

THE EFFECT OF FINANCIAL REPORTING QUALITY ON EARNINGS QUALITY OF INDUSTRIAL COMPANIES

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Abstract

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This study investigates the relationship between financial reporting quality and earnings quality in Jordanian industrial companies. This paper used a survey-based approach, utilizing questionnaires to collect data from selected participants representing Jordanian industrial companies using SmartPLS 4. The study confirms a positive relationship between financial reporting and earnings quality in Jordanian industrial companies. Preparing accurate financial reports allows visualization of the company's financial position and performance in accordance with accounting standards and disclosure practices. The findings offer valuable guidance to regulators, investors, and stakeholders in understanding the significance of financial reporting quality and its implications for evaluating financial performance and decision-making processes. In addition to promotes financial transparency and informed decision-making in the Jordanian industrial sector. This study enhances understanding of the importance of financial reporting quality for ensuring reliable and accurate earnings information. The study's PLS-SEM methodology also contributes to the methodological literature in this area.

Keywords: Financial Reporting Quality, Earnings Quality, Jordanian Industrial Companies, Accounting Standards

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1. INTRODUCTION

The overall goal of financial reporting is to provide valuable financial information about the company to stakeholders. At the same time, financial reports are the primary and common source for stakeholders for information they need (Gilchrist et al., 2023). The globalization of the world's capital markets has increased the demand for new aspects of information to support users' decisions (Morched et al., 2023). At the same time, the information in financial reports can be harmful because displaying unimportant details may hide material information and make financial reports challenging to interpret. Therefore, users have a great need for high-quality information rather than quantity. Comparable, reliable, and understandable financial information can support markets' diverse transactions and operations. Transparency and relevance are characteristics of proper financial reporting. Accounting information that meets these criteria boosts investor confidence, resulting in increased capital (Muhammed et al., 2021). Therefore, financial reporting must represent relevant, complete, neutral, comparable, verifiable, timeline, constant, and understandable information to achieve its goal (Schroeder et al., 2022). However, financial reporting quality and earnings quality are two fundamental aspects that are crucial in assessing companies' financial performance and transparency (Haroon & Zaka, 2023; Velte, 2023; Nguyen et al., 2022; Yassin et al., 2022; Lakhali & Dedaj, 2020). Indeed, these characteristics support the quality of financial reports, and the value of financial information is determined by its qualitative characteristics.

The earning reported in the financial reports is a critical point in the business environment that represents the performance and success of the company and the extent of its ability to exploit its resources to earn returns. However, in recent years, the failure of many companies, such as Enron, WorldCom, and Xerox, has proven that the reported profits only sometimes help stakeholders predict future profits. From here, the debate emerged about earnings quality (EQ) and related it to financial reporting quality (FRQ). Schipper and Vincent (2003) highlighted the implications of earnings quality for an informed decision, noting that contractual decisions based on poor earnings quality result in improper wealth transfers. Therefore, shareholders are more concerned about the quality of financial reports. The higher the quality of reporting is an indicator of earnings quality, and thus the more extended the firm will survive (Sae-Lim & Jemsittiparsert, 2019; Francis et al., 2004). Financial reporting quality and earnings quality are two fundamental aspects that are crucial in assessing companies' financial performance and transparency (Lakhali & Dedaj, 2020). The accuracy and reliability of financial statements are vital for stakeholders, including investors, creditors, and regulators, to make informed decisions (Hadi et al., 2023). In the context of Jordanian industrial companies, understanding the relationship between financial reporting quality and earnings quality is of great significance.

Financial reporting quality refers to the degree of transparency, accuracy, and completeness of financial information companies provide in their

financial statements (Saleh et al., 2022). It encompasses various elements, such as the application of accounting standards, adherence to disclosure requirements, and the timeliness of financial reporting. High-quality financial reporting ensures that the financial statements reflect the economic reality of a company's operations, financial position, and cash flows. Nevertheless, earnings quality refers to the reliability and sustainability of reported earnings. It reflects the extent to which earnings accurately represent a company's underlying economic performance (Ahannaya et al., 2021; Al-Jamal et al., 2022; Jarah et al., 2022; Al-Zaqeba, Jarah, Ineizeh, et al., 2022). High earnings quality implies that reported earnings are less affected by measurement errors, management biases, or other manipulations that may distort the actual financial performance of a company.

There is a connection between the caliber of financial reporting and the caliber of earnings (Dimitropoulos, 2020; Agha & Rashid, 2023). High financial reporting quality enhances the reliability and credibility of reported earnings, which, in turn, strengthens the overall earnings quality (Latif et al., 2017). Conversely, poor financial reporting quality can lead to distorted or unreliable earnings figures, compromising earnings quality (Ruch & Taylor, 2015). However, this study aims to investigate the impact of financial reporting quality on earnings quality, specifically within the context of Jordanian industrial companies. The Jordanian industrial sector represents a significant portion of the country's economy, encompassing diverse industries such as manufacturing, construction, and mining. Examining the effect of financial reporting quality on earnings quality in this sector can provide valuable insights into the Jordanian industrial sector's overall financial transparency and reliability (Al-Zaqeba, Ineizeh, Jarah, et al., 2022; Abu Hamour et al., 2023). However, by analyzing financial statements, accounting practices, and corporate governance mechanisms, this research aims to shed light on how financial reporting quality influences earnings quality in Jordanian industrial companies. The findings of this study can assist regulators, investors, and stakeholders in understanding the importance of financial reporting quality and its implications for evaluating the financial performance and decision-making of companies in the Jordanian industrial sector.

