

CORPORATE GOVERNANCE MECHANISMS AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM QUOTED MANUFACTURING FIRMS

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Abstract

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This study seeks to investigate the effect of corporate governance (CG) mechanisms on the financial reporting quality (FRQ) of quoted manufacturing firms at the Uganda Securities Exchange (USE). The study uses a questionnaire survey and interviews with wide groups of stakeholders from the quoted manufacturing firms to collect data from a sample of 150 respondents. We find that ownership structure (OS) has a significantly positive effect on FRQ. In addition, a positive, insignificant effect was established between board characteristics (BC) and FRQ. Furthermore, our findings show that audit committee (AC) characteristics have a significantly positive effect on FRQ. Based on our findings, we conclude that OS and AC characteristics enhance the FRQ of the quoted manufacturing firms. It can also be concluded that the BC examined in this study positively and insignificantly affects FRQ. The study contributes to knowledge on the effect of CG mechanisms on FRQ in a relatively unexplored context of quoted firms in a developing country. The findings also have implications for regulators, standard-setters, and investors who are interested in promoting effective CG mechanisms and the value relevance of financial reporting.

Keywords: Corporate Governance Mechanisms, Financial Reporting Quality, Quoted Manufacturing Firms

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1. INTRODUCTION

In recent years, the corporate sector has been embroiled in a series of legal battles stemming from financial reporting controversies and the manipulation of accounting records (Priharta & Rahayu, 2019).

Although most significant incidents of financial misreporting practices are common in developed nations like the USA (Enron, Bernie Madoff, Lehman Brothers, WorldCom), emerging countries are not immune to financial misreporting practices. In Uganda alone, instances of financial misreporting

in the banking industry have repeatedly occurred over the years, resulting in the closure of several banks, including the International Credit Bank and Teefe Bank in the early 1990s, the National Bank of Commerce in 2012, and Global Trust Bank in 2014 (Kansiime & Saturninus, 2019). Additionally, it was disclosed in 2016 that Crane Bank's financial reports showed non-performing loans valued at a substantially lower amount than their actual worth, which was deemed inappropriate (Kaawaase et al., 2021).

These fraudulent practices have generated doubts about the credibility of the reported financial information, significantly reducing the public's trust in the quality of corporate financial reports (Ismail et al., 2024). Additionally, these practices have changed how businesses and their owners should be governed, and consequently, corporate governance (CG) mechanisms have become very significant in managing a firm's survival during times of crisis and financial distress (Tanjung, 2023). Moreover, many of these cases demonstrated a clear lack of adequate implementation of sound CG principles (Ismail et al., 2024).

CG is a term regularly employed by academicians, practitioners, regulators, and the general public, focusing on control mechanisms. Although there are common definitions of CG, Brickley and Zimmerman (2010) contend that it is challenging to define CG because it covers a broad range of structures. In this paper, we broadly define CG as the processes and procedures that govern how a business is run and managed, consistently with the distribution of rights and responsibilities among its various stakeholders (Stacchezzini et al., 2020). By defining processes through which enterprises are operated and controlled and guaranteeing that agents are answerable to principals and other stakeholders, CG serves as a vital tool for regulating the rights and responsibilities of various stakeholder groups (Gerged et al., 2023). By employing effective corporate governance mechanisms (CGMs), managers' interests can be aligned with shareholders', thereby leading to high-quality financial reporting (Abu Hamour et al., 2024; Amanamah, 2024; Hundal, 2024; Kostyuk et al., 2018; Sun, 2023). Moreover, good governance enhances financial reporting quality (FRQ) (Alzeban, 2019; Asghar et al., 2020; Marchini et al., 2018; Rezaee & Safarzadeh, 2022) by improving the accuracy and informativeness of earnings information (Hassaan & Salah, 2023).

The body of research relating to CG and FRQ is underpinned by many theories, the most well-known of which are agency theory and stakeholder theory. According to agency theory, organisations face a principal-agent dilemma, in which managers may prioritise their own interests over shareholders' (Jensen & Meckling, 1976). However, by using effective CGMs, managers' interests can be aligned with shareholders', leading to high-quality financial reporting (Sun, 2023). Stakeholder theory, on the other hand, proposes that managers in contemporary organisations are thought to uphold an implicit relationship with a variety of stakeholders, including customers, the general public, and regulators, in addition to shareholders (Kock et al., 2012). Moreover, if the entity employs sound CG practices, it can provide the different stakeholders with high-quality financial information (Kaawaase et al., 2021). All things considered, these

theories shed light on the significance of robust CGMs in fostering high-quality financial reporting and guaranteeing the long-term success of firms.

