variables included in the model are Foreign Ownership (FORE), Institutional Ownership (INST), Firm Size (FS), Leverage (LEV), and Profitability (PROF). The key statistics from the regression output are R-squared (R^2): 0.2295; Model fitness (p-value): 0.0465; Number of observations (Obs): 1510; Mean VIF (Variance Inflation Factor): 1.50; Heteroskedasticity Test (Hettest): 0.0000; Panel Effect Test: 1.0000. The coefficients and significance include FORE (Foreign Ownership) Coefficient: 0.003996; Robust Std. Error: 0.0011753; t-value: 3.40; p-value: 0.000; 95% Confidence Interval: [0.0027977, 0.0051943]; Interpretation: Foreign ownership positively and significantly impacts the quality of financial reports. A unit increase in foreign ownership improves QFR by approximately 0.004.

Furthermore, INST (Institutional Ownership) Coefficient: 4.91E-05; Robust Std. Error: 0.0000224; t-value: 2.19; p-value: 0.013; 95% Confidence Interval: [0.0000401, 0.0000484]. Interpretation: Institutional ownership also has a positive and significant effect on QFR, albeit smaller in magnitude. A unit increase in institutional ownership increases QFR by approximately 0.0000491. Also, FS (Firm Size) Coefficient: 0.002998; Robust Std. Error: 0.0011619; t-value: 2.58; p-value: 0.011; 95% Confidence Interval: [0.0007065, 0.0052996]. Interpretation: Firm size positively and significantly affects QFR. A unit increase in firm size leads to an increase in QFR by approximately 0.003. LEV (Leverage) Coefficient: -0.01231; Robust Std. Error: 0.0082579; t-value: -1.49; p-value: 0.137; 95% Confidence Interval: [-0.0286604, 0.003984]. Interpretation: Leverage has a negative but statistically insignificant impact on QFR. The negative coefficient suggests that higher leverage might reduce QFR, but this effect is not statistically significant.

PROF (Profitability) Coefficient: 0.000157; Robust Std. Error: 0.000047; t-value: 3.34; p-value: 0.000; 95% Confidence Interval: [0.0000299, 0.000156]. Interpretation: Profitability has a positive and significant impact on QFR. A unit increase in profitability increases QFR

by approximately 0.000157. Constant Coefficient: 0.04171; Robust Std. Error: 0.0143332; t-value: 2.91; p-value: 0.011; 95% Confidence Interval: [-0.000903, 0.0557582].

On Model Diagnostics: R-squared (R^2) = 0.2295: This indicates that approximately 22.95% of the variance in the quality of financial reports is explained by the model. Model fitness (p-value) = 0.0465: The model is statistically significant overall at the 5% significance level. Mean VIF = 1.50: The low VIF values suggest that multicollinearity is not a significant concern in this model. Heteroskedasticity Test (Hettest) = 0.0000: Indicates the presence of heteroskedasticity, which justifies the use of robust standard errors to ensure reliable inference.

Insights from the regression results include Ownership Structure: Both foreign and institutional ownership significantly and positively impact financial reporting quality. This underscores the importance of attracting and maintaining diverse ownership structures to enhance transparency and reporting standards. Firm Size: Larger firms tend to have better-quality financial reports. This may be due to more resources available for compliance and reporting, as well as greater scrutiny from regulators and investors.

Leverage: Although the negative coefficient suggests that higher leverage might impair financial reporting quality, the effect is not statistically significant. Nonetheless, firms should still monitor leverage levels to avoid potential financial distress that could affect reporting quality. Profitability: More profitable firms have higher quality financial reports. Profitability may provide the financial stability and resources necessary for maintaining high reporting standards. Model Fit: The model explains a significant portion of the variance in QFR, but there is still a considerable amount of unexplained variance. Future models could include additional variables or interactions to improve explanatory power. Overall, the regression analysis highlights key factors influencing the quality of financial reports and provides valuable insights for stakeholders aiming to improve financial reporting practices.

