UNVEILING THE DETERMINANTS OF FINANCIAL REPORTING QUALITY AMONG ASIA'S BANKS

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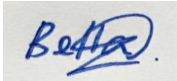
DEPARTMENT OF FINANCE

APRIL 2024

DECLARATION

We hereby declare that:

(1) This undergraduate research project is the end result of our own work, and that due acknowledgement has been given in the references of ALL sources of information be they printed, electronic, or personal.

(2) No portion of this research project has been submitted in support of any application for any other degree or qualification of this or any other university, or other institutes of learning.

(3) Equal contribution has been made by each group member in completing the research project.

(4) The word count of this research report is 16,374 words.

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LIST OF ABBREVIATIONS

BIG4   Type of Audit Firm

BIMB   Bank Islam Malaysia Berhad

BOD   Size of Board of Director

BPLM   Breusch-Pagan Lagrange Multiplier

DPR   Dividend Payout Ratio

FDRATIO   Ratio of Number of Female Directors

FEM   Fixed Effect Model

FRQ   Financial Reporting Quality

GDPGR   The Growth of Gross Domestic Product

LnBOD   Ln Board of Directors

LnYOS   Ln Total Years of Services

NETMARPR   Net Margin Ratio

POLS   Pooled Ordinary Least Squares

REM   Random Effect Model

SIZE   Bank Size (Total Assets in US$)

TETA   Total Equity to Total Assets Ratio

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Chapter 4: Results and Interpretation

PREFACE

Our final year research project, titled "Unveiling the Determinants of Financial Reporting Quality Among Asia's Banks" investigates the financial reporting quality associated with 52 commercial banks across Asia from 2010 to 2022. Utilizing Stata software, we analyze how specific determinants impact the financial reporting quality of banks in Asia.

We have identified five categories of determinants, including bank specific determinants, corporate governance determinants, audit quality determinant, and macroeconomics determinant, and institutional determinants that may influence the financial reporting quality of Asia's banks. The factors include board of directors (LnBoD), female directors (FDRatio) and year of services (LnYoS), Big 4 audit firm (Big4), total equity to total assets ratio (TETA), bank size (total assets in US$) (Size), dividend payout ratio (DPR), net margin ratio (NetMarPr), GDP growth (GDPgr), Inflation - Consumer Price Index (Inflat), and Corruption Perception Index (CPI). In order to confirm whether these factors would affect the financial reporting quality of Asia's banks, few tests are conducted, such as Poolability Test, BPLM Test, and Hausman Test. The main purpose of conducting this research is to identify and ensure the related determinants that are significant in explaining the Asian bank's financial reporting quality.

With the effort and hard work paid, we believe that this research could make crucial contributions to the future research of every relevant party.

ABSTRACT

This study delves into the intricate landscape of financial reporting quality among banks across the Asian region, examining the multifaceted determinants that influence the accuracy, transparency, and reliability of financial information disclosed by these institutions. Against the backdrop of increasing globalization and interconnected financial markets, the quality of financial reporting plays a pivotal role in fostering investor confidence, regulatory compliance, and overall economic stability. Therefore, this research aims to study the determinants of financial reporting quality among Asia's banks. The secondary data was collected via 'Refinitiv' software and annual reports. There are 52 Asia's banks being investigated by using simple random sampling under probability sampling. A software namely 'Stata' has been utilized to conduct the analysis. The outcome of the analysis shown that Female Director (FD), Audit (Big4), Dividend Payout Ratio (DPR), Net Margin Profitability (NetMarPr), GDP Growth (GDPgr), Inflation (Inflat), Corruption Perception Index (CPI) have significant effects on financial reporting quality, excluding Board of Directors (BoD), Years of Service (YoS), Size, Total Equity/Total Asset (TETA) which do not have a significant relationship with financial reporting quality. Thus, the findings offer practical insights for bank executives and policymakers seeking to enhance reporting practices, corporate governance frameworks, and regulatory oversight to bolster the credibility and reliability of financial information in the Asian banking sector.

Keywords: Financial Reporting Quality, Board of Directors (BoD), Female Director (FD), Years of Service (YoS), Audit (Big4), Size, Total Equity/Total Asset (TETA), Dividend Payout Ratio (DPR), Net Margin Profitability (NetMarPr), GDP Growth (GDPgr), Inflation (Inflat), Corruption Perception Index (CPI)

CHAPTER 1: INTRODUCTION

1.0 Introduction

The first section discusses the historical context of banks' financial reporting quality (FRQ) in Asia, together with issues encountered by Asia banks. Furthermore, the objectives and questions towards this research will be listed. After that, the importance of FRQ will be further discussed to broaden the understanding towards the FRQ among Asia's banks.