The association between specific CGMs and FRQ has been extensively studied from the perspective of developed countries (Arun et al., 2015; Beuselinck et al., 2017; Hsu & Yang, 2022). Furthermore, the majority of these studies have yielded inconsistent results. It is not apparent *ex ante* whether CG and FRQ are complementary or substitute mechanisms (Gaio & Raposso, 2014). In recent years, however, the emphasis has been shifted to the emerging economies (Erin & Adegbeye, 2022; Sun, 2023; Waris & Haji Din, 2023). In emerging African economies like Uganda, empirical studies on this issue are still in their infancy, most likely owing to a lack of adequate disclosure practices by firms and a concentration by scholars. Another noteworthy finding is that a substantial number of academics have chosen financial institutions as their research sample (Etengu et al., 2024; Kaawaase et al., 2021; Nalukenge et al., 2017). Moreover, few scholars have concentrated their governance studies on the manufacturing sector, even though it accounts for a sizable portion of Uganda's corporate sector.

Considering these limitations, coupled with the idiosyncratic CG regulatory environment in Uganda, this study seeks to investigate the influence of CGMs on the FRQ of quoted manufacturing firms within the setting of Uganda, a developing country. In doing so, the study offers several novelties to the existing literature. First, a census of Uganda Securities Exchange (USE) manufacturing firms is selected to create our dataset. Second, the conventional system of CG measurement, in which a vast number of researchers used solely the board structure as an indicator of CG (Amin & Hamdan, 2018; Sarker & Hossain, 2024; Ullah et al., 2017), is not considered in this study. Third, we employ a range of CG metrics, including ownership structure (OS), board characteristics (BC), and audit committee (AC) characteristics, which are very instrumental for assessing the robustness of our findings.

The rest of the paper is organised as follows. Section 2 discusses the relevant theories on CG and FRQ, reviews prior literature on CG and FRQ, and develops testable hypotheses. Section 3 provides a detailed discussion of our research methodology, and Section 4 presents the study's findings. Section 5 discusses the results. Section 6 concludes, provides limitations, and potential directions for further study.

2. LITERATURE REVIEW

2.1. Theoretical review

2.1.1. Agency theory

Agency theory is one of the most significant theories in the field of CG. Its popularity results from two main features, as suggested by Kultys (2016). First, it is straightforward since it divides large firms into two groups: shareholders and managers, each of whom has distinct and conflicting interests. Second, it makes the widely held belief that humans are

inherently egoistic and that, as a result, all rational people act in their own best interests. Moreover, this theory views an entity as a series of contracts between the different stakeholders (Jensen & Meckling, 1976). The central premise of the theory is that the principals and agents behave rationally and use contracts to optimise their wealth.

Jensen and Meckling (1976) claim that the agency problem arises when ownership and control of a firm are separated, which causes managers to put their own interests ahead of shareholders' interests. Because management enjoys information superiority as insiders, this leads to information asymmetry. Information asymmetry, according to Agyei-Mensah (2018), creates an adverse selection issue that lowers the market value of the firm's equity and deprives shareholders of wealth. Therefore, governance mechanisms are required to prevent or lessen the agents' self-serving interests in a bid to reduce information asymmetry (Wiseman et al., 2012).

Agency theory has been chosen as the study's theoretical framework because CGMs are among the most powerful mechanisms used by shareholders in monitoring and regulating the behaviour of managers (Sarun, 2016). By increasing the monitoring role that these mechanisms can offer, sound CGMs — particularly those relating to the board and OS, among others — seek to address the agency problem (Husseinali, 2015). Moreover, a continuous review of the promoted CGMs may result in an improved system of financial reporting because the reviews and reforms are expected to strengthen the bond between the board, OS, and the company's FRQ.

2.1.2. Stakeholder theory

In the 1970s, stakeholder theory made its way into the management literature (Hien & Hai, 2020). Freeman (1984) then extended it to include corporate accountability to a wide range of stakeholders. The theory posits that in a contemporary firm, managers are thought to have an implicit link with shareholders as well as other stakeholders like customers, the general public, and regulators (Kock et al., 2012). Relative to agency theory, stakeholder theory makes several assumptions. First, the theory presumes that managers are answerable to all stakeholders (Chen & Roberts, 2010). Second, corporations operate to serve the interests of the broader society as well as the financial gain of their owners (Albassam, 2014).

