Financial Reporting Practices and Internal Corporate Governance Mechanisms in Emerging Markets

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Abstract

Empirical research based on principal – agent conflicts has revealed that corporate governance plays an important role in governing financial reporting practices in developed markets. The emerging markets, however, are characterized by principal – principal conflict. The institutional specificities of emerging markets are significantly different from those in developed markets, and thus, their corporate governance mechanisms and financial reporting practices are also different. This study aimed at critically reviewing 50 most relevant studies focusing on emerging markets to study the role of corporate governance in governing financial reporting practices. The articles were analyzed based on the proxies for measuring financial reporting and corporate governance, sample, methodology, and major findings. The review revealed that earnings quality is the most widely used proxy of financial reporting and majority of the articles examined two or more corporate governance mechanisms together. The synthesis of the findings revealed that different corporate governance mechanisms impact earnings quality and disclosure quality differently.

Keywords : corporate governance, board of directors, disclosure, earnings management, emerging markets, earnings quality, financial reporting, ownership structure

JEL Classification : M14, M41, M42, M48

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Financial reporting (FR) is considered as the most significant means of communication between the firm and its stakeholders as it acts as an important input for its valuation, contracting decisions (Bushman & Smith, 2001), and also enables efficient functioning of capital markets (Kothari, 2001) by providing relevant and reliable information for evaluation of investment opportunities. Thus, FR is considered as a vital element of an economy's financial system. The existence of informational asymmetry in emerging economies necessitates relevant and reliable FR so as to attract investments (Saudagaran & Diga, 1997). The foreign direct investment net inflows (FDI) and strength of auditing and reporting standards (SARS) revealed that the countries wherein SARS improved witnessed increase in FDI and vice versa [1]. The examples of the former are Singapore,

[1] The data for FDI were extracted from https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?end=2017&name_desc=false&start=2007 and data for SARS were obtained from the World Economic Forum's *Global Competitiveness Report*.

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China, Indonesia, and Hong Kong, while examples for the latter are Tunisia, Jordan, Pakistan, and Egypt. Thus, enhancing the quality of FR is important for the development of a financial system in emerging markets.

Institutional arrangements like disclosure requirements, accounting practices, auditing standards, and corporate governance (CG) mechanisms that include the board of directors, audit committee, and external auditors play an important role in enhancing the quality of FR (Bushman & Smith, 2001) and firm performance (Kumar & Sudesh, 2019). Empirical studies focusing on widely held corporations in the UK and US have shown that CG plays an important role in governing and improving the quality of FR. These studies highlighted the role of CG in improving FR in the countries characterized by dispersed ownership and strong enforcement of the law. In particular, studies have shown that independent directors (Davidson, Goodwin-Stewart, & Kent, 2005 ; Dechow, Sloan, & Sweeney, 1996 ; Klein, 2002 ; Xie, Davidson III, & DaDalt, 2003), audit committee (Klein, 2002 ; McMullen, 1996 ; Xie et al., 2003), and institutional ownership (Koh, 2003 ; Mitra & Cready, 2005) help in limiting earnings management practices by firms and improving FR disclosure quality (Cheng & Courtenay, 2006).

Emerging markets, since long, have tried to adopt accounting, auditing, and CG practices that are in line with the developed markets (Kumar & Sudesh, 2016). However, they are significantly different from developed countries in terms of institutional specificities. They are characterized by ownership concentration, "less developed capital market, a less active takeover market, greater involvement of government-owned financial institutions in corporate financing, higher dependence on external sources of finance, absence of well-developed managerial market, and relational contracting" (Sarkar & Sarkar, 2012, p. 28). The industrial landscape in these countries is dominated by business groups, family firms, cross-holdings, and pyramidal structures (Claessens & Fan, 2002). Concentrated ownership structures create severe agency problems between dominant shareholders and minority shareholders, referred to as principal – principal conflict or Type II agency problems (Young, Peng, Ahlstrom, Bruton, & Jiang, 2008). The literature linking law and finance has highlighted the limited protection accorded to minority shareholders and weak enforcement of law in emerging economies (La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1998). Thus, emerging markets provide an interesting setting to examine the role of CG in improving FR.

With this backdrop, the present study tries to understand the role of CG in governing and improving FR in emerging markets. This study focuses only on internal CG mechanisms relevant for FR.