The lack of financial reporting and low-earnings quality pose significant challenges for Jordanian industrial companies (Barghathi et al., 2018). Accounting scandals have shaken stakeholders' confidence in the reliability and accuracy of financial reports, revealing the poor quality of earnings information (Al-Slehat & Al-Sharif, 2019). This has led to a decreased trust in the financial information disclosed by these companies. Furthermore, Jordanian industrial companies face the consequences of operating in an environment where accounting information quality is a concern. Despite the significance of financial reporting quality and its impact on earnings quality, there needs to be more empirical research focused explicitly on Jordanian industrial companies (Alqatamin & Gharaibeh, 2018). This knowledge gap hinders a comprehensive understanding of the relationship between financial reporting quality

and earnings quality within the Jordanian context. To address this gap and provide valuable insights for stakeholders, it is crucial to investigate the effect of financial reporting quality on earnings quality in Jordanian industrial companies.

An understanding of this relationship is essential for assessing transparency, reliability, and overall economic performance, and by focusing on the context of Jordanian industrial companies, this study seeks to shed light on the impact of financial reporting quality on earnings quality.

The structure of this paper is as follows. After Section 1 presented in this research, which highlights the importance of understanding the relationship between the quality of financial reports and the quality of profits in Jordanian industrial companies, comes Section 2, which is concerned with the theoretical framework. This section presents the relevant theories and concepts that form the basis of this research, explaining how these theories are applied to the research question and how to guide the study. Section 3 addresses the methodology and materials used in the study, including an explanation of the research design, participants, and sample procedures. After that, the research moves to the results provided in Section 4 and discussion in Section 5, and finally, the research concludes with Section 6, which summarizes the results and discusses their impact and importance.

2. LITERATURE REVIEW

In corporate finance, financial reporting quality and earnings quality have emerged as critical elements in evaluating the performance and stability of businesses (Cyril et al., 2020). Financial reports are the primary medium through which companies communicate their financial health and performance to various stakeholders, including investors, creditors, regulators, and the general public (Abhayawansa, 2022; Al-Zaqeba, Al-Khawaja, et al., 2022). For Jordanian industrial companies, like their global counterparts, the credibility and reliability of financial information are paramount in establishing trust and attracting investment. This theoretical framework explores the intricate relationship between financial reporting quality and earnings quality in the context of Jordanian industrial companies. Financial reporting quality refers to the degree of accuracy, transparency, and adherence to accounting principles in preparing financial statements. On the other hand, earnings quality pertains to the extent to which reported earnings accurately reflect a company's underlying economic performance and future cash flows.

Jordan's industrial sector is pivotal in the nation's economic landscape, contributing significantly to employment, export earnings, and overall economic growth. As these companies operate in a dynamic and competitive environment, the reliability of financial reporting becomes critical for informed decision-making by investors and creditors (Alrefai et al., 2023). A high-quality financial reporting system fosters investor confidence, reduces information asymmetry, and ensures efficient capital allocation, positively impacting a company's access to finance and growth prospects. Theoretical underpinnings suggest that financial reporting quality profoundly influences

earnings quality. Financial reports accurately represent a company's financial position and performance, enhancing the credibility of reported earnings.

In contrast, poor financial reporting quality may lead to misrepresentation of earnings, making it easier for stakeholders to assess a company's profitability and financial health accurately. However, several factors may influence the financial reporting quality of Jordanian industrial companies, including regulatory frameworks, accounting standards, auditor independence, corporate governance practices, and the prevailing economic environment (Al-Zaqeba, Jarah, Al-Bazaiyah, et al., 2022). By identifying these factors and analyzing their impact on financial reporting quality, this theoretical framework aims to provide valuable insights into the determinants that influence earnings quality. However, this paper comprehensively reviews existing literature, incorporating relevant theories, empirical studies, and best practices in financial reporting and earnings quality. By synthesizing these findings, we seek to develop a robust theoretical framework that elucidates the intricate interplay between financial reporting quality and earnings quality in the unique context of Jordanian industrial companies.

Shareholders depend on their evaluation of the performance of executives on profits, just as lenders and investors also rely on profits in making their decisions. If profits are divided into their components. Additionally, numerous parties, including potential investors, creditors, and readers of financial statements in general, evaluate the financial situation of businesses based on the quality of earnings (Chan et al., 2006). The company's profitability may also be utilized as a predictor of dividend payments, especially given that the latter comes from essential factors considered when making investment selections.