1.1 Research Background

All the banks worldwide rely on the financial reports to present and express their financial performance and condition with detailed insights such as assets, liabilities, equity, cash flows and so forth to the market participants to make any investment decisions (Hasan, Aly and Hussainey, 2022). Financial report plays a vital role in conveying and transmitting essential financial information and overview of financial performance to shareholders and investors. Financial reporting quality (FRQ) is essential, ensuring that all information in the financial report is accurately represented, pertinent, comprehensible, and timely, thereby allowing shareholders and investors in making informed decisions. Hence, it is the responsibility for the banks to provide quality financial reports to ensure shareholders' loyalty and uphold their reputation. Additionally, the FRQ would reduce the cost of capital and enhance resource allocation, ultimately fostering overall economic growth (Hasan et al., 2022). This phenomenon can be explained by shareholders' increased willingness to invest capital in banks that provide dependable financial reports. Consequently,

banks become more adept at raising funds through debt and equity issuance, thereby facilitating growth and overall development. Therefore, FRQ is not only crucial for shareholders, but also for society as a whole.

The accounting standards, namely the 'International Financial Reporting Standards (IFRS)', reinforced by the International Accounting Standards Board (IASB), are extensively utilized by banks worldwide, including those in Asia (Hameedi, Al-Fatlawi, Ali & Almagtome, 2021). The rate of adoption of the IFRS among Asia's banks is high in enhancing the quality and accuracy of their financial information and reporting through which investors and shareholders can analyze the financial reports effectively to make informed decisions. For instance, the Korean Accounting Standard Board had overcome the 1997 financial crisis by adopting IFRS to line up with the recognized accounting standard (Key & Kim, 2020). This use of IFRS has boosted investors' confidence in decision-making due to the standardized reporting practices. Also, IFRS was managed to improve the accounting transparency, where the investors had more detailed information in evaluating the financial performance of the banks.

Although the investors expect to receive quality financial reports, the misreporting practices are widespread on a global scale. The Global Economic Crime and Fraud Survey found that about 49% of financial reports failed to meet the quality standards. According to Kaawaase, Nairuba, Akankunda and Bananuka (2021), it is revealed that the first doubtful financial reporting in commercial banks emerged in 1999 with the closure of banks. For instance, in 2016, Crane Bank presented inaccurate financial reports, which the reported value of non-performing loans is drastically different from reality. Additionally, in 2015, the Bank of Uganda raised concerns about the financial reports of Imperial Bank, citing dissatisfaction with their failure to accurately depict the company's true financial status due to the creation of fictitious loans and misrepresentation of its financial position. As a result, Imperial Bank was placed under liquidation in April 2016, which forced it to sell its assets in order to repay its creditors and shareholders. Based on these cases,

low FRQ would negatively affect investors' trust and confidence in well-informed decision making.

Within the banking industry, the frequent occurrence of low FRQ, characterized by the presentation of inaccurate and misleading financial information, becomes a major issue to the investors. This issue is widespread within the banking industry, driven by the high competitiveness and heightened expectations from shareholders for strong financial performance. Consequently, these factors create challenges for banks, causing them to engage in the altering and misrepresentation of financial results to satisfy their shareholders, leading to low FRQ. Besides, low FRQ may arise when banks opt to prioritize cost reduction and short-term gains over the accuracy and transparency of their financial reporting. According to Stanley and Sharma (2011), factors such as financial deregulation and changes in compensation frameworks may intensify the competition between financial industry, which lead to the unethical behaviours of banks in prioritizing short-term profits over precise financial reporting. In this case, banks may present inaccurate financial information based on their favours which influence the FRQ. In addition, the trend of the rapid technological and financial innovations may increase the complexity of financial transactions, at which banks may misrepresent their financial positions through opaque financial transactions. Therefore, the lack of transparency and inaccurate disclosure of the financial reporting erode investors' trust and confidence towards the banks as they fail to make well-informed decisions by referring to the low FRQ.

1.2 Problem Statement

In general, shareholders and directors are connected through the financial reporting system, undergoing substantial importance of financial report quality (FRQ) in accurately and transparently presenting relevant information about the earnings and financial status of banks to the public (Damini, 2023). There are many factors in

maintaining the banks' FRQ. However, the determinants will also bring impacts on the FRQ negatively if not implemented properly.

It can be viewed in the **Silicon Valley Bank (SVB) collapse that happened** on the 10th of March 2023. SVB is one of largest banks in the United States, and the event represents the second-largest banking failure globally. **Weak governance** is the fundamental point that brought this tragedy (Foster, 2023). 'No corporate governance rules and **Auditing Standards** would serve any purpose in case professionals chose to shut their eyes to real happenings and follow unethical practices', audit professionals mentioned. After that, SVB's extended dollar bank deposit and its rating have been downgraded by Moody's. In a report dated March 8, 2023, Moody's stated that one factor contributing to the downgrade is governance. As a result of this development, Moody's has adjusted its governance score from G-2 to G-3, signalling moderately negative governance risks.