Background

The conceptual framework of the Financial Accounting Standards Board (FASB) emphasizes decision usefulness as the crux of FR, which generally consists of company's transactions, selection of accounting policies, application of accounting policies, and estimates (Jonas & Blanchet, 2000). Thus, there are two dimensions to FR : measurement and disclosure (Bedford, 1973). Measurement deals with quantifying the past, present, or future economic phenomena of the reporting entity based on certain assumptions and rules. Disclosure deals with developing accounting reports and communicating it to the users. Thus, FR is a mechanism to bridge information asymmetry in a firm.

"Corporate governance is the system by which business corporations are directed and controlled" (OECD, 1999, p. 4). The internal CG mechanisms include ownership structure, the board of directors, audit committee, and other sub-committees of the board ; and the external CG mechanisms include auditing, market for corporate control, and managerial labour market (Habib & Jiang, 2015). The internal governance mechanisms are the first line of protection for shareholders and act as a check on the self-serving behaviour of managers. These mechanisms play an important role in aligning the interests of shareholders and managers by mitigating information asymmetry between them. Thus, CG mechanisms are responsible for the generation of reliable FR information (Brennan & Solomon, 2008).

Theories like agency theory, contracting theory, transaction cost economics, stewardship theory, stakeholder theory, resource dependence theory, class hegemony theory, managerial hegemony theory, and institutional theory provide a frame of reference to study CG and FR.

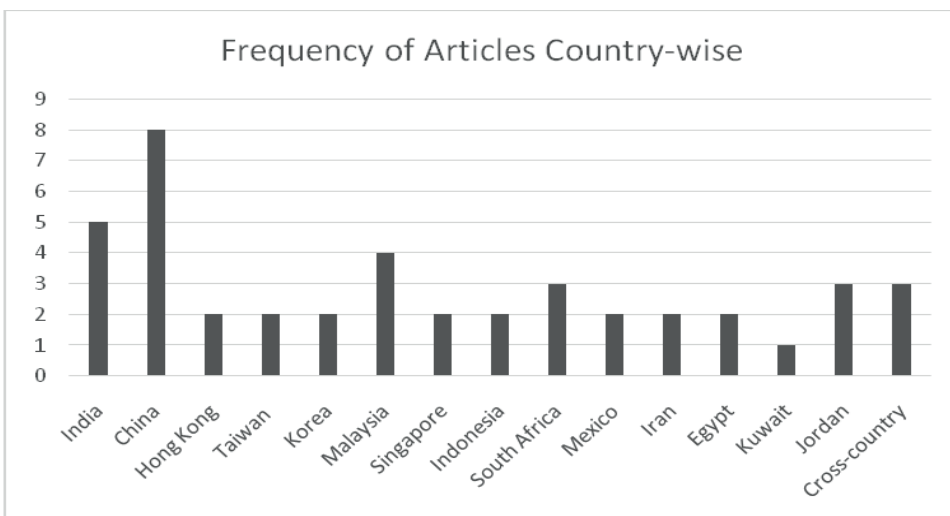
Methodology

There is a dearth of systematic reviews examining CG and FR in emerging markets. This study bridges this gap. The main objective of this paper is to critically review and streamline the existing studies on CG and FR in emerging markets and identify areas for future research. This study fetched articles from EBSCO open access journals, Emerald, Science Direct, and JSTOR databases as well as journals ranked by ABDC (Australian Business Deans Council). The scope of this paper is limited to internal CG mechanisms (board of directors, audit committee, and ownership) relevant to FR. Keywords namely corporate governance, FR quality, emerging markets, earnings quality, disclosure, earnings management, and ownership structure were used to search and select articles in the title, abstract, and full paper text. The papers involving quantitative measurement and analysis of impact of internal CG mechanisms on FR in emerging markets were selected. These searches and filtrations yielded 50 most relevant articles over a period ranging from 2006 – 2020. Additional papers were also referred to draw theoretical references in order to build the research argument and substantiate the research gaps identified.

Discussion

This section presents a review of empirical literature on the role of CG in improving FR in emerging markets. Figure 1 presents the number of papers reviewed country wise and Table 1 presents classification of articles based on the proxies of FR and CG.