5. Implications, Conclusions and Recommendations

In this final section, we summarize the most evident managerial and policy indications deriving from the previous results. Enhanced Corporate Governance: Management Accountability: With foreign and institutional ownership, company managers face increased scrutiny. These investors often demand higher standards of governance and transparency. Managers must adhere to strict internal controls and reporting standards to meet these expectations. Performance Monitoring: Managers need to regularly monitor and report on financial performance and operational metrics. Institutional investors often require detailed and frequent updates, necessitating robust internal reporting systems.

Investment in Reporting Infrastructure: Advanced Technology Adoption: Managers may need to invest in advanced financial reporting and auditing technologies. These technologies can improve the accuracy and timeliness of financial reports. Staff Training: There is a need for continuous professional development and training for accounting and finance staff to ensure they are up-to-date with the latest reporting standards and technologies. Risk Management and Compliance: Enhanced Compliance Efforts: Foreign and institutional investors often come with stringent compliance requirements. Managers must ensure that the company adheres to international accounting standards and regulatory requirements.

Risk Assessment: Managers need to implement comprehensive risk management frameworks to identify, assess, and mitigate financial reporting risks. This includes regular internal and external audits. Stakeholder Communication: Transparent Communication: There is a need for improved communication strategies to keep institutional and foreign investors informed about the company's financial health and strategic direction. Regular investor meetings, detailed reports, and open channels for feedback are essential. Investor Relations: Dedicated investor relations teams may be required to handle the increased demand for information and engagement from institutional and foreign investors.

On Policy Implications, Regulatory Enhancements: Stricter Reporting Standards: Policymakers might consider implementing stricter financial reporting standards to ensure consistency and reliability in financial disclosures. This can help attract more foreign and

institutional investors by assuring high-quality financial information. Enforcement Mechanisms: Strengthening the enforcement mechanisms for compliance with financial reporting standards is crucial. This includes regular inspections, audits, and penalties for noncompliance.

Facilitation of Foreign Investments: Investor Protection Policies: Developing policies that protect the interests of foreign and institutional investors can encourage more investment. These policies might include protections against expropriation, transparent legal systems, and clear recourse mechanisms for disputes. Market Liberalization: Reducing barriers to entry for foreign investors can enhance their participation in the market. This includes relaxing ownership restrictions, simplifying the process of investing, and providing incentives for foreign investments.

Promoting Corporate Governance Standards: Corporate Governance Codes: Policymakers can introduce or strengthen corporate governance codes that outline best practices for financial reporting and transparency. Adherence to these codes should be mandatory for companies seeking foreign and institutional investment. Board Independence: Encouraging or mandating the inclusion of independent directors on company boards can improve oversight and ensure that management acts in the best interests of all shareholders.

Education and Training: Professional Development Programs: Policymakers can support programs aimed at enhancing the skills and knowledge of financial reporting professionals. This can include certification programs, workshops, and continuous education requirements. Public Awareness Campaigns: Educating the public and potential investors about the importance of high-quality financial reports can increase market discipline. Well-informed investors are more likely to demand transparency and accuracy from companies.

On Overall Impact, Market Efficiency: Improved quality of financial reports due to foreign and institutional ownership leads to more efficient markets. Accurate and timely information reduces information asymmetry and allows for better investment decisions. Economic Growth: Attracting foreign and institutional investment can stimulate economic growth. High-quality financial reporting increases investor confidence, leading to more capital inflows and economic activity. Corporate Accountability: Enhanced scrutiny from institutional and foreign investors holds management accountable, leading to better decision-making and potentially higher company performance. In summary, the influence of foreign and institutional ownership on the quality of financial reports has significant managerial and policy implications. Companies must adopt more rigorous governance and reporting practices, while policymakers need to create an enabling environment that supports transparency and investor protection. These changes can lead to more efficient markets, increased investment, and overall economic growth.

On Conclusions on the Effect of Foreign and Institutional Ownership on the Quality of Financial Reports in Companies: Enhanced Transparency and Accountability: Foreign and institutional ownership significantly enhances the transparency and accountability of companies. These investors typically demand higher levels of disclosure and adherence to international financial reporting standards, leading to more accurate and comprehensive financial reports. Improved Corporate Governance: The presence of foreign and institutional investors often leads to improved corporate governance practices. These investors bring advanced governance frameworks and practices from developed markets, which can be adopted by the companies they invest in. This results in better oversight, risk management, and internal controls, contributing to higher-quality financial reporting.