Greater financial performance might arise from greater financial reporting quality, which is anticipated to provide better and more relevant judgments. The performance is required to evaluate the soundness and safety of the system, preserve public trust in the system, and spot financial problems. Rani (2022) revealed that developing country banks are equally effective after applying performance metrics based on profitability ratios to the Middle East and North Africa (MENA) banking industry. MENA banks are generally profit-efficient, but investors still need help to make the best choices. According to specific surveys, investors are only partially pleased with the profits declared by businesses in the MENA area, and they blame this on the poor quality of the information being provided (Shubailat, Al-Zaqeba, Madi, & Alheet, 2024).

According to Shubailat, Al-Zaqeba, Madi, and Khairi (2024), developing countries have been interested in establishing and developing stock exchanges to achieve economic development. However, the nature of listed companies and the fragility of their accounting systems in terms of disclosure and transparency of information contributed significantly to impeding the functioning of financial markets, which prompted these markets to find a compatibility between the standards applicable locally and internationally. Then highlighted the importance of accounting disclosure of the information and published data, which

requires that the information provided by the listed companies be appropriate and credible to reflect the efficiency of the stock market.

The actual advantages of accurate financial reporting have been the subject of much investigation. For instance, Al-Zaqeba et al. (2023) suggested that poor financial reporting may harm businesses' performance and decision-making. The profitability indicators are the fundamental performance indicators. However, a variety of data supports the correlation between a company's profitability and the accuracy of its financial reporting. It was discovered by Curtis (1976), Mappadang et al. (2021), Nasihin and Purwandari (2022), and Shubailat, Al-Zaqeba, Madi, and Ababneh (2024) that profitability and financial reporting quality have a strong positive association. Dospinescu and Dospinescu (2019) found a positive correlation between stockholders' equity and net profit margin but a negative correlation with working capital. The performance indicators for the company are taken from the financial reports, which must be of the highest caliber to be helpful to investors. Business success is measured in absolute terms, such as net income, or different ratios, such as profits as a percentage of equity, assets, or revenues. Profit margins and peer quality have a substantial link (Al-Zaqeba, Inezeh, et al., 2022).

According to other research, there is a link between a company's development potential and the caliber of its financial disclosure (Al-Zaqeba et al., 2023). However, some researchers did not find a relationship between EQ and business performance or only found a negligible relationship, such as Babajani (2015), who looked at the relationship between earnings management and the financial ratios of private companies listed on the Tehran Stock Exchange (TSE), and Ajit et al. (2013) who examined the effect of business growth and efficiency on earnings management in India. Additionally, Jang and Kim (2017) investigated the impact of financial indicators on earnings management in the Korean ready-mix concrete sector. Sarhan et al. (2019) discovered a link between performance and quality of corporate governance in the form of board diversity. As for the association between profitability and disclosure quality, Ebrahimabadi and Asadi (2016) provided evidence to support this.

According to Barghathi et al. (2017), the management of earnings has a negative impact on the quality of financial reporting. Additionally, it offers preliminary proof of specific dishonest profits management. It was also discovered that there needed to be more clarification and clarity surrounding the phrase profits management. El-Brassi et al. (2017) confirm that the financial system faces several challenges and issues, such as the absence of a body for securities exchange for the last four decades, which has affected the development of the banking system. As Alasbahi and Ishwara (2021) mentioned, using International Financial Reporting Standards (IFRS) improves the caliber of financial reporting. Decision-makers may adjust and improve their expectations using accounting information created in line with international standards. Their use also makes it easier to compare organizations' financial performances. The necessity of switching to IFRS to create accurate accounting data (Sulyman et al., 2017).

The importance of profits lies in the shareholders' evaluation of the performance of the executive directors, just as the lenders depend on profits in making their decisions, and here lies the necessity for the profits to be of quality and reflect the actual performance of the facility. Moreover, Shatnawi et al. (2024) indicated that the decision-makers are ignoring the quality of profits. It also showed that ignoring this information leads to making low-quality decisions. The study also showed an increasing interest in the quality of companies' profits that express the performance quality through the profits disclosed from the information. From this, the role of governance appears as one of the main pillars in the quality of profits.

In accounting literature, earnings quality is a subject that has been studied from various aspects. For example, Hidayah et al. (2021), Xiang-Ping et al. (2013), and Coelho et al. (2010) all studied the determinants of earning quality. Others, such as Melgarejo (2019) and Sivaramakrishnan and Yu (2008), investigated the effect of corporate governance on earnings quality. However, limited studies examined the impact of financial reporting quality on earnings quality in developing countries and even in developed countries. For example, Elsidig Ahmed (2020) found that financial reporting quality (relevance, reliability, and prudence) positively affects earnings quality. However, no significant effect of understandability on earnings quality, and there is a significant negative relationship between earnings quality and comparability.