Furthermore, SVB crisis was also caused by risk management failures which is one of the **bank specifics**. There was a high expectation on revenue and unexpected speed in capital burning. They also funded the long-term assets with short-term liabilities which is not a wise practice. Moreover, deterioration of creditworthiness and liquidity of their clients resulted due to changing the assessment towards them. The deposits declined more than 15 billion as compared to the end of 2021, was mainly caused by a reduction in exits and fundraising of private and public.

Besides, the factors that led to this bankruptcy occurred can also be described by **macroeconomics and institutional** factors. It was an increase in interest rates which slowed down the debts collection as well as a decrease in securities investments which reduced the income (Arora et al., 2023). For instance, the interest rates in the United States have seen a substantial rise, surging by more than 40%. Next, SVB has predominantly served startups financed by US venture capital and making themselves struggling in earning income during interest rate increases. The

bank then encountered liquidity problems and affected the performance of financial reporting, eventually making it harder to attract potential depositors, borrowers or investors. These determinants have been effectively showcased in this significant case, illustrating how mishandling them can have adverse effects on FRQ in the short run and long run.

To mitigate these issues, banks need to strengthen governance and auditing by enhancing oversight, implementing stricter corporate governance rules, and ensuring adherence to auditing standards. Additionally, banks should improve risk management practices by establishing robust frameworks, conducting thorough risk assessments, and creating contingency plans. Banks should also diversify revenue streams and optimize liquidity management by maintaining adequate reserves, diversifying funding sources, and conducting regular liquidity risk monitoring. Our research will be able to deal with these problems by investigating in detail which elements inside each category are the key in affecting FRQ.

1.3 Research Objectives

1.3.1 General Objective

To investigate the determinants of FRQ among Asia's banks.

1.3.2 Specific Objectives

i) Identifying the determinants affecting the quality of financial reporting in banks across Asia.

ii) Investigating the relationship between the determinants, which includes bank specific, corporate governance, audit quality, macroeconomic factor, and institutional factor, towards financial reporting quality among Asia's banks.

1.4 Research Questions

i) Which determinants affect financial reporting quality among Asia's banks?

ii) How do bank specific, corporate governance, audit quality, macroeconomic and institutional factors influence the quality of financial reporting in banks across Asia?

1.5 Significance of Study

Our research titled "Unveiling the Determinants of Financial Reporting Quality (FRQ) Among Asia's Banks" serves as a pivotal investigation into understanding the intricate factors influencing the FRQ within the Asian banking sector. This study endeavours to delve deep into an array of determinants, including specific metrics such as the natural logarithm of the board of directors, female director ratio, natural logarithm of years of service, Big 4 auditors, size, total equity/total asset, dividend payout ratio, net margin ratio, GDP growth, inflation-consumer price index, and corruption perception index. By comprehensively analyzing these determinants, the study aims to unveil the determinants of FRQ among Asia's Banks.

One crucial area of exploration within this research is the examination of the relationship between total equity/total asset and FRQ, alongside the influence of the inflation consumer price index. The study aims to fill a critical gap in the existing literature by meticulously investigating how these specific determinants interact and contribute to the overall landscape of FRQ in Asia's banking institutions. This exploration holds substantial promise in providing a more comprehensive understanding of the intricate dynamics shaping financial reporting practices, thereby offering invaluable insights that can significantly benefit various stakeholders within the financial ecosystem.

The significance of this study extends far beyond the realm of academia. It holds immense potential to provide practical insights that can directly impact various stakeholders within the financial landscape. For practitioners in the financial industry, these findings can serve as a guide to enhancing reporting practices. Understanding the determinants identified in this study can facilitate the implementation of measures that foster transparency, accuracy, and accountability in financial statements. This, in turn, nurtures trust among stakeholders, regulators, and the public, thereby bolstering the stability and credibility of the banking sector.

Importantly, investors, both individual and institutional, stand to gain substantial benefits from the outcomes of this research. With a deeper understanding of the determinants influencing FRQ in Asian banks, investors can make more informed decisions. They can better evaluate the financial health of these institutions, thereby improving risk assessment, portfolio management strategies, and resource allocation. Ultimately, this informed approach can lead to more successful investments and reduced uncertainties within the financial markets.

Additionally, beyond its immediate practical implications, this study contributes significantly to the academic discourse on FRQ in Asia's banking sector. It not only provides empirical evidence on specific determinants but also lays the groundwork

for future studies to explore these factors in more detail. The findings may catalyze the development of new theoretical frameworks, enriching the overall understanding of how financial reporting practices influence financial markets in the region.

Moreover, the implications of this research extend to policymakers and regulatory bodies. Insights derived from understanding these determinants can inform targeted refinements in banking sector regulations. By reducing information asymmetry and fostering greater financial stability and integrity, policymakers can leverage these findings to enact more effective and informed regulatory measures.

In summary, this study's multifaceted approach and comprehensive analysis of determinants influencing FRQ among Asia's Banks carry substantial significance, offering practical, theoretical, and regulatory implications that have the potential to shape and improve the functioning of the financial sector in the region.