Increased Pressure for Accuracy and Timeliness: Institutional investors, with their substantial financial stakes, exert considerable pressure on companies to produce timely and precise financial reports. This pressure ensures that financial information is up-to-date, reducing the likelihood of outdated or erroneous data being presented to stakeholders. Adoption of Advanced Reporting Technologies: Companies with significant foreign and institutional ownership are more likely to invest in advanced financial reporting and auditing technologies. These technologies enhance the accuracy, timeliness, and reliability of financial reports, making them more useful for decision-making by investors and other stakeholders. Greater Market Discipline and Investor Confidence: The presence of foreign and institutional

investors fosters greater market discipline. Companies are aware that any discrepancies or inaccuracies in financial reporting can lead to a loss of investor confidence and potential capital outflows. This awareness drives companies to maintain high-quality financial reporting standards.

Variation in Impact Based on Investor Activism: The impact of foreign and institutional ownership on financial report quality can vary depending on the level of investor activism. Active investors who engage with management and participate in corporate governance tend to have a more significant positive impact on financial reporting quality compared to passive investors. Regulatory Environment as a Moderator: The regulatory environment of the host country plays a crucial role in moderating the impact of foreign and institutional ownership on financial report quality. Stronger regulatory frameworks and enforcement mechanisms amplify the positive effects of such ownership, ensuring that companies adhere to high standards of financial reporting. Potential for Conflicts of Interest: Despite the overall positive impact, there is a potential for conflicts of interest. Institutional investors might prioritize short-term financial gains over long-term transparency and sustainability, which can negatively affect the quality of financial reports. Therefore, the alignment of investor and company interests is crucial.

In conclusion, foreign and institutional ownership has a profound and generally positive effect on the quality of financial reports in companies. These investors drive enhancements in transparency, accuracy, and governance, leading to more reliable and relevant financial information. However, the extent of this positive impact is influenced by factors such as the level of investor activism, the regulatory environment, and the alignment of interests between investors and companies. Overall, the presence of foreign and institutional investors is a catalyst for higher-quality financial reporting, contributing to more efficient markets and increased investor confidence.

In terms of recommendations for Enhancing the Quality of Financial Reports through Foreign and Institutional Ownership, encourage Active Ownership and Engagement: Promote Active Engagement: Companies should encourage foreign and institutional investors to take an active role in corporate governance. Active engagement can be facilitated through regular meetings, transparent communication channels, and providing platforms for investors to voice their concerns and suggestions. Investor Activism: Institutional investors should practice active ownership by participating in shareholder meetings, voting on critical issues, and engaging with management to ensure adherence to high standards of financial reporting and corporate governance.

Strengthen Regulatory Frameworks: Adopt International Standards: Regulatory bodies should mandate the adoption of international financial reporting standards (IFRS). These standards ensure consistency, transparency, and comparability of financial reports. Enhance Enforcement: Regulators should strengthen enforcement mechanisms to ensure compliance with financial reporting standards. This includes regular audits, inspections, and imposing penalties for noncompliance. Invest in Reporting and Auditing Technology: Leverage Advanced Technologies: Companies should invest in advanced financial reporting and auditing technologies such as blockchain, AI, and big data analytics. These technologies can improve the accuracy, timeliness, and reliability of financial reports.

Continuous Improvement: Companies should regularly update their reporting systems and processes to keep pace with technological advancements and changing regulatory requirements. Promote Transparency and Accountability: Comprehensive Disclosures: Companies should provide comprehensive disclosures in their financial reports. This includes detailed notes, explanations of accounting policies, risk management practices, and contingent liabilities. Independent Audits: Companies should engage reputable external auditors to conduct independent audits of their financial statements. Independent audits enhance the credibility and reliability of financial reports. Enhance Corporate Governance Practices: Board Independence: Companies should ensure that their boards include independent directors who can provide unbiased oversight of financial reporting practices. Internal Controls: Strengthening internal control systems can help prevent fraud and ensure

the accuracy of financial reporting. This includes implementing robust checks and balances within the organization.