Globally, CG systems are transitioning from the shareholder value-centric CG model to the stakeholder-oriented concept of CG, which prioritises sustainable business practices (Okiro, 2014). Due to this, the responsibility of corporate boards has since shifted focus from shareholders' interest to the interests of other stakeholders like customers, the general public, and regulators (Smallman, 2004). Because CG is about balancing the interests of various stakeholders, including owners, customers, the general public, and regulators, among other stakeholders, several contractual arrangements that generate costs have been created in companies to manage such relationships (Htay et al., 2013). In this sense, therefore, FRQ may be impacted by the actions of a firm's various stakeholders.

Despite its widespread acceptance as a CG theory, stakeholder theory has faced criticisms from two perspectives (Albassam, 2014): 1) the theory's assumptions contradict the company's primary objective, which is to maximise shareholder wealth; and 2) it is also at odds with the principal-agent relationship, which holds that managers are essentially accountable to shareholders. On these grounds, we believe that the theory is incongruent with the fundamental principles of CG. Notwithstanding the aforementioned weaknesses, stakeholder theory continues to be a fundamental theory of CG (Chen & Roberts, 2010).

2.2. Empirical literature review and hypothesis development

2.2.1. Ownership structure and financial reporting quality

Ownership structure refers to the capital held between members inside the company and outside the company (Celik et al., 2023). In the overall system of CG, the concept of OS is essential (Sun, 2023). By moderating the association between shareholders and management, OS can affect board composition, chief executive officer (CEO) compensation, and strategic decision-making (Emiaso & Okafor, 2023). According to agency theory, a company's OS significantly affects its financial reporting initiatives (Ismail et al., 2024). While several studies (Ayadi & Boujelbene, 2015; Fayad et al., 2024; Qawqzeh et al., 2019; Yasser et al., 2017) have investigated the effect of OS on FRQ, the findings of such studies are inconsistent. A research study by Yasser et al. (2017) shows that ownership concentration is negatively correlated with FRQ in the East. Furthermore, in Malaysia, both individual and group ownership were positively correlated with earnings management; in Pakistan, however, this was not the case; instead, there was a negative correlation (Yasser et al., 2017). Ayadi and Boujelbene (2015) suggest a positive impact of managerial ownership on earnings management. Fayad et al. (2024) show that government ownership and foreign ownership influence integrated reporting quality (IRQ) positively.

According to Ananzeh et al. (2023), the impact of large institutional shareholders and family ownership on a firm's performance can differ depending on the specific characteristics of those OS. Qawqzeh et al. (2019) establish that whereas director and family ownership significantly improve FRQ, institutional ownership significantly and negatively affects it. Based on these findings, we propose our first hypothesis as follows:

H1: There is a significant positive effect of ownership structure on financial reporting quality.

2.2.2. Board characteristics and financial reporting quality

The firm's board of directors (BoDs) plays a vital role in overseeing its operations and activities, which is crucial for the decision-making process. According to agency theory, the BoD's primary duties are to oversee management's efforts to increase company value and enhance the quality of financial reporting

(Ikbal Tawfik et al., 2022). Moreover, a dynamic composition and formation of the BoDs can guarantee a sound system of CG (Fariha et al., 2022).

Many prior studies show that BC significantly enhances FRQ (Akeju & Babatunde, 2017; Chouaibi et al., 2022). When we disintegrate the BC, however, we observe conflicting results. For instance, a study by Onuorah and Imene (2016) demonstrates that while independent directors on a firm's board adversely affect FRQ, board experience, structure, and the quality of external audit have a favourable effect. Makri et al. (2024) document a positive influence of board size, board independence, and gender diversity on IRQ. The study also finds that board activity and role duality are insignificant with IRQ. Fayad et al. (2022) show that IRQ is positively related to board size, gender diversity, and activity of the board. Holtz and Sarlo Neto (2014) highlight that board independence and the separation of the chairman and executive director (ED) roles have a beneficial effect on the quality of reported accounting information.

According to Saona et al. (2020), a proportionate increase in the number of independent members on the board improves the quality of financial information and reduces the degree of earnings manipulation. Moreover, independent directors act as a potential CGM in reducing agency costs that result from ownership and control being separated (Roy & Alfan, 2022). In light of these study results, we affirm the board's effective role in enhancing FRQ. Thus, we put forth the following as our second hypothesis:

H2: There is a significant positive effect of board characteristics on financial reporting quality.