1.6 Chapter Layout

The first chapter mainly focuses on the background of financial reporting quality (FRQ) of banks in Asia, followed by the issues faced in presenting the FRQ. Also, the objectives and questions towards the research will be constructed. Lastly, the significance of performing this study is presented in the purpose to raise public's awareness towards the importance of FRQ.

Besides, the second chapter discusses the review of literature on FRQ in banks across Asia. Besides, the reviews of variables affecting the FRQ of Asian banks will

be examined. After that, we presented the conceptual framework in a diagram, and lastly the hypotheses were developed.

Furthermore, the third chapter provides the details on the research methodology that have been applied in studying the research. It includes the research and sampling design, followed by the data gathering, research and construct measurement. Then, we discussed the method of processing and data analyzing.

Moreover, the fourth chapter will discuss the data analysis, which include the description and panel data analysis. After that, diagnostic checking will be carried out. At last, the inferential analysis will be constructed.

The last chapter will conclude the discussion together with implications on the study. We conducted the statistical analysis summarization, the major findings' discussion, as well as study's implications. Additionally, we discussed the limitations encountered while conducting the research, and pointed out the recommendations in improving the research conducted.

1.7 Conclusion

To conclude the first chapter, the understanding of the financial reporting quality (FRQ) of Asia's banks will be further enhanced. During the research, the problems and issues towards FRQ that are encountered by Asia's banks will be realized, which directly guide several objectives and questions to the research. Lastly, the public will further raise knowledge and information on the Asia's banks' FRQ through the research significance.

CHAPTER 2: LITERATURE REVIEW

2.0 Introduction

Here starts by evaluating the financial reporting quality's (FRQ) past studies so that the relationships of review variables and FRQ of Asia's banks can be determined. The review variables are classified into five types, namely the corporate governance, audit quality, bank-specific factors, economic variables and lastly institutional factors. The corporate governance variables namely board of directors (LnBoD), female directors (FDRatio) and year of services (LnYoS); while the audit quality includes the Big 4 audit firm (Big4) factor. The bank-specific factors consist of the total equity to total assets ratio (TETA), bank size (total assets in US$) (Size), dividend payout ratio (DPR) and also net margin ratio (NetMarPr). Furthermore, the economic variables contain the GDP growth (GDPgr) and Inflation - Consumer Price Index (Inflat). At last, the Corruption Perception Index (CPI) is the only variable under the category of institutional factor. In addition, the theories that are relevant to the FRQ will be discussed to further explain the research. The Asian countries, namely Malaysia, Thailand, Singapore, Indonesia, Vietnam, Philippines, China and Hong Kong are the targeted countries that will be focused on the research. After that, we developed the conceptual framework as well as hypotheses.

2.1 Underlying Theories

2.1.1 Agency Theory
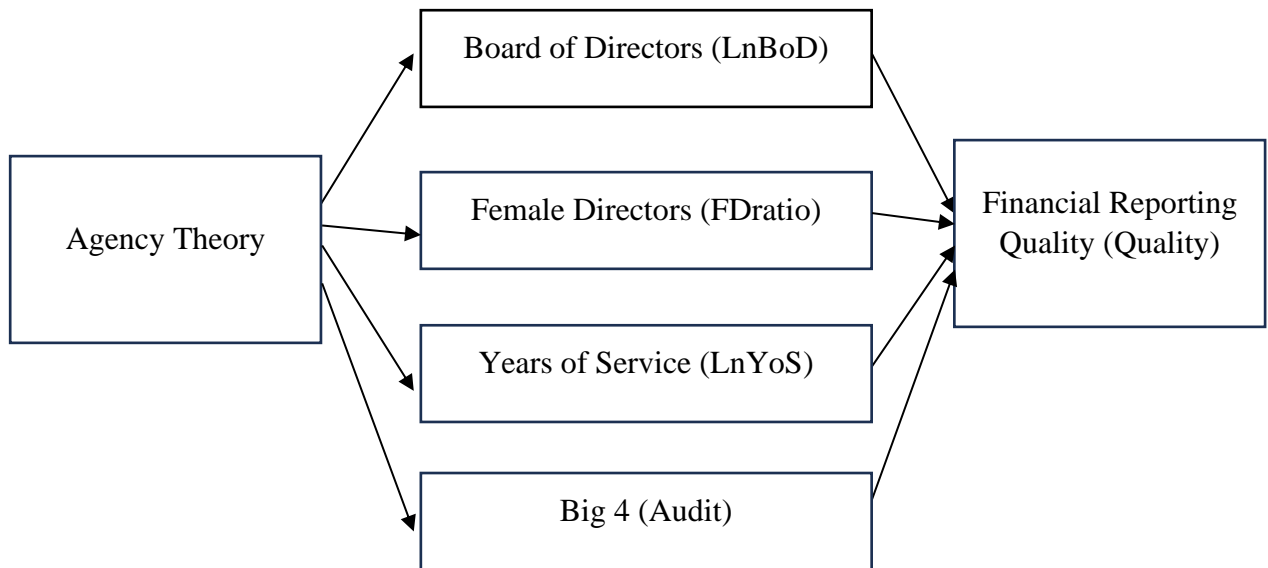
Figure 2.1. Agency theory. Adapted from Ilaboya (2021), Alsmady (2022), Phuong & Hung (2020)