Figure 1. Frequency of Articles : Country-Wise



Proxies of FR

FR proxies are categorized into earnings quality (56%), disclosure quality (36%), and external indicators of misstatements (8%). Discretionary accruals (earnings management ; see Kaur and Khanna (2016) for detailed

Table 1. Classification of Proxies

Group Variable	Reference No.*	Proxy	Author/s	No. of Papers
		Proxy of Financial Reporting		
Earnings Management (EM)	1.1	Accruals EM	Sarkar, Sarkar, & Sen (2008) ; Liu, Saidi, & Bazaz (2014) ; Chen & Zhang (2014) ; Du, Jian, & Lai (2017) ; Jaggi & Tsui (2007) ; Chi, Hung, Cheng, & Tein Lieu (2015) ; Kim & Yi (2006) ; Chung & Liu (2017) ; Abdul Rahman & Haneem Mohamed Ali (2006) ; Ramachandran, Ngete, Subramanian, & Sambasivan (2015) ; Kusnadi, Leong, Suwardy, & Wang (2016) ; Siregar & Utama (2008) ; Siagian & Tresnaningsih (2011) ; González & García-Meca (2014) ; Machuga & Teitel (2009) ; Salehi & Shirazi (2016) ; Mehrani, Moradi, & Eskandar (2017) ; Khalil & Ozkan (2016) ; Hamdan, Mushtaha, & Al-Sartawi (2013) ; Alzoubi (2016) ; Abbadi, Hijazi, & Al-Rahahleh (2016) ; Abdelkarim & Zuriqi (2020) ; Muda, Maulana, Sakti Siregar, & Indra (2018) ; Orazalin (2019) ; Muktadir-Al-Mukit & Keyamoni (2019) ; Al-Haddad & Whittington (2019)	26
	1.2	Real EM	Kang & Kim (2012) ; Mehrani et al. (2017) ; Al-Haddad & Whittington (2019) ; Mellado & Saona (2019)	4
	1.3	EM through related party transactions	Shan (2015)	1
	1.4	Cash flow manipulation	Nagar & Raithatha (2016)	1
	1.5	Classification shifting	Haw, Ho, & Li (2011)	1
Properties of Reported Earnings	2.1	Earnings smoothing	Liu et al. (2014) ; Machuga & Teitel (2009) ; Shen & Chih (2007)	3
	2.2	Timely loss recognition (accounting conservatism)	Liu et al. (2014) ; Chi, Liu, & Wang (2009) ; Machuga & Teitel (2007) ; Mehrani et al. (2017) ; Nasr & Ntim (2018)	5
	2.3	Earnings response coefficients	Siagian & Tresnaningsih (2011) ; Mehrani et al. (2017)	2
	2.4	Value relevance	Liu et al. (2014)	1
	2.5	Predictive value	Mehrani et al. (2017)	1
	2.6	Earnings benchmarks	Liu et al. (2014) ; Hamdan et al. (2013)	2
	2.7	Timeliness of earnings	Lim, How, & Verhoeven (2014)	1
Disclosure	3.1	Disclosure	Muttakin & Subramaniam (2015) ; Saggar & Singh (2017) ; Haldar & Raithatha (2017) ; Huafang & Jianguo (2007) ; Gao & Kling (2012) ; Chau & Gray (2010) ; Liu, Valenti, & Chen (2016) ; Akhtaruddin & Haron (2010) ; Ho & Taylor (2013) ; Iatridis (2013) ; Ntim, Opong, Danbolt, & Thomas (2012) ; Ntim & Soobaroyen (2013) ; Ahmed Haji &	18