2.2.3. Audit committee characteristics and financial reporting quality

The effectiveness of ACs in performing their duties has come under greater scrutiny as global markets become more integrated and regulatory oversight becomes more stringent (Sobhan et al., 2024). According to Haddad et al. (2022), an AC is an independent advisory body created by and within the BoDs, principally charged with managing financial information, overseeing the accounting process, and conducting financial statement audits. Moreover, it is a board committee that is crucial in monitoring financial reporting tasks and guaranteeing their precision and dependability (Alqatamin & Alqatamin, 2024). By supporting the board in overseeing management and maintaining independence in the audit process, an AC contributes significantly to CG (Makri et al., 2024).

Within the context of contemporary CG, the AC stands as a cornerstone entity charged with important responsibilities such as overseeing financial reporting procedures, ensuring compliance with regulations, and safeguarding stakeholders' interests (Sobhan et al., 2024). According to the stakeholder theory, the quality of financial reporting is anticipated to be improved by an efficient AC that is characterised by size, independence, financial knowledge, and regular meetings (Qaderi et al., 2023).

Prior studies have shown that overall FRQ is enhanced when an AC is composed of members with diverse experience and a strong sense of

independence (Mardessi, 2022). Alqatamin and Alqatamin (2024) claim that a larger AC may reveal and address issues pertaining to financial reporting. Bawuah (2024) reports that audit committee expertise (ACE) (AC independence, AC size, and AC meetings) constrains earnings management, with the effect being greater for AC independence. As a result, firms with ACE typically tend to report lower levels of earnings management. Merter and Özer (2024) show that AC gender diversity, meeting frequency, and independence are negatively associated with timely reporting.

Using a sample of firms registered on the Pakistan Stock Exchange, Ud Din et al. (2021) find that adding an external female director to a previously all-male AC enhances AC performance, which in turn raises the quality of financial reporting. Makhlof (2024) demonstrates that the inclusion of female members on the AC adversely affects impression management, suggesting that this characteristic mitigates the manipulation of financial reports and decreases the practice of earnings management. Nonetheless, AC meetings had no substantial impact on impression management. Lien et al. (2023) indicate a significant positive correlation between the efficacy of ACs and the quality of financial reporting. Moreover, Alzeban (2020) explores the influence of CG components (external auditor quality, AC, and CEO) on FRQ, concluding that the AC has the most significant beneficial influence on FRQ. In light of these arguments, we propose our third hypothesis as follows:

H3: There is a significant positive effect of audit committee characteristics on financial reporting quality.

3. METHODOLOGY

3.1. Research design, population, and sample

The study adopts a cross-sectional survey design, measuring both the independent (CGMs) and dependent (FRQ) variables simultaneously using a single questionnaire (Bhattacherjee, 2012). We employ a quantitative research approach, utilizing surveys to investigate our research hypotheses. Our target population was 300 respondents from the quoted manufacturing firms trading on the USE. Out of the target population of 300 respondents, a sample of 169 respondents determined using Krejcie and Morgan's (1970) table was selected to take part in the study. The quoted manufacturing firms were selected using simple random sampling, and employees served as the study's primary informants (Otoo, 2024). Responses from a total of 150 respondents, representing an 89% response rate, were analysed. Thus, 19 questionnaires were invalid and were therefore not included in our final analysis.

In addition, we supplement the closed-ended questionnaire with 10 semi-structured interviews conducted with board members and top executives of the quoted manufacturing firms to collect primary data. Purposive sampling was used to choose the informants (Campbell et al., 2020). The justification for the choice of this technique is that the board members and top executives are considered to be experienced, well-positioned, and

influential professional experts (Kaawaase et al., 2016). The interview guide consisted of six questions, and each interview took about 15 to 30 minutes to allow enough time to gather adequate information from the interviewees.

As shown in Table 1, 23% of the respondents were 25 years old or younger, 20% were between 26 years old and 30 years old, 43% were between 31 years old and 39 years old, and 14% were over 40 years old. The implication of this is that most of the employees of the manufacturing-listed firms are either youth or employees slightly above the youth age bracket. Table 1 also demonstrates that 7% of the respondents had been in their current role for less than one year, 17% had one year but less than three years of experience, 40% had three years but less than five years of experience, 20% had five years but less than 10 years of experience, 7% had 10 years but less than 15 years of experience, 4% had 15 years but less than 20 years of experience, and 6% had 20 years and above of experience in their current role.