Agency theory specializes that the board functions as aligning managers and shareholders' interests regarding the financial data and ensuring the high data quality is presented in the financial reports to avoid the occurrence of information asymmetry. In other words, BoDs play important roles in administering the interdependencies and resource acquisition to strengthen the organizational and operational functions (Phuong & Hung, 2020). Furthermore, BoDs are always in the place of shareholders, which the theory highlights that the larger board size is essential in banks and financial institutions to protect the shareholders' interests. The increased number of board of directors would promote the productivity in maintaining high quality of the accounting and financial reporting system. Also, the large board size aims to improve the decisions quality as every director with diverse

perspectives would come out with fruitful decisions that maximize the shareholders' interests. Within the BoDs' sufficient monitoring, the high standard of financial reporting is guaranteed which provides confidence to investors.

Next, the inclusion of female directors within the framework of agency theory offers a nuanced perspective on enhancing FRQ among Asia's banks (Aryani et al., 2024). Research suggests that gender diversity on corporate boards can boost decision-making processes and superior governance outcomes. Female directors bring unique viewpoints, experiences, and skills to the table, which can contribute to more thorough discussions and considerations regarding financial reporting practices. Also, the inclusion of female directors can act as a supplementary mechanism for alleviating agency conflicts and fostering transparency in financial reporting. Research indicates that boards with diverse compositions are inclined to challenge managerial assumptions and pose pertinent questions, thereby enhancing the scrutiny of financial reporting procedures. By incorporating female perspectives into board dynamics, banks can foster a culture of accountability and diligence, ultimately enhancing the credibility of their financial disclosures. Moreover, the appointment of female directors underscores a commitment to meritocracy and inclusivity, signalling to shareholders a dedication to diverse viewpoints and expertise in decision-making processes. This not only enhances the reputation of banks in terms of corporate governance but also strengthens investor trust in the accuracy and reliability of financial reports.

Furthermore, managers may have incentives to manipulate financial reports for their own interest rather than shareholders' interest (Team, 2023). Hence, CEO tenure can influence FRQ because longer-serving CEOs may develop a stronger alignment with shareholders' interests and a deeper understanding of the importance of transparent and accurate financial reporting. For example, CEOs with longer tenures often have a more long-term perspective (Mtapscott, 2023). They may prioritize the company's sustained success over short-term gains and, as a result, make decisions that contribute to the corporate's financial performance.

They may also accumulate greater experience and knowledge about the company's operations, industry dynamics, and financial reporting requirements (Borgi et al., 2021). This alignment can result in CEOs taking actions in maintaining and improving FRQ to foster trust, minimize information asymmetry and ultimately mitigate agency conflict within the organization.

In addition, external audits play a vital role in tackling agency conflicts. They act as a mechanism to provide independent verification of a company's financial statements. They are expected to assess the correctness and fairness of financial reporting without bias. This evaluation is essential in preventing fraudulent activities and ensuring that financial reporting processes are robust. They can report the identified issues related to financial mismanagement or potential conflicts of interest to the company's BoDs, audit committee, or regulatory authorities. This reporting mechanism serves as a check on managerial actions that may be detrimental to shareholder interests (Alsmady, 2022).

2.1.2 "Too Big to Fail" Theory
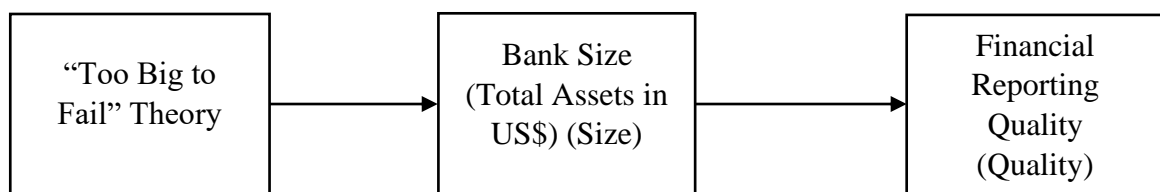
Figure 2.2. "Too Big to Fail" Theory. Adapted from Ioannou et al. (2019)

The "Too Big to Fail" Theory has gradually evolved within the realm of economics and finance, driven by various financial crises that underscored the systemic threats posed by financial institutions that were both large and interconnected (Ioannou et al., 2019). As Ioannou and colleagues pointed out in their research, these crises highlighted the potential for severe consequences when such institutions face

collapse. Moosa (2010) further contributes to the understanding of this theory by emphasizing that when a financial institution reaches a size where its failure jeopardizes the stability of both the financial system and the broader national economy, it is deemed "too big to fail."