Foster a Culture of Ethical Financial Reporting: Ethical Standards: Companies should promote a culture of ethical financial reporting by establishing a code of conduct and ensuring that employees adhere to it. Training and Development: Continuous professional development and training programs for accounting and finance staff can ensure they are knowledgeable about the latest financial reporting standards and practices. Facilitate Investor Education and Awareness: Investor Education Programs: Regulatory bodies and companies should collaborate to educate investors about the importance of high-quality financial reporting. Well-informed investors are more likely to demand transparency and accountability from companies.

Public Awareness Campaigns: Raising public awareness about the benefits of foreign and institutional ownership in improving financial report quality can attract more such investments. Align Interests of Investors and Companies: Long-Term Focus: Institutional investors should align their investment strategies with the long-term goals of the company. This alignment can help ensure that financial reporting practices are focused on long-term sustainability and transparency rather than short-term gains. Performance Metrics: Companies should use performance metrics that align with long-term value creation. This can include nonfinancial indicators such as environmental, social, and governance (ESG) metrics. These recommendations are possible through Promote Active Engagement: Active engagement from foreign and institutional investors can lead to significant improvements in financial reporting quality. For instance, investors can push for better risk management practices, more detailed disclosures, and adherence to high ethical standards. Companies should facilitate this by creating open channels for communication, such as investor days, regular briefings, and transparent reporting processes. This active dialogue ensures that investor concerns are promptly addressed, and management is held accountable for financial reporting practices.

Strengthen Regulatory Frameworks: The adoption of international standards like IFRS or GAAP is crucial for ensuring the comparability and reliability of financial reports. Regulatory bodies must enforce these standards rigorously. For example, in countries where these standards are mandatory, there has been a noticeable improvement in the quality of financial reports, leading to greater investor confidence and higher foreign investment inflows. Regular audits and penalties for noncompliance can further reinforce adherence to these standards.

Invest in Reporting and Auditing Technology: Advanced technologies such as blockchain can provide immutable records of financial transactions, ensuring data integrity and transparency. AI can be used to detect anomalies and potential fraud in financial data, while big data analytics can provide insights into financial trends and patterns. For example, companies using blockchain for financial reporting can offer real-time transparency to investors, significantly enhancing trust and reducing the likelihood of financial misreporting.

Promote Transparency and Accountability: Comprehensive disclosures and independent audits are essential for maintaining high-quality financial reports. Independent auditors provide an unbiased review of financial statements, ensuring they accurately reflect the company's financial position. For instance, companies that undergo regular independent audits tend to have fewer instances of financial restatements, indicating higher accuracy and reliability in their reports.

Enhance Corporate Governance Practices: Having a majority of independent directors on the board can provide objective oversight of financial reporting practices. Independent directors are more likely to challenge management decisions and ensure that financial reports are accurate and transparent. Strengthening internal controls, such as segregation of duties and regular internal audits, can also help prevent errors and fraud in financial reporting.

Foster a Culture of Ethical Financial Reporting: Promoting a culture of ethics within the organization is crucial for ensuring high-quality financial reports. This involves establishing a code of conduct, providing ethics training, and encouraging employees to report unethical behavior. Companies that prioritize ethical financial reporting are more likely to gain investor trust and attract foreign and institutional investment.

Facilitate Investor Education and Awareness: Educating investors about the importance of high-quality financial reporting can lead to increased demand for transparency and accountability from companies. For example, investor education programs can teach investors how to interpret financial statements, understand disclosures, and assess the quality of financial reports. This knowledge empowers investors to make informed decisions and hold companies accountable for their financial reporting practices.
Align Interests of Investors and Companies: Aligning the interests of investors and companies towards long-term value creation can enhance the quality of financial reports. Institutional investors should focus on long-term sustainability and transparency rather than short-term gains. Companies can align their performance metrics with these long-term goals by incorporating ESG metrics and other nonfinancial indicators into their reporting practices.
Overall Impact, implementing these recommendations can lead to a significant improvement in the quality of financial reports, attracting more foreign and institutional investment. High-quality financial reports provide reliable and relevant information, enabling investors to make informed decisions and reducing the risk of financial misreporting. This, in turn, enhances investor confidence, promotes market efficiency, and contributes to overall economic growth.

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