In terms of number of years employed by the firm, 5% of those surveyed had less than a year

of experience working for the quoted manufacturing firms, 13% had worked with the quoted manufacturing listed firms for one year but less than three years, 33% had worked with the quoted manufacturing listed firms for three years but less than five years, 27% had worked with the quoted manufacturing listed firms for five years but less than 10 years, 15% had worked with the manufacturing listed firms for 10 years but less than 15 years, and 7% of the respondents had worked with the quoted manufacturing listed firms for 10 years or more. Since the majority of the respondents have experience of about three to five years, we believe that their responses to the remaining study questions would be reasonable.

In line with qualifications, 17% of the respondents had a master's in business, 17% had a master's in non-business, 24% had a bachelor's in business, 22% had a bachelor's in non-business, and 20% had other qualifications. Given that the vast majority of those surveyed had a bachelor's in business, it can be concluded that most employees in the quoted manufacturing firms have the relevant knowledge on the issues of governance and financial reporting.

Table 1. Demographics of the respondents

Demographics	Scale	N = 150 (100%)
Age group	25 or younger	34 (23%)
	26-30 years old	30 (20%)
	31-39 years old	65 (43%)
	Over 40 years old	21 (14%)
Number of years employed in this role	Less than 1 year	10 (7%)
	1 but less than 3 years	25 (17%)
	3 but less than 5 years	60 (40%)
	5 but less than 10 years	30 (20%)
	10 but less than 15 years	10 (7%)
	15 but less than 20 years	6 (4%)
	20 years and above	9 (6%)
	Less than 1 year	8 (5%)
Number of years employed by the firm	1 but less than 3 years	20 (13%)
	3 but less than 5 years	50 (33%)
	5 but less than 10 years	40 (27%)
	10 but less than 15 years	22 (15%)
	15 years and above	10 (7%)
	Master's in business	26 (17%)
Qualifications	Master's in non-business	25 (17%)
	Bachelor's in business	36 (24%)
	Bachelor's in non-business	33 (22%)
	Other	30 (20%)

3.2. Data collection, validity, reliability, and measurement of variables

For purposes of collecting data, we developed and tested a structured questionnaire consisting of 26 items measuring five theoretical constructs: *OS*, *BC*, *AC* characteristics, and the *FRQ* metrics of relevance and timeliness. Each of the questionnaire items was evaluated using a 5-point Likert scale. The points on the scale were delineated as follows: 1 — Strongly disagree; 2 — Disagree; 3 — Neutral; 4 — Agree; and 5 — Strongly agree. The drop-and-pick-later technique was used to administer the questionnaires to the respondents. Moreover, the aim of the study was expounded to

the respondents in addition to guaranteeing their anonymity.

To reinforce the validity and efficiency of our data and allow for greater freedom and flexibility, as suggested by Saunders et al. (2015), semi-structured interviews were conducted with 10 board members and top executives of the quoted manufacturing firms.

To ensure the quality of this research, we conducted validity and reliability tests. Validity aims at ensuring that the instrument measured what it was designed to measure (Saunders et al., 2015). In the current study, validity was ensured through a validity test using the content validity index (CVI) using the following formula:

$$CVI = \frac{\text{Number of questions rated as relevant (24)}}{\text{Total number of questions (31)}} = 0.774 \quad (1)$$

Given that the CVI of 0.774 is more than the widely accepted cut-off point of 0.600, as suggested by Kaawaase et al. (2021), it can be concluded that the questions were valid and appropriately measured the study variables. Reliability of the questionnaire, which is related to the correctness and precision of the measurement technique (Cooper & Schindler, 2014), was checked using the Cronbach's alpha coefficients. The overall internal reliability was confirmed with an alpha coefficient greater than 0.75, as recommended by Presutti et al. (2024). The results of the reliability test are presented in Table 2.

The measurement of variables included measuring *FRQ* using the qualitative characteristics of relevance and timeliness (Johl et al., 2013; Kaawaase et al., 2021). *CG* was proxied by *OS*, *BC*, and *AC* characteristics (Chouaibi et al., 2022; Mardessi, 2022; Sun, 2023; Waris & Haji Din, 2023; Yasser et al., 2017). The details on the measurement of variables are provided in Appendix (Table A.1) (available in the supplementary material to this paper).

3.3. Data analysis

We utilised the Statistical Package for Social Scientists (SPSS) Version 23 for initial coding and input of the data obtained from the duly filled and validated questionnaires. Thereafter, statistical analyses in the form of descriptive statistics and correlations were generated. A linear regression analysis was performed to test each of our three research hypotheses. The linear regression model for the study is represented as:

$$FRQ = \beta_0 + \beta_1 OS + \beta_2 BC + \beta_3 AC + \varepsilon \quad (2)$$

where, β_0 is a constant term, $\beta_1 - \beta_3$ are the coefficients of the slope parameters, and ε is the error term.