In the event of the failure of such a substantial institution, the repercussions can swiftly propagate across the financial system, triggering a chain reaction of issues such as credit freezes and market disturbances. This highlights the critical role of size in assessing financial institutions' importance systemically. Moreover, FRQ also holds relevance to "Too Big to Fail" Theory. The clarity, precision, and dependability of financial reporting can substantially affect the application of the theory and influence the reactions of policymakers and regulators when confronted with the possible collapse of major financial institutions. Therefore, maintaining high FRQ is crucial for accurately assessing the risks associated with large financial institutions and making informed decisions to mitigate potential systemic threats.

2.1.3 Capital Structure Theory – Modigliani and Miller (MM) Approach
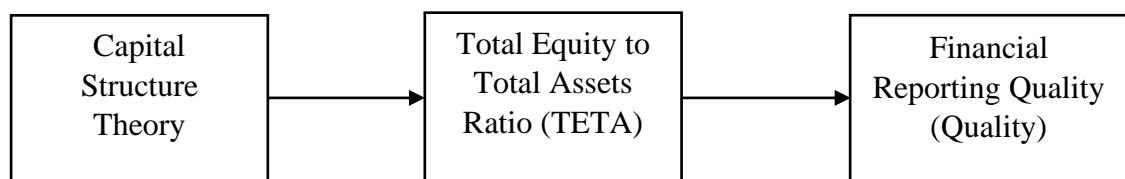
Figure 2.3. Capital Structure Theory. Adapted from Modigliani & Miller (1958)

The Modern Capital Structure Theory foundations can be taken back to the ground-breaking work of Modigliani and Miller, who introduced the Capital Structure Irrelevance Theory in 1958 (Modigliani & Miller, 1958). This theory, formulated

within the context of certain assumptions about investor behaviour and the dynamics of capital markets, posits that a bank's value remains constant regardless of the specific capital structure it adopts. The revolutionary proposition by Modigliani and Miller underscores that in an efficient market, the distribution between debt and equity does not impact the overall worth of the firm.

To comprehend the intricacies of a company's capital structure, the equity-to-asset ratio emerges as an important metric. This ratio provides insight into the proportion of assets financed through equity, a fundamental element of the broader capital structure (*Capital Structure*, 2023). Changes in TETA signify alterations in the blend of equity and debt financing. Importantly, according to the theory, variations in this ratio should not have a direct impact on the firm's overall value. Despite the theoretical robustness of the capital structure irrelevance concept, it is necessary to acknowledge that Modigliani and Miller's theory rests upon a set of assumptions that may be deemed impractical in real-world scenarios. Consequently, a stable capital structure, reflected in a consistent TETA over time, may indicate managerial stability, which could positively influence FRQ (Bui et al., 2023). Stable capital structure choices may result in more predictable financial statements, reducing uncertainty and enhancing FRQ.

2.1.4 Signalling Theory
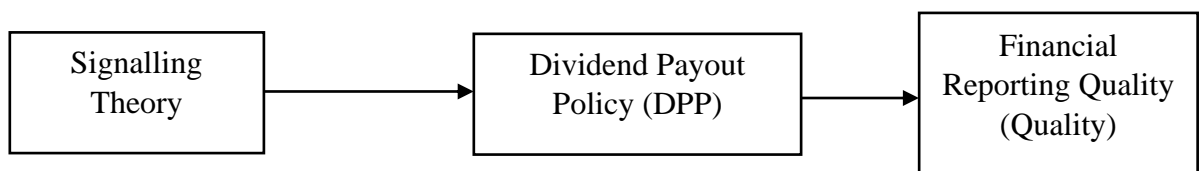
Figure 2.4. Signalling Theory. Adapted from Connelly et al. (2011)

Signalling theory suggests that firms, including banks, strategically utilize various signals to convey information to stakeholders, particularly investors, in situations where information is imperfect. In the case of banks, dividend payout policies can serve as a signal of financial strength and growth potential. By adjusting the amount and consistency of dividend payments, banks can communicate their confidence in future earnings and their commitment to maintaining shareholder value.In the context of Asia's banking sector, where regulatory environments and market dynamics may differ from those in other regions, the role of signalling through dividend policies becomes particularly significant. Banks operating in Asia may face unique challenges and opportunities, including varying levels of regulatory oversight, diverse market conditions, and cultural factors that influence investor behaviour.

Examining the relationship between dividend payout policies and FRQ among Asia's banks involves analysing how banks' reporting practices align with their signalling objectives. High FRQ, characterized by transparency, accuracy, and timeliness, enhances investors' ability to assess a bank's financial position and performance accurately. Furthermore, exploring the interaction between dividend policies, FRQ, and market reactions can shed light on how investors interpret and respond to signals conveyed through banks' financial disclosures. This analysis can contribute to a deeper understanding of the mechanisms through which signalling theory operates within Asia's banking industry and its implications for market efficiency and investor decision-making (Connelly et al., 2011).