The importance of financial reporting quality in assessing managerial performance and facilitating decision-making processes is well established in the literature. Researchers have explored different dimensions of this relationship, shedding light on the complex dynamics within the corporate landscape. Daniele (2023) delves into the impact of different reporting strategies on the reliability and accuracy of reported earnings, and in a study by Wen et al. (2023), the focus shifts toward the role of financial technology in enhancing the quality of financial reporting. Their work examines the impact of financial technology on mitigating earnings management practices, thereby raising the overall quality of financial reporting. Khuong and Anh (2022) explore the mediating mechanism of earnings management in the relationship between the firm's life cycle and financial reporting quality. Their study uses MRA and fsQCA methods to reveal the complex links between organizational life stages, earnings management, and financial reporting quality. Also, Herlina et al. (2023) present an integrated model in their work. The study proposes a comprehensive model that integrates financial performance as an intervening variable in explaining the quality of earnings and provides a comprehensive view of the factors affecting the preparation of financial reports. Al-Enzy et al. (2023) shift the focus to the Gulf Cooperation Council (GCC) region for financial reporting and earnings quality in the GCC region in the impact of IFRS experience on earnings quality, and similarly, Abu Hamour and Malahim (2023) draw attention to Jordanian industrial companies in the impact of financial reporting quality on earnings quality, and in a broader context, Ababneh et al. (2023) explore blockchain-enabled

eco-efficiency for resilient customs ports in their work on sustainable supply chains. Although they do not focus directly on the quality of financial reporting, their research provides insight into the broader landscape of sustainable business practices.

Under the conceptual framework of international accounting standards, the qualitative characteristics that must be provided in the accounting information to support the decisions of stakeholders must have, for example, understandability, comparability, verifiability, and other features. Indeed, adopting international accounting standards has become supportive of the quality of financial reports. However, it has long been recognized that the accounting flexibility of International Accounting Standards (IAS)/IFRSs might impair earnings quality (Menicucci, 2020). For example, in a study conducted in Nigeria by Muhammeda et al. (2021), the quality of financial reports has remained relatively high in the post-IFRS period compared to the pre-IFRS Regime. Besides, Xu (2014) and Bello et al. (2016) found that adopting IFRS does not reduce earnings management. Since earnings management has a negative relationship with earnings quality, earnings quality refers to improving the reliability of income, while earnings management reduces it. In other words, earnings quality is the absence of earnings management (Elsiddig Ahmed, 2020).

According to the conceptual framework for financial reporting, accounting information must be relevant and helpful. Relevance is a fundamental qualitative characteristic, meaning relevant information can influence user decisions. However, a study conducted (Yasas & Perera, 2019) found that the quality of accounting information regarding value relevance has remained relatively high after applying IFRS. In addition, Barghathi et al. (2018) found that audit quality significantly positively impacts reducing earnings management. On the other hand, Al-Slehat and Al-Sharif (2019) found that companies practice profit management at the level of all sectors, as the industrial sector constituted 67% of that practice. However, based on the literature review, the researchers hypothesize the following:

H1: The financial reporting quality has a positive effect on earnings quality.

H2: Firm size and age moderate the relationship between financial reporting quality and earnings quality.

Most studies examining the relationship between audit quality and earnings management, in general, agree on the importance of audit quality and its role in limiting earnings management practices (Fan et al., 2005; Jensen & Meckling, 1976; Al-Mubash., 2014; Saeed & Lashlash, 2015; Shatnawi, et al., 2024). According to Jensen and Meckling (1976), the efficacy of external monitor mechanisms relies on whether the benefits which include decreased agency costs or capital raising costs outweigh the costs of employing the mechanism, which take the form of the premium paid to utilize it. If engaging a top-notch auditor can provide the capital market with valuable and trustworthy information, this will significantly reduce the firm's capital-raising expenses, with the cost savings outweighing the expensive audit charge. The internal

corporate decision-making of a company affects the cost-benefit analysis of engaging a high-caliber auditor. The Big Four audit firms are also frequently used as a proxy for the caliber of external audits, which is considered an external monitoring mechanism (Fan & Wong, 2005). The Big Four audit companies have more significant benefits than their smaller competitors since they have more resources and specialists. In addition, external audit quality helps eliminate agency costs resulting from managers' self-services that occur without effective monitoring practices (Fan & Wong, 2005). However, Gunny and Zhang (2013) established a link between audit quality and clients' earnings quality. They found that clients of auditors with higher ranks had higher earnings quality and vice versa.