			Anifowose (2016) ; Salehi & Shirazi (2016) ; Ezat & El-Masry (2008) ; Samaha, Dahawy, Hussainey, & Stapleton (2012) ; Mokhtar & Mellett (2013) ; Alfraih & Almutawa (2017)	
External Indicators of Misstatements	3.2	Regulatory enforcement for committing fraud/ investigation by securities commission	Firth, Fung, & Rui (2007) ; Hasnan, Rahman, & Mahenthiran (2013)	2
	3.3	Modified audit opinions	Chan, Ding, & Hou (2014)	1
	3.4	Financial restatements	Abdullah, Yusof, & Nor (2010)	1
		Proxy of Corporate Governance		
Board of Directors	4.1	Board independence	Sarkar et al. (2008) ; Muttakin & Subramaniam (2015) ; Nagar & Raithatha (2016) ; Saggar & Singh (2017) ; Huafang & Jianguo (2007) ; Firth et al. (2007) ; Gao & Kling (2012) ; Chen & Zhang (2014) ; Chan et al. (2014) ; Jaggi & Tsui (2007) ; Chau & Gray (2010) ; Chi et al. (2015) ; Liu et al. (2016) ; Kang & Kim (2012) ; Abdul Rahman & Haneem Mohamed Ali (2006) ; Abdullah et al. (2010) ; Hasnan et al. (2013) ; Iatridis (2013) ; Ramachandran et al. (2015) ; Siregar & Utama (2008) ; Ntim & Soobaroyen (2013) ; González & García-Meca (2014) ; Ezat & El-Masry (2008) ; Samaha et al. (2012) ; Khalil & Ozkan (2016) ; Alfraih & Almutawa (2017) ; Al-Haddad & Whittington (2019) ; Orazalin (2019) ; Muktadir-Al-Mukit & Keyamoni (2019) ; Abdelkarim & Zuriqi (2020) ; Nasr & Ntim (2018)	31
	4.2	Board busyness/ multiple directorships	Sarkar et al. (2008) ; Nagar & Raithatha (2016) ; Hasnan et al. (2013) ; Alfraih & Almutawa (2017)	4
	4.3	Board size	Nagar & Raithatha (2016) ; Saggar & Singh (2017) ; Firth et al. (2007) ; Gao & Kling (2012) ; Chan et al. (2014) ; Kang & Kim (2012) ; Abdul Rahman & Haneem Mohamed Ali (2006) ; Ramachandran et al. (2015) ; Ntim et al. (2012) ; Ntim & Soobaroyen (2013) ; González & García-Meca (2014) ; Ezat & El-Masry (2008) ; Samaha et al. (2012) ; Mokhtar & Mellett (2013) ; Khalil & Ozkan (2016) ; Alfraih & Almutawa (2017) ; Orazalin (2019) ; Muktadir-Al-Mukit & Keyamoni (2019) ; Abdelkarim & Zuriqi (2020) ; Nasr & Ntim (2018)	20
	4.4	Board diligence/ activity/meetings	Sarkar et al. (2008) ; Nagar & Raithatha (2016) ; Saggar & Singh (2017) ; Firth et al. (2007) ; Chan et al. (2014) ; Liu et al. (2016) ; Kang & Kim (2012) ; González & García-Meca (2014) ; Muktadir-Al-Mukit & Keyamoni (2019)	8
	4.5	Promoter/family influence on board	Sarkar et al. (2008) ; Jaggi & Tsui (2007) ; Hasnan et al. (2013) ; Alfraih & Almutawa (2017)	4
	4.5	CEO duality	Sarkar et al. (2008) ; Muttakin & Subramaniam	25

			(2015) ; Nagar & Raithatha (2016) ; Saggar & Singh (2017) ; Huafang & Jianguo (2007) ; Firth et al. (2007) ; Gao & Kling (2012) ; Chan et al. (2014) ; Chi et al. (2009) ; Chi et al. (2015) ; Liu et al. (2016) ; Abdul Rahman & Haneem Mohamed Ali (2006) ; Abdullah et al. (2010) ; Ramachandran et al. (2015) ; Kusnadi et al. (2016) ; Ntim & Soobaroyen (2013) ; González & García-Meca (2014) ; Ezat & El-Masry (2008) ; Samaha et al. (2012) ; Mokhtar & Mellet (2013) ; Khalil & Ozkan (2016) ; Al-Haddad & Whittington (2019) ; Muktadir-Al-Mukit & Keyamoni (2019) ; Abdelkarim & Zuriqi (2020) ; Nasr & Ntim (2018)	
	4.6	Gender diversity	Saggar & Singh (2017) ; Orazalin (2019)	2
	4.7	Board diversity	Ntim & Soobaroyen (2013)	1
	4.8	Tenure of chairman	Firth et al. (2007)	1
	4.9	Number of committees	Gao & Kling (2012)	1
	4.10	Independent chairman	Chau & Gray (2010)	1
	4.11	Managerial compensation	Gao & Kling (2012)	1
	4.12	Size of supervisory board	Chan et al. (2014)	1
	4.13	Foreign directors	Du et al. (2017)	1
	4.14	Board competence	Chi et al. (2009) ; Abdul Rahman & Haneem Mohamed Ali (2006)	2
	4.15	Presence of Malay directors	Abdul Rahman & Haneem Mohamed Ali (2006)	1
	4.16	Number of non-AC members on board	Kusnadi et al. (2016)	1
	4.17	Shares held by non-AC members on board	Kusnadi et al. (2016)	1
	4.18	Composite score	Haldar & Raithatha (2017)	1
Audit Committee (AC)	5.1	Presence of AC	Chen & Zhang (2014) ; Kang & Kim (2012) ; Iatridis (2013) ; Siregar & Utama (2008) ; Samaha et al. (2012) ; Alfraih & Almutawa (2017) ; Muda et al. (2018)	7
	5.2	AC size	Ramachandran et al. (2015) ; Kusnadi et al.(2016) ; Ahmed Haji & Anifowose (2016) ; Salehi & Shirazi (2016) ; Hamdan et al. (2013)	5
	5.3	AC independence	Chen & Zhang (2014) ; Abdul Rahman & Haneem Mohamed Ali (2006) ; Abdullah et al. (2010) ; Akhtaruddin & Haron (2010) ; Iatridis (2013) ; Kusnadi et al. (2016) ; Ahmed Haji & Anifowose (2016) ; Salehi & Shirazi (2016) ; Khalil & Ozkan (2016) ; Hamdan et al. (2013) ;	11