3.4. Alternative methods

Our study primarily employs regression models due to their efficacy in analysing linear relationships and generating results that are easy to comprehend to examine the associations between *CGMs* and *FRQ*. Alternative analyses, however, might offer additional insights, particularly when it comes to addressing linear relationships. For instance, panel data analysis with both random effects and fixed effects models is an effective tool for examining the association between *CGMs* and *FRQ* (Aboud & Diab, 2022; Sun, 2023).

To investigate the effect of *CGMs* on *FRQ*, the study has also suggested a multiple regression analysis utilising a pooled ordinary least squares (OLS) with panel corrected standard errors (PCSE) model. Furthermore, the choice of the PCSE model lies in its ability to handle heteroscedasticity, autocorrelation, and contemporaneous correlation problems that arise during panel estimation of a specific panel database (Sobhan et al., 2024). Moreover, a thorough statistical technique that enables the concurrent testing of several relationships, structural equation modelling (SEM) using AMOS, is very helpful for examining the direct and indirect impacts of *CGMs* on *FRQ*.

4. RESULTS

4.1. Descriptive statistics

In Table 3, we provide a summary of descriptive statistics. Percentages, as well as means and standard deviations, are reported. The mean for *FRQ* as shown in Table 3, is 4.1019, suggesting that respondents agreed with the quality of financial reporting in the quoted manufacturing firms in Uganda. For *OS*, which was one of the proxies for *CG*, a mean of 4.0264 was obtained, which means that the respondents generally agreed that *OS*, as a key *CGM*, is effective in quoted manufacturing firms trading on the floor of the USE. This finding is consistent with Sun's (2023) assertion that *OS* is crucial in firm *CG* and can affect strategic decision-making, CEO compensation, and board composition.

In addition, this finding is supported by the results from key informant interviews. The interviewees were of the view that the *OS* of the quoted manufacturing firms in Uganda provides good governance. This was vividly stated by informants; the following quotes reflect this: "Yes indeed, *OS* contributes to good *CG* (Informant 1, personal communication, June 15, 2024). Similarly, Informant 4 mentioned that "CG quality is related to *OS*" (personal communication, June 16, 2024).

Table 2. Cronbach's alpha values of the constructs

Number	Variables	Cronbach's alpha coefficients
1	<i>OS</i>	0.802
2	<i>BC</i>	0.722
3	<i>AC</i>	0.812
4	<i>FRQ</i>	0.738
Overall		0.769

In line with *BC*, a mean of 4.0371 was obtained, which meant that *BC* is effective in the quoted manufacturing firms. This aligns with Fayad et al.'s (2022) assertion that the BoD needs to possess certain attributes to effectively perform its supervisory and monitoring role. The informant interviews also revealed that the boards of the quoted manufacturing firms in Uganda are quite effective in carrying out their governance role, especially when it comes to the separation of roles and responsibilities between the chairperson and the CEO. Informant 3, particularly, revealed that: "Provided there's an appropriate balance of skills and experience at the board level, the board will always perform its oversight role effectively. Moreover, the size of the board does not matter in this case" (personal communication, July 19, 2024).

Similarly, the aggregated mean of 4.0304 generally implies that the respondents agree with all the measures relating to the *AC* characteristics. This result compares well with the findings of Alqatamin and Alqatamin (2024), who concluded that an *AC* affects the decision-making processes of firms, and is further supported by Makri et al.'s (2024) argument that an *AC* performs a significant role in *CG* in the sense that it aids the board in monitoring management and ensures the audit process remains independent. In terms of interview responses, the informants revealed that the presence of a fully functional *AC* improves the quality of financial

reports. In particular, one informant asserted that: "In a highly competitive environment, in which the quoted manufacturing firms operate,

the establishment and maintenance of AC as a committee of the board becomes paramount" (personal communication, July 22, 2024).

Table 3. Descriptive statistics

Variable	Obs.	D (%)	N (%)	A (%)	Mean	Std. dev.
FRQ	150	6.8	9.0	84.2	4.1019	0.93713
OS	150	9.9	9.0	81.5	4.0264	1.01188
BC	150	8.8	10.3	80.9	4.0371	0.96788
AC	150	9.5	9.5	81.2	4.0304	1.00797

Note: Key: D = Disagree + Strongly disagree; A = Agree + Strongly agree; N = Neutral; SD = Standard deviation. Scale: Means of 1.00-2.90 represents disagree; 3.00-3.90 represents moderate; and 4.00-5.00 represents strongly agree.