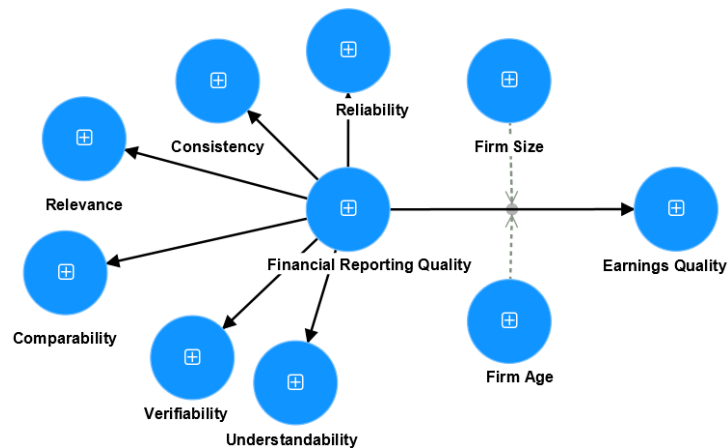
As mentioned by Muttakin et al. (2017), the improvement of earnings quality can be by audit quality, as stated by Leuz et al. (2003), Wysocki and Liu (2007), Latif et al. (2017), Orazalin and Akhmetzhanov (2019), and Antonio et al. (2019) audit quality can be improving earnings quality. Oroud et al. (2019) confirmed that audit quality has significantly moderated the relationship between audit quality and earnings quality; which means that a high level of audit quality will improve the earnings quality, supported by the work of Krishnan (2003), Balsam et al. (2003), Khurana and Raman (2004). The metrics of "earnings quality" Dechow and Schrand (2010) consider persistence, accruals, smoothness, timeliness, loss avoidance, investor responsiveness, and external signs such as restatements and Securities and Exchange Commission (SEC) enforcement releases. They discovered that there needed to be a consensus on the quality of earnings. They also suggest that the company's underlying performance affects the "quality" of earnings. One topic for further research is the contribution of a firm's essential performance to its earnings quality. However, these inconclusive results indicate a knowledge gap that merits further investigation. Abu Afifa et al. (2020) found that earnings quality partially mediates the relationship between audit quality and earnings quality. Oroud et al. (2019) found that audit quality moderately affects the reliability of the information on share prices and, thus, earnings quality. However, bad earnings quality will lead management to less expensive disclosures, leading to a high capital expense because the relationship between the quality of earnings and voluntary disclosure is complementary (Diamond & Verrecchia, 1991). In addition, higher earnings output will decrease investors "unfavorable selection because of a consumer bias, minimizing investors" return demands. However, Figure 1 shows the expected effect of financial reporting quality on earnings quality.

The primary independent variable is *financial reporting quality*, which is measured using proxies such as adherence to accounting standards, disclosure requirements, and timeliness of financial reporting.

The dependent variable is *earnings quality*, assessed based on reported earnings' reliability, relevance, and sustainability.

Control variables, such as *firm size* and *firm age*, were included to account for potential confounding factors.

Figure 1. Research model



3. RESEARCH METHODOLOGY

This study's quantitative research design aims to examine the relationship between financial reporting quality and earnings quality in Jordanian industrial companies. A survey research approach was utilized, employing a questionnaire to collect data from the targeted sample. A representative sample of Jordanian industrial companies was selected for the study. The sample size was determined based on statistical considerations to ensure adequate power and representativeness. The sampling technique may involve a combination of stratified and random sampling to ensure diverse representation from different industrial sectors. In addition, a structured questionnaire was developed based on the research objectives and theoretical framework. The questionnaire consists of multiple items related to financial reporting quality, earnings quality, and relevant control variables. The items were designed to capture various dimensions of financial reporting quality, such as adherence to accounting standards, disclosure practices, and timeliness of reporting. However, the questionnaire was administered to key individuals within the selected Jordanian industrial companies, such as financial managers, accountants, or auditors. The data were collected through surveys. In addition to traditional survey-based methods, other research explores alternative approaches centered around financial statements and analysis. An adopting financial statement analysis as the primary methodology involves scrutinizing existing financial documents, such as income statements and balance sheets, to extract valuable insights.

The data was analyzed using partial least squares structural equation modeling (PLS-SEM), specifically with the software SmartPLS 4. PLS-SEM is suitable for analyzing complex relationships among latent variables and can accommodate smaller sample sizes. The analysis will assess financial reporting quality's direct and indirect effects on earnings quality, considering potential moderating variables. Bootstrapping techniques will be used to evaluate the significance of the relationships and estimate the model's reliability and validity.

Utilizing stratified random selection procedures, 369 questionnaires from workers of Jordanian industrial enterprises were gathered. However, the sample size used in this research is in line with the nature of the study and the specific research objectives. The choice of a small sample size reflects the research strategy followed, as

examining the relationship between financial reporting quality and earnings quality requires careful focus on specific aspects. This study aims to examine the complex relationships between variables. We relied on a survey research approach and used a questionnaire to collect data. The sample size was carefully determined to ensure statistical power and effective representation of the targeted Jordanian industrial companies. This decision was made based on a range of research considerations, including the complexity of the relationships studied and the necessity of careful detail and analysis. Choosing a small sample size also reflects the interest in achieving a balance between achieving research objectives and providing the necessary resources to ensure data quality. The research seeks to understand specific dimensions of financial reporting quality and earnings quality, and careful analysis of these dimensions requires great focus and fine detail. It is expected that choosing a sample size that is consistent with these considerations will contribute to enhancing the validity and strength of the conclusions that the study will draw.