			Muktadir-Al-Mukit & Keyamoni (2019)	
	5.4	Financial/accounting expertise	Chen & Zhang (2014) ; Abdul Rahman & Haneem Mohamed Ali (2006) ; Akhtaruddin & Haron (2010) ; Kusnadi et al. (2016) ; Ahmed Haji & Anifowose (2016) ; Salehi & Shirazi (2016) ; Hamdan et al. (2013)	6
	5.5	AC members multiple directorships	Kusnadi et al. (2016)	1
	5.6	AC meetings	Ahmed Haji & Anifowose (2016) ; Salehi & Shirazi (2016) ; Hamdan et al. (2013)	3
	5.7	AC authority	Ahmed Haji & Anifowose (2016)	1
	5.8	Shareholding by members	Kusnadi et al. (2016) ; Hamdan et al. (2013)	2
	5.9	Tenure of members	Kusnadi et al. (2016)	1
	5.10	Presence of Malay directors	Abdul Rahman & Haneem Mohamed Ali (2006)	1
	5.11	Composite score	Haldar & Raithatha (2017) ; Ahmed Haji & Anifowose (2016)	2
Other Sub-Committees	6.1	Nominating committee independence	Abdullah et al. (2010)	1
	6.2	Nomination committee size	Ramachandran et al. (2015)	1
	6.3	Remuneration committee size	Ramachandran et al. (2015)	1
	6.4	Presence of corporate governance committee	Ntim et al. (2012)	1
	6.5	Composition of commissioners	Muda et al. (2018)	1
Ownership Structure	7.1	Institutional shareholder	Nagar & Raithatha (2016) ; Saggar & Singh (2017) ; Chen & Zhang (2014) ; Chi et al. (2009) ; Chung & Liu (2017) ; Iatridis (2013) ; Siregar & Utama (2008) ; Ntim et al. (2012) ; Ntim & Soobaroyen (2013) ; Gonzalez & Garcia-Meca (2014) ; Mehrani et al. (2017) ; Samaha et al. (2012) ; Alzoubi (2016) ; Al-Haddah & Whittington (2019) ; Mellado & Saona (2019)	14
	7.2	Domestic institutional shareholder	Sarkar et al. (2008) ; Nagar & Raithatha (2016)	2
	7.3	Foreign institutional shareholder	Sarkar et al. (2008) ; Nagar & Raithatha (2016)	2
	7.7	Non-institutional holder	Saggar & Singh (2017) ; Firth et al. (2007)	2
	7.8	Mutual fund/financial institutions ownership	Chan et al. (2014) ; Lim et al. (2014)	2
	7.9	Promoter (family) ownership	Muttakin & Subramaniam (2015) ; Nagar & Raithatha (2016) ; Chau & Gray (2010) ; Hasnan et al. (2012) ; Siregar & Utama (2008) ; Gonzalez & Garcia-Meca (2014) ; Machuga & Teitel (2009) ; Alzoubi (2016) ; Haw et al. (2011)	9