2.1.5 Profit Maximization Theory
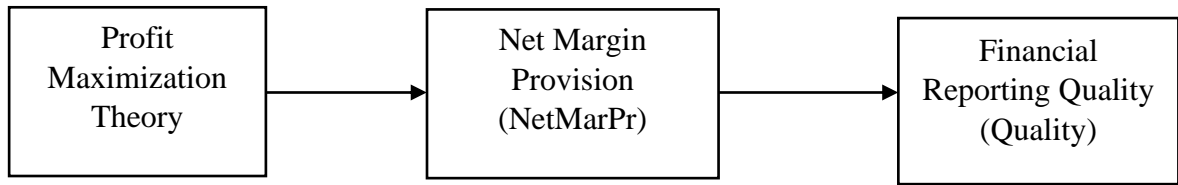
Figure 2.5. Profit Maximization Theory. Adapted from Schrader (1987) & Nelson (2011)

The profit maximization theory, as elucidated by Schrader (1987), asserts that businesses strive to attain the highest possible profit within their operations. This classical economic concept, rooted in the works of seminal economists like Adam Smith and Alfred Marshall, traditionally emphasizes the primacy of profit as the ultimate goal of business endeavours. However, it has faced critique for its oversimplified emphasis on profit as the sole metric of success, neglecting other vital considerations such as social and environmental impacts.

In response to these criticisms, contemporary theories like shareholder wealth maximization and stakeholder theory have emerged, offering more nuanced perspectives that encompass a broader array of stakeholders' interests. Despite these developments, the profit maximization framework remains relevant, particularly concerning financial performance evaluation. By employing profit maximization theory to analyse the relationship between FRQ and the net margin ratio, the study aims to uncover insights into the determinants of FRQ among banks in Asia. This approach acknowledges the foundational role of profit maximization within the realm of corporate finance while recognizing the evolving landscape of modern business, which increasingly emphasizes considerations of sustainability and social responsibility (Nelson, 2011).

2.1.6 Economic Growth Theory
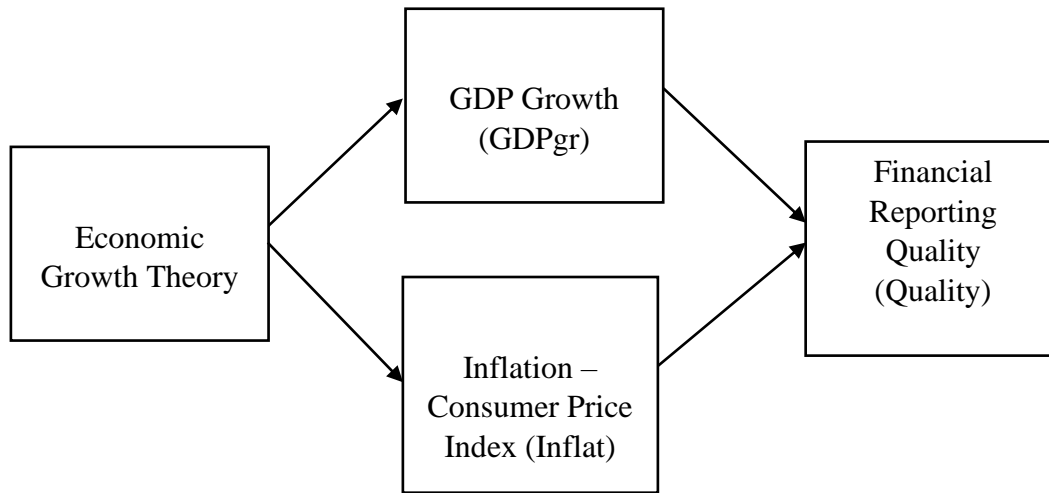
Figure 2.6. Economic Growth Theory. Adapted from Dynan and Sheiner (2018)

The economic growth theory was developed by a few economists, namely Adam
Smith and David Ricardo (Harris, 2007). This theory aims to discover the elements
and processes that lead to higher production of goods and services, leading to
enhanced well-being for a country's populations in the long run (Roser, 2021). In
addition, FRQ affects economic growth by enhancing the identification and
selection of projects, leading to reduced capital expenses and accelerated growth
(Li & Shroff, 2010). Economic growth theory also reflected that financial reports'
quality would be impacted since both assets and liabilities' values do not reflect on
the true value.