4.2. Correlation analysis

We present Pearson's pairwise correlation analysis results in Table 4. The findings demonstrate a strong, significant, positive correlation between OS and FRQ ($r = 0.641$, $p < 0.01$), which implies that OS shapes FRQ of the quoted manufacturing firms. The correlation results in Table 4 also show a moderate, positive, and significant relationship between BC and FRQ ($r = 0.550$, $p < 0.01$). Additionally, the AC characteristics reveal a strong, positive, significant relationship with FRQ ($r = 0.659$, $p < 0.01$).

Table 4. Correlation analysis results

Variable	FRQ	OS	BC	AC
FRQ	1.000	0.641**	0.550**	0.659**
OS	0.641**	1.000	0.628**	0.642**
BC	0.550**	0.628**	1.000	0.650**
AC	0.659**	0.642**	0.650**	1.000

Note: ** Correlation is significant at the 0.01 level (2-tailed).

4.3. Regression analysis and hypothesis tests

Subsequent to the correlation analysis findings, we perform a linear regression analysis to validate our hypotheses. The first hypothesis proposed in this study was based on the expectation that there is a significant positive effect of OS on FRQ. The findings in Table 5 indicate that OS has a significant and positive effect on FRQ ($H1: \beta = 0.340$, $p < 0.01$), suggesting that an enhancement of OS is linked to an improvement in the FRQ of the quoted manufacturing firms at the USE. The findings also establish that OS increases the quality of financial reports of the quoted manufacturing firms at the USE by 34% (i.e., $\beta = 0.340$). Therefore, OS is an important CGM that influences the FRQ of quoted manufacturing firms at the USE (i.e., p -value < 0.01). Based on this statistic, $H1$ is supported, and as such, $H1$ is accepted at the 0.01 significance level.

The study proposed $H2$, anticipating a significant positive effect of BC on FRQ. The results from the coefficients table (Table 5)

show that BC has no profound effect on the FRQ of the quoted manufacturing firms ($H2: \beta = 0.086$, $p > 0.05$). The findings also indicate that although BC increases the quality of financial reports by 9% (i.e., $\beta = 0.086$), it is not an important mechanism that influences the quality of financial reports of the quoted manufacturing firms at the USE (i.e., p -value > 0.05). Given the aforementioned results, $H2$, which stated that there is a positive and significant effect of BC on FRQ, was rejected.

Again, this study proposed the third hypothesis with the expectation that there is a significant positive effect of AC characteristics on FRQ. Indeed, we find that AC characteristics have a significant positive effect on the FRQ of the quoted manufacturing firms ($H3: \beta = 0.384$, $p < 0.01$) (Table 5). Our finding also exhibits that AC characteristics increase the quality of financial reports by 38% (i.e., $\beta = 0.384$), suggesting that the strengthening of AC is associated with an improvement in the quality of the financial reports of the quoted manufacturing firms at the USE (i.e., p -value < 0.01). On this basis, therefore, $H3$, which stated that there is a significantly positive effect of AC characteristics on FRQ, was accepted.

Moreover, Table 5 shows that our model predicts 51% of the variance in FRQ (adjusted R-squared = 0.505). To supplement the quantitative findings, respondents were interviewed as to whether CGMs enhance the quality of financial reporting in the quoted manufacturing firms. Most of the interview participants indicated that CGMs enhance the quality of financial reports. For example, in one of the cases, we find the following on the CGM-FRQ nexus: "Strong CGMs enhance the quality of a firm's financial reports, while on the other hand, weak CGMs negatively affect the reputation of the firm" (personal communication, July 22, 2024).

Based on the perceptions of the informants, we conclude that there's a positive and significant effect of CGMs on the FRQ of quoted manufacturing firms at the USE.

Table 5. OLS regression model

Variable	Coefficients	St. error	t-value	p-value	Sig.
Dependent variable: FRQ					
OS	0.340	0.086	3.579	0.001	***
BC	0.086	0.103	0.900	0.370	
AC	0.384	0.086	3.944	0.000	***
Constant	1.124	0.310	3.620	0.000	***
R-squared 0.720					
Adjusted R-squared 0.505					

Note: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$.

5. DISCUSSION

The primary goal of this study was to investigate the effect of *CGMs* on the *FRQ* of quoted manufacturing firms at the USE. The study's discovery that enhanced *OS* is associated with an improvement in *FRQ* aligns with the literature reviewed; that is, the results are in tandem with the findings of Ayadi and Boujelbene (2015) and Mahboub (2017), which revealed a significant positive effect of *OS* on *FRQ*. Our findings correspond with the agency theory assertion that a firm's *OS* can significantly influence financial reporting initiatives (Ismail et al., 2024).