	7.10	Domestic promoter holding	Nagar & Raithatha (2016) ; Saggar & Singh (2017)	2
	7.11	Foreign promoter holding	Nagar & Raithatha (2016) ; Saggar & Singh (2017)	2
	7.12	Foreign ownership	Muttakin & Subramaniam (2015) ; Huafang & Jianguo (2007) ; Firth et al. (2007) ; Chan et al. (2014) ; Hasnan et al. (2012) ; Lim et al. (2014) ; Alzoubi (2016)	7
	7.13	Government (state) ownership	Muttakin & Subramaniam (2015) ; Huafang & Jianguo (2007) ; Firth et al. (2007) ; Gao & Kling (202) ; Liu, Saidi, & Bazaz (2014) ; Lim et al. (2014) ; Kusnadi et al. (2016) ; Ntim et al. (2012) ; Ntim & Soobaroyen (2013) ; Samaha et al. (2012) ; Alfraih & Almutawa (2017)	11
	7.14	Largest owner (block holder) ownership concentration	Saggar & Singh (2017) ; Huafang & Jianguo (2007) ; Firth et al. (2007) ; Gao & Kling (2012) ; Chen & Zhang (2014) ; Chan, Ding, & Hou (2014) ; Kim & Yi (2006); Abdul Rahman & Haneem Mohamed Ali (2006) ; Lim et al. (2014) ; Ntim et al. (2012) ; Ntim & Soobaroyen (2013) ; González & García-Meca (2014) ; Samaha et al. (2012) ; Mokhtar & Mellett (2013) ; Alzoubi (2016) ; Al-Haddad & Whittington (2019) ; Mellado & Saona (2019) ; Muktadir-Al-Mukit & Keyamoni (2019) ; Abdelkarim & Zuriqi (2020)	20
	7.15	Managerial ownership	Huafang & Jianguo (2007); Abdullah et al. (2010); Iatridis (2013); Khalil & Ozkan (2016); Alzoubi (2016); Al-Haddad & Whittington (2019)	6
	7.16	Insider shareholding	Chi et al. (2009); Mellado & Saona (2019)	2
	7.17	Ownership by legal entity	Huafang & Jianguo (2007); Firth et al. (2007)	2
	7.18	Business group affiliation	Gao & Kling (2012); Kim & Yi (2006)	2
	7.19	Family firms	Chi et al. (2015); Lim et al. (2014); Kusnadi et al. (2016)	3
	7.20	Wedge - difference between voting rights and cash flow rights	Kim & Yi (2006)	1
Others	8.1	Introduction of corporate governance code/changes in stock market requirements	Chen & Zhang (2014); Lim et al. (2014); Siagian & Tresnaningsih (2011); Machuga & Teitel (2007, 2009)	4
	8.2	Composite score/index	Shan (2015); Kang & Kim (2012); Ho & Taylor (2013); Abbadi et al. (2016)	4

8.3	Credit Lyonnais Security Asia (CLSA) firm level governance ranking	Shen & Chih (2007)	1

***Note.** For the purpose of grouping and referencing, research papers have been grouped based on the variables considered in these studies. Reference numbers are not in numerical sequence. Missing reference numbers are part of the coding pattern used in this study.

explanation) is the most widely used proxy for FR and is estimated using various models like Jones (1991), Dechow and Dichev (2002), etc. Measures like real earnings management, classification shifting, conservatism, and earnings response coefficient have also been used to capture earnings quality. The disclosure dimension of FR was measured using a self-constructed index. Disclosures pertaining to financial information and non-financial information like environmental disclosure, strategic information, risk reporting, corporate social responsibility, and CG information were examined. Global Reporting Initiatives (GRI) indicators, mandatory information required by stock exchanges and regulators, and voluntary information disclosed by companies were also used for constructing the disclosure index. However, this index captures the quantity of disclosure rather than quality.

Proxies of CG

The ownership structure and characteristics of the board of directors and audit committee were measured using indicator as well as continuous variables. Articles that examined board characteristics, audit committee characteristics, and ownership structure in isolation (24%) were fewer as most of the papers examined the combined effect of either any two or all the three mechanisms (76%). Board independence, board size, and CEO duality were the most commonly examined board characteristics. In the case of the audit committee, its presence, independence, and financial expertise were the most examined characteristics. In many emerging economies, the formation of an audit committee is not mandatory. Thus, the presence of the audit committee on a voluntary basis was widely examined from different perspectives.

Ownership concentration, institutional holding, and government ownership have been widely used to capture the role of ownership structure in emerging economies. Apart from this, the CG index, based on a comprehensive list of dimensions and adoption of CG code, was also used to measure CG. The effectiveness of CG mechanisms pre and post-implementation of CG code was also examined in the studies.

Sample and Time Frame

The organizational focus of 98% of the studies was listed non-financial firms. The unlisted non-financial firms and financial firms have different FR incentives and CG practices. Thus, they can provide an interesting setting to examine the role of CG in FR. In case of many articles, the data for CG was hand collected. Thus, they had smaller sample and time frame.