The questionnaire was sent to employees of 112 different companies. 381 of the 514 issued questionnaires have been collected (12 have been eliminated due to incomplete or inaccurate information). Nevertheless, the bulk of respondents (49.9%) are between the ages of 40 and 49, with 98 respondents between the ages of 39 and 29. Eighty-seven responders in total are older than 29 years old. The overwhelming majority (38.3%) are holders of bachelor's degrees, followed by 46.2% of respondents' holders of master's degrees, and 12.5% are holders of PhD, followed by 3% diplomas from the respondents.

The validity and reliability of the questionnaire items were thoroughly examined using a series of statistical tests on Smart-PLS4 (version 4.0.9.5). Internal consistency among items was assessed via Cronbach's alpha between 0.780 and 0.881, all exceeding the recommended threshold of 0.60 (Sekaran & Bougie, 2016). Additionally, composite reliability (0.872–0.910) was confirmed to be above the accepted level of 0.70 (Hair et al., 2017). Both convergent and discriminant validity were evaluated to validate the questionnaire items. Convergent validity was determined by analyzing the correlation between item factors, resulting in factor loadings ranging from 0.714 to 0.869, all exceeding the minimum requirement of 0.70. Any questions with lower factor loadings were omitted from the final study form.

Moreover, average variance extracted (AVE) was calculated, yielding values between 0.700 and 0.627, indicating sufficient convergent validity for all variables (Gregory & Ell, 2009; Gronemus et al., 2010).

These results demonstrate that the questionnaire items are reliable and suitable for further statistical analysis. A detailed breakdown of the variables can be found in Table 1 below.

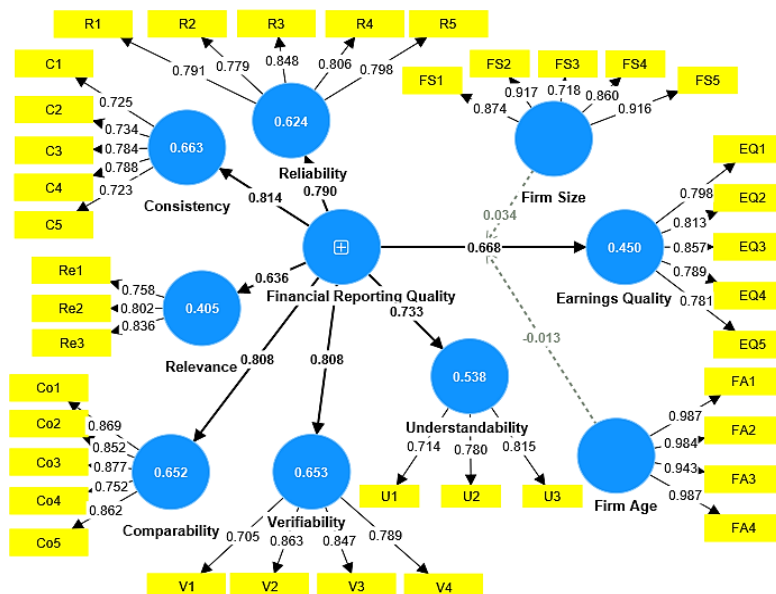
Table 1. Validity and reliability test

Variables		Items	Factor loading > 0.70	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	The average variance extracted (AVE)
Financial reporting quality	Comparability	Co1	0.869	0.898	0.904	0.925	0.712
		Co2	0.582				
		Co3	0.877				
		Co4	0.752				
		Co5	0.862				
	Consistency	C1	0.725	0.807	0.808	0.866	0.564
		C2	0.734				
		C3	0.784				
		C4	0.788				
		C5	0.723				
	Relevance	Re1	0.758	0.716	0.719	0.841	0.639
		Re2	0.802				
		Re3	0.836				
	Reliability	R1	0.791	0.864	0.865	0.902	0.648
		R2	0.779				
		R3	0.848				
		R4	0.806				
		R5	0.798				
	Understandability	U1	0.714	0.716	0.715	0.814	0.594
		U2	0.780				
U3		0.815					
Verifiability	V1	0.705	0.814	0.819	0.879	0.645	
	V2	0.863					
	V3	0.847					
	V4	0.789					
Financial reporting quality				0.932	0.934	0.939	0.685
Firm age				0.983	0.986	0.987	0.952
Firm size				0.91	0.916	0.934	0.74
Earnings quality				0.867	0.868	0.904	0.653

As shown in Table 1, all the criteria for evaluating the measurement model were met. This means the questionnaire items were reliable and valid measures of the constructs they intended to measure. Specifically, the Cronbach's alpha values for all the variables were above the recommended threshold of 0.60, indicating good internal consistency. Furthermore, the composite reliability values were all above 0.70, suggesting that the questionnaire items could differentiate between

the constructs they measured. In addition, the convergent validity of the questionnaire items was assessed by analyzing the factor loadings of each item. Items with low factor loadings were deleted, as they contributed little to the overall construct measurements. This process helped to improve the accuracy and reliability of the questionnaire. However, Figure 2 shows the finalized measurement model (MM).