Furthermore, the findings that *BC* do not significantly affect *FRQ* contradict the findings of Akeju and Babatunde (2017), Alzoubi (2014), Chouaibi et al. (2022), Fayad et al. (2022), and Makri et al. (2024), who documented a positive effect of *BC* on the quality of financial reports. Moreover, our results are inconsistent with the evidence documented in previous studies (Vishwanathan et al., 2020), which shows that governance initiatives help enterprises in strengthening ties with their stakeholders, which in turn improves firm performance.

Consistent with our expectation, *AC* characteristics significantly affect the *FRQ* of the quoted manufacturing firms at the USE. This evidence corresponds with stakeholder theory and is consistent with prior research (Alqatamin & Alqatamin, 2024; Alzeban, 2020; Merter & Özer, 2024; Mardessi, 2022; Qaderi et al., 2023). Moreover, the *AC* is responsible for overseeing external auditing activities, internal control, and financial reporting (Syofyan et al., 2021). Accordingly, precise supervision by the *AC* will guarantee *FRQ* as indicated by its timely publication. Overall, the regression analysis's results corroborate previous studies (Asghar et al., 2020; Rezaee & Safarzadeh, 2022), indicating that effective governance enhances the quality of financial reporting, which in turn improves the reliability and informativeness of earnings data (Hassaan & Salah, 2023).

6. CONCLUSION

This study seeks to shed light on the effect of *CGMs* on the *FRQ* of quoted manufacturing firms at the USE. In addition to this main objective, the study had several other specific objectives. First, the study determines the effect of *OS* on the *FRQ* of quoted manufacturing firms at the USE. Second, the study investigates the effect of *BC* (such as board functions, board composition, board size, board

independence, and separation of board roles between the CEO and the board chair) on the *FRQ* of quoted manufacturing firms at the USE. Third, the study examines the effect of *AC* characteristics on the *FRQ* of quoted manufacturing firms at the USE.

We measure *FRQ* using the qualitative characteristics of relevance and timeliness. To measure *CG*, three proxy variables, namely *OS* features, *BC*, and *AC* characteristics, are used. Hypotheses were formulated through the lenses of agency theory and stakeholder theory. Based on our findings, we conclude that *OS* and *AC* characteristics enhance the *FRQ* of the quoted manufacturing firms since there was sufficient evidence to support this positive association. This conclusion arises from the significant effect of *OS* and *AC* characteristics on *FRQ*. It can also be concluded that the *BC* examined in this study positively and insignificantly affects *FRQ*.

In any research, there are limitations regarding the interpretation of results. The following is a discussion of some of these limitations. First, owing to data constraints, our study was limited to quoted manufacturing firms. Consequently, future research may include all the quoted firms trading at the floor of the USE. Furthermore, future studies could investigate firms in other developing markets within the East African Community block to broaden our findings. Secondly, this study was confined to the mechanisms of *OS*, *BC*, and *AC* characteristics as indicators of *CG* efficacy and relevance, and timeliness as the only metrics of *FRQ*. It would be useful for future studies to scrutinise the impact of alternative *CG* mechanisms (e.g., external auditing, managerial markets, and the legal regulatory system) on different *FRQ* measures like accounting conservatism and financial disclosure quality. Third, this study uses a survey and interviews; future research could better integrate with archival studies. Lastly, this study investigates the interpretive capacity of agency and stakeholder theory, so future research can examine the application of these same theories in other East African emerging economies, as well as the interpretive capacity of alternative theories such as institutional theory and stewardship theory.

Despite the aforementioned limitations, the study contributes to knowledge on the effect of *CGMs* on *FRQ* in an underexplored context of quoted firms in an emerging economy. The findings also have implications for regulators, standard-setters, and investors interested in promoting effective *CGMs* and the value relevance of financial reporting.

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APPENDIX

Table A.1. Measurement of variables

Variable	Acronym	Variable description
Dependent variable		
Financial reporting quality	FRQ	Measured by average rating on a 5-point Likert scale of questions on relevance and timeliness
Explanatory variable		
Ownership structure	OS	Measured by the average score on a 5-point Likert scale of questions on ownership structure
Board characteristics	BC	Measured by the average score on a 5-point Likert scale of questions on board characteristics
Audit committee characteristics	AC	Measured by the average score of questions on a 5-point Likert scale of questions on audit committee characteristics