Research Technique

Since the objective of the majority of the studies was to examine the role of CG in improving FR, regression analysis (ordinary least squares and panel) was used. Studies concerned with financial restatements, modified audit opinions, fraud and regulatory investigation against firms used matched control sample and thus Logit, Probit, and Tobit models were used.

Summary of Findings from Literature Reviewed

CEO duality and board busyness reduced earnings quality and disclosure quality (Table 1 ; 4.2, 4.5). Board size and board independence showed conflicting results in case of earnings quality and disclosure quality (Table 1 ; 4.1, 4.3), while board meetings showed conflicting result in case of earnings quality only (Table 1 ; 4.4). Family influence on board improved earnings quality (Jaggi & Tsui, 2007), while board ownership reduced disclosure quality (Akhtaruddin & Haron, 2010). Board competence and the presence of foreign directors improved earnings quality (Chi et al., 2009 ; Du et al., 2017), while gender diversity, board meetings, independent chairman, and board composition improved disclosure quality (Table 1 ; 4.1, 4.6, 4.7, 4.8).

Promoter holding, large shareholding, and affiliation with business group reduced both earnings quality and disclosure quality (Table 1 ; 7.7, 7.14, 7.18), while managerial ownership and external ownership improved both (Alzoubi, 2016 ; Iatridis, 2013 ; Khalil & Ozkan, 2016). Ownership concentration showed conflicting findings in case of earnings quality and disclosure quality (Gao & Kling, 2012 ; González & García-Meca, 2014 ; Kim & Yi, 2006 ; Mokhtar & Mellett, 2013), while state ownership and institutional holding showed conflicting findings in case of disclosure quality only (Table 1 ; 7.1, 7.13). External ownership and institutional holding improved earnings quality (Table 1 ; 7.1, 7.12), while state ownership (Liu et al., 2014) reduced it. Family ownership improved earnings quality (Alzoubi, 2016) but reduced disclosure quality (Chau & Gray, 2010).

Audit committee independence and expertise improved earnings quality and disclosure quality (Table 1 ; 5.3, 5.4). Audit committee composition and meetings improved earnings quality (Alzoubi, 2016 ; Khalil & Ozkan, 2016), while audit committee shareholding reduced it (Hamdan et al., 2013). Audit committee size, presence, and authority improved disclosure quality (Ahmed Haji & Anifowose, 2016 ; Iatridis, 2013 ; Salehi & Shirazi, 2016). Audit committee meetings showed conflicting findings in case of disclosure quality (Ahmed Haji & Anifowose, 2016 ; Salehi & Shirazi, 2016), while audit committee size showed conflicting findings in case of earnings quality (Table 1 ; 5.2).

In addition to earnings quality and disclosure quality, other proxies of FR like modified audit opinions, financial restatements, reporting lag, and regulatory enforcement against fraud were also studied. Mutual fund ownership, ownership concentration, and board independence and meetings reduced the occurrence of modified audit opinions (Chan et al., 2014). Outside shareholding reduced the incidence of financial restatements, while audit committee independence increased it. This is contradictory to the theory. Board independence, tenure, and foreign ownership reduced incidence of frauds, while board meetings, board busyness, and presence of founders on board increased it (Firth et al., 2007 ; Hasnan et al., 2013). Few studies examined the impact of implementation of corporate governance code on FR. Reporting lag was reduced (Lim et al., 2014) and earnings quality improved (Machuga & Teitel, 2007) post implementation. Certain studies constructed a composite score/index to measure CG, and documented improvement in earnings quality and disclosure quality (Table 1 ; 4.19, 5.11, 8.2).

Interestingly, contradicting results were found in the studies of the same country. For example, Sarkar et al. (2008) found a negative relation between board diligence and discretionary accruals, while Nagar and Raithatha (2016) found a positive relation between board diligence and cash flow manipulation. Empirical investigations were conducted during different time periods and in different legal contexts, which can have an exogenous effect on the conclusions drawn (Leonidou, Katsikeas, & Samiee, 2002).

Managerial Implications

Emerging markets have laws at par with developed economies (Leuz, Nanda, & Wysocki, 2003), but are markedly different from developed markets in terms of law enforcement, investor protection, ownership structure, and reporting incentives (Ball, Robin, & Wu, 2003). This study puts together the current CG practices and their effectiveness in improving FR. These findings will help managers to assess the effectiveness of their CG mechanisms in improving FR practices. Good CG and FR practices will help managers to gain investors' confidence and build reputation in the capital market. The findings of this study will also help regulators in evaluating the effectiveness of CG and FR regulations for investor protection. Investors will also become aware of the role of different CG mechanisms in improving FR.