Figure 2. Finalized measurement model



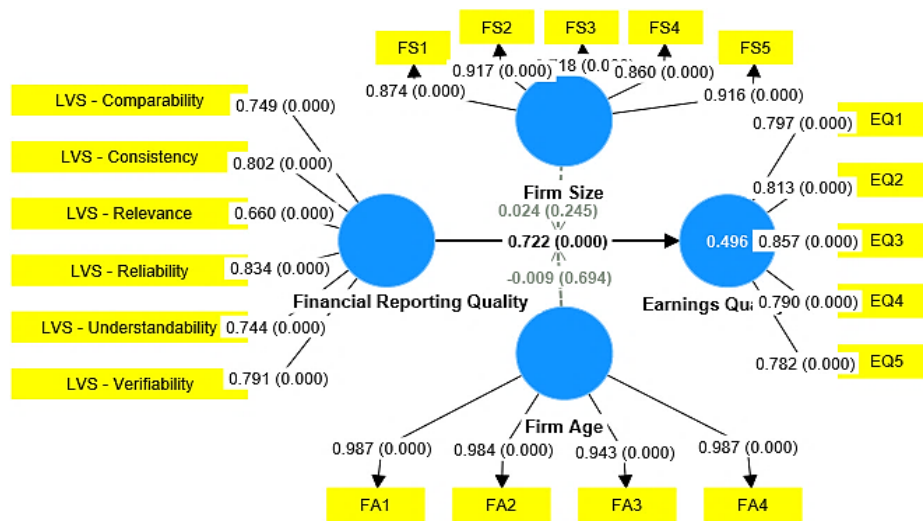
4. RESULTS

Accurate financial reporting is essential for investors, creditors, and other stakeholders to make informed decisions about investments and lending. FRQ has become increasingly important in recent years due to the global financial crisis and corporate scandals. Like many countries, Jordan has experienced significant economic growth and development. However, there needs to be more research on the impact of FRQ on the EQ of industrial companies in Jordan. This paper used SmartPLS 4 for model and hypothesis testing related to the effect of FRQ on the EQ of Jordanian industrial companies. The original value sample estimate (O) gives the numerical estimate derived from the sample data. A value close to +1 suggests

a positive relationship between the variables, while a value near -1 indicates a negative relationship.

Additionally, the t-statistic (T) is used to assess the significance of the relationship. A t-statistic value greater than 1.96 (with a confidence level of 95%) indicates a significant relationship between the variables. Lastly, the p-value (P) is another critical measure for evaluating significance. A p-value smaller than the chosen significance level (typically < 0.05) suggests that the relationship between variables is statistically significant. By considering these indicators, this paper determines the direction of the relationship based on the original value sample estimates. It confirms the significance level using t-statistics and p-values. The results of hypothesis testing are illustrated in Figure 3 and Table 2 below, which display the obtained values for the indicators mentioned above.

Figure 3. Model and hypothesis testing



The hypothesis testing procedure, which comprises evaluating the research hypotheses, is shown in Figure 3. For this testing, the previously indicated route coefficients offer critical information. The direct effects hypothesis testing

outcomes are presented in Table 2 below. This table enables the examination of the hypotheses and offers a thorough description of the correlations between the variables.

Table 2. Hypothesis testing results

Path	β	STDEV	T-values	P-values
Financial reporting quality → Earnings quality	0.725	0.040	26.889	0.000
Firm age → Earnings quality	-0.003	0.027	0.131	0.895
Firm size → Earnings quality	-0.037	0.027	1.044	0.297
Firm size × Financial reporting quality → Earnings quality	0.025	0.034	1.162	0.245
Firm age × Financial reporting quality → Earnings quality	-0.008	0.021	0.394	0.694

Table 2 above indicates the relationships between the independent variables (*financial reporting quality*) and the dependent variables (*earnings quality*) examined. The beta coefficients, t-values, and p-values reveal these associations' importance and direction. For instance, a positive correlation between the variables is indicated by a positive beta coefficient and a low p-value. The interaction between two independent variables is examined in the moderator effects section. In the interaction terms, the two variables are multiplied (*Firm size × Financial reporting quality → Earnings quality* and *Firm age × Financial reporting quality → Earnings quality*).

The results for *H1* indicate that the coefficient of determination (R-squared) is 0.268, indicating that approximately 26.88% of the variation in earnings quality can be explained by financial reporting quality. The p-value for the relationship between financial reporting quality and earnings quality is 0.000, less than the significance level of 0.05. This indicates a statistically significant positive effect of financial reporting quality on earnings quality in Jordanian industrial companies. The findings suggest that as the financial reporting quality improves, the reliability and accuracy of reported earnings also increase, better reflecting a company's actual economic performance. In addition,

for *H2*, the results indicate that the p-values for the interaction terms between *firm size* and *financial reporting quality*, as well as *firm age* and *financial reporting quality*, are 0.245 and 0.694, respectively. These p-values are more significant than the significance level of 0.05, indicating no statistically significant moderating effect of *firm size* or *age* on the relationship between *financial reporting quality* and *earnings quality*.

The p-value for the direct effect of *firm size* on *earnings quality* is 0.297, which is also greater than 0.05, suggesting no significant relationship exists between *firm size* and *earnings quality* in the sample of Jordanian industrial companies. However, for *firm age*, the p-value for its direct effect on *earnings quality* is 0.895, indicating no significant relationship between *firm age* and *earnings quality*.

5. DISCUSSION

The results of this study affirm the positive effect of financial reporting quality on earnings quality in Jordanian industrial companies (Shatnawi et al., 2024). This finding aligns with existing theoretical underpinnings and empirical evidence that highlight the critical role of accurate financial reporting in portraying a company's financial position and performance. The quality of earnings, as a vital component of financial reporting, plays a pivotal role in influencing the decisions of shareholders, lenders, and investors alike. Shareholders with a significant interest in a company's performance heavily rely on reported profits as a key indicator of executive performance. Similarly, lenders and investors base their decisions on the company's profitability. However, profits consist of various components, including cash flows and receivables, the latter of which involves judgments and estimates made by managers. These judgments may only sometimes be accurate, leading to potentially unreliable profits. The presence of inaccurate estimates in receivables can result in decisions of varying quality, depending on the precision of these estimations. Numerous studies have utilized receivables to measure earnings quality, and some have investigated profit management practices involving receivables to attract investors or meet expectations (Lin et al., 2016; Filip & Raffournier, 2010; Barghat et al., 2017). This reinforces the importance of understanding the quality of earnings, as it directly impacts the reliability of reported financial information used in decision-making processes.

The extensive body of research concludes that financial reporting quality positively affects earnings quality in various contexts and industries. Barghathi et al. (2017) found that audit quality influences the reduction of profit management practices in Libyan commercial banks. El Agha and Rashid (2023) investigated the interconnection between earnings quality and management in the business environment. Al-Zaqeba, Ineizeh, et al. (2022) provided evidence of the effect of financial reporting quality on earnings quality in Jordan. Barghathi et al. (2017) also highlighted stakeholders' perceptions of earnings management. Moreover, studies have shown that financial reporting quality is associated with other factors, such as corporate governance (Al-Zaqeba, S., Ineizeh, et al., 2022; Jarah, Al Jarrah,

Al-Zaqeba, et al., 2022), international financial reporting standards (Bello et al., 2016; Xu, 2014), and audit quality (Khurana & Raman, 2004; Krishnan, 2003). Earnings quality has been linked to managerial ability (Demerjian et al., 2013), accounting discretion (Khurana & Raman, 2004), and earnings predictability (Ahannaya et al., 2021). Accurate and transparent financial reporting is essential for making well-informed decisions, and it positively influences the performance and reputation of companies (Dechow et al., 2010). It reduces information asymmetry, ensures market efficiency, and maintains public confidence (Diamond & Verrecchia, 1991). Policymakers, regulators, and corporate executives should recognize the importance of financial reporting quality in facilitating informed decision-making and fostering market confidence (Latif et al., 2017).

6. CONCLUSION

This paper has provided valuable insights into the relationship between financial reporting quality and earnings quality in Jordanian industrial companies. The study's findings confirm the positive effect of accurate and transparent financial reporting on the reliability and usefulness of reported earnings. The research methodology, utilizing a survey-based approach and employing the PLS-SEM technique, offers a robust framework for analyzing the impact of various factors on earnings quality. The results emphasize the significance of earnings quality in evaluating a company's financial performance and prospects, as it is a key consideration for potential investors, creditors, and other financial statement users. Reliable profits also play a pivotal role in influencing dividend distributions, significantly impacting investment decisions. Financial reporting quality, characterized by adherence to accounting standards, disclosure requirements, and timeliness, has led to better and more informed decision-making. Enhanced decision-making, in turn, contributes to improved financial performance and enhances the overall stability and safety of the financial system.

The research's contributions to the existing literature strengthen the growing body of evidence supporting the positive relationship between financial reporting quality and earnings quality. By promoting financial transparency, the study facilitates more informed decision-making by investors, ultimately leading to a more efficient market functioning. Strong internal controls and independent oversight mechanisms are crucial in promoting accurate and reliable financial reporting, ultimately enhancing stakeholders' confidence. While the study has contributed valuable insights, it is essential to acknowledge its limitations. The survey-based methodology may be subject to response biases, and the findings may be specific to the selected sample, limiting generalizability to the entire population of Jordanian industrial companies. The research design cannot establish causality, necessitating further studies to strengthen the findings, potentially using experimental or longitudinal approaches. The findings have implications for stakeholders, regulators, and policymakers, emphasizing the significance of promoting financial transparency and enhancing

corporate governance practices to strengthen the financial performance and sustainable growth of companies in Jordan. The research indicates the need for complementary studies to strengthen its findings and expand generalizability. Overall, this

paper emphasizes the positive impact of financial reporting quality on earnings quality, enhancing theoretical and practical guidance for companies in their pursuit of transparency and sustainable financial performance.

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