Limitations of the Study and Scope for Future Research

The review has focused on a sample of non-financial listed firms. Similar reviews can be done for a sample of financial firms (for example, see Kumari & Pattanayak, 2014).

Future studies can focus on the following areas :

IFRS Adoption/Convergence

Many emerging markets have converged or are in the process of converging their accounting standards with IFRS. These standards are expected to generate more reliable and value relevant information by giving more flexibility to the decision makers in accounting choices. The European Union's experience of IFRS adoption indicates that it impacts accounting measurements and accruals quality (Aubert & Grudnitski, 2011). Ho, Liao, and Taylor (2015) examined real and accruals management in the pre- and post- IFRS convergence in China during 2002 – 2011 and found that the magnitude of discretionary accruals reduced post-IFRS convergence but not for firms controlled by Chinese central or local governments for the firms that were subject to delisting due to deteriorating financial performance. Examining the effect of IFRS converged standards on pay-for-accounting-performance sensitivity, Ke, Li, and Yuan (2016) found that the sensitivity declined for central government-controlled firms but not for local government-controlled firms. Thus, they concluded that the new standards reduced stewardship information communicated through FR. Since IFRS is adopted in emerging markets with different legal contexts and different FR incentives, it will be interesting to explore how FR changes after IFRS adoption and what will be the role of CG in this process (Christensen, Lee, Walker, & Zeng, 2015).

Methodological Issues

(1) Measurement of CG : Most studies aimed at testing only certain dimensions of CG and these dimensions were not measured uniformly (continuous or indicator) (Carcello, Hermanson, & Ye, 2011). Focusing on one dimension would result in problems of omitted variables (Black, De Carvalho, & Gorga, 2012) and inconsistent coefficient estimates (Dechow, Ge, & Schrand, 2010) as these dimensions are correlated. To mitigate this problem, principal component analysis (PCA) may be used to extract governance variables that can explain changes in CG (Larcker, Richardson, & Tuna, 2007).

(2) Measurement of FR : Accruals quality is the most widely used measure of FR. García - Meca and Sánchez - Ballesta (2009) carried out meta-analyis using 35 studies and suggested that measurement of discretionary accruals (signed and unsigned) influenced the relationship between FR and CG mechanisms. There are many proxies to measure FR and are not substitutes. Thus, multiple proxies should be used in measurement of FR.

(3) Endogeneity : Endogeneity and simultaneity issues may also arise when examining the relationship between CG and FR (see Brown, Beekes, & Verhoeven, 2011 for a detailed explanation on how to deal with endogeneity).

(4) Qualitative Analysis : Amidst the large sample studies, there is a need for finer studies that examine the links between audit committees, external audit, and internal audit (Goodwin-Stewart & Kent, 2006). Huse (2005) advocated the use of behavioural research and application of cognitive and group models to understand decision-making by the board. Informal processes and power relationships and their interaction with formal processes also deserve attention (Turley & Zaman, 2007). Schwartz - Ziv and Weisbach (2013) analyzed minutes of board meetings of 11 companies during 2007 – 09 where the Israel government had a substantial equity interest. The minutes included every statement made by each participant in the meeting. The analysis indicated that the board of directors performed more of a monitoring role. In most cases, only one option is given to the board while taking decisions and instances of disagreements with CEO are quite less. Thus, qualitative approach through in-depth interviews, case studies, and content analysis may provide finer insights.

(5) Moderating/Mediating Role of CG : Research has examined moderating role of CG in the relationship between FR practices and phenomenon like CSR (Patro & Pattanayak, 2017). Future research can systematically review such articles to gain more insights.

Authors' Contribution

Prof. Punita Dhansingh Rajpurohit's habit of enquiring and reflecting into the finer nuances of financial reporting led to the principal research idea. With the help of Prof. Parag Rajkumar Rijwani, these enquiries were converted into systematic research enquires, thus conceiving the idea of the review paper. Prof. Parag designed the methodical approach to extract relevant research papers from various sources. Prof. Rajpurohit extracted and filtered the research papers. Methodological approach of carrying out the review of these papers was designed by both the authors jointly. Prof. Rajpurohit carried out the preliminary review all off the papers and prepared a transcript which was fine tuned by Prof. Rijwani.

Conflict of Interest

The authors certify that they have no affiliations with or involvement in any organization or entity with any financial interest, or non-financial interest in the subject matter, or materials discussed in this manuscript.

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