Next, our independent variable, Gross Domestic Product (GDP) is the sum of the
worth of things and services generated in an economy of a country, subtracting the
value of goods and services consumed in the process of production (Dynan &
Sheiner, 2018). Based on Surya et al. (2021), a higher GDP growth often indicates
increased investment and productivity in an economy. When companies invest to

improve their operations, it leads to higher FRQ as they implement better accounting systems, controls, and processes to accurately reflect their performance. Moreover, economic growth theory also underscores the importance of financial intermediaries in effectively allocating resources. As GDP grows, financial markets typically become more robust, leading to an increased need for precise financial data (Ito & Kawai, 2018). This increased demand serves as a catalyst for companies to boost FRQ, aiming to secure capital at reduced rates and appeal to potential investors.

In addition, this theory stated that the changes in money supply is a vital factor affecting economic growth, where inflation arises when the money supply rate surpasses the national income growth rate (Sattarov, 2011). When the inflation remains higher, valuation of banks' assets and liabilities and the overall profits would be affected. It is due to the accounting system not accurately reflecting on the current market value; thus, the misrepresentation in the financial reporting occurs and the reporting quality would reduce. Apart from that, FRQ is not always influenced by the continuous high inflation; rather, it is the inflation uncertainty that challenges the banks in presenting reliable and accurate financial reporting. The uncertainty would result in the unstable market price, challenging the banks in capturing the current market price to be recorded in the financial reporting and predicting the future price based on the market trends (Mandeya & Ho, 2022). Since banks only can produce the financial reporting based on the available information, the inaccuracy of the reporting still may occur in the condition of inflation uncertainty.

2.1.7 Rent-Seeking Theory
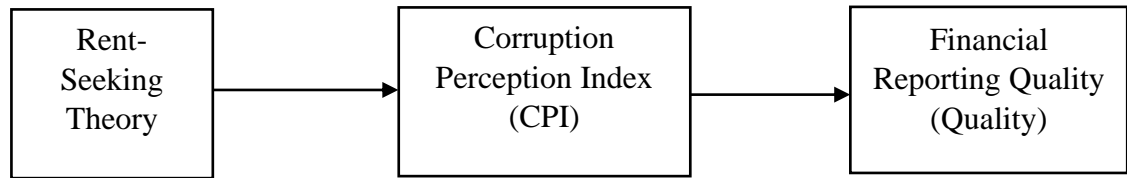
Figure 2.7. Rent-seeking Theory. Adapted from Tollison (2012) & Lambsdorff (2002)

Rent-seeking Theory from Tullock (1967) states that the pursuit of wealth or resources through unproductive means such as lobbying or corruption. This theory examines how individuals or groups seek to capture economic rents, often leading to corruption in the process. Rent seeking is less productive as it destroys value by wasting valuable resources (Tollison, 2012). The theory is applicable to banks due to government intervention in the economic effect such as the Corruption Perception Index which would diminish the efficiency towards their operations because banks obtain insufficient abilities in determining the real situation behind the financial statements (Wang, 2019). This intervention would threaten the banks towards their internal control and effectiveness in their financial accounting records. Consequently, banks are less capabilities in presenting accurate financial reporting.

If banks apply rent-seeking behaviours when there is a huge gap between modified corruption perception and actual corruption perception in governance, they may misuse it by manipulating the financial statements and reports to a satisfactory level. By having rent-seeking, banks may manipulate the policies to favor their own interests, which lead to the low FRQ (Lambsdorff, 2002). This would negatively impact on the reduced number of investors and consequently resulted in lower earning quality.

2.2 Review of Variables

2.2.1 Dependent Variable

Financial Reporting Quality (Quality)

The significance of financial reporting quality (FRQ) captivates the attention of both current and prospective investors, making it a topic of paramount importance. In the past decade and continuing into the present, researchers in the field of accounting and related disciplines have expressed substantial concern regarding FRQ. This concern is anticipated to persist among future researchers as they actively seek a deeper understanding of generating impartial financial reports that accurately portray an organization's activities and crucial challenges. Nevertheless, it is imperative for companies to diligently compile and disclose financial data of superior quality. Correspondingly, the information presented should possess reliability and relevance to facilitate informed decision-making by users of financial reports.

However, it is not always accurate that management will provide an accurate representation of the financial position of enterprises. Instances of financial misconduct by major corporations such as Samsung's accounting scandal in 2018 and the Steinhoff corporate fraud in 2019, underscore the prevalence of this issue. The concern for the quality of financial reports has gained increasing importance throughout the entire economy, extending beyond end-users, as it permeates economic decisions with potentially significant consequences. Hence, the prolonged lapses in financial reporting have prompted investors, regulators, and various stakeholders to call for enhancements of the financial information's quality. Consequently, this creates an opportunity for the BoDs in assessing the usefulness

of management and taking prompt actions, when necessary, to address failures in the financial performance of companies (Ashafoke et al., 2021).

2.2.2 Independent Variables

Board of Directors (LnBoD)

It is crucial for all the banks and institutions to have the ideal number and quality of board of directors (BoD) to manage the financial reporting performance. Since the monitoring quality of the directors signals the reporting quality, the board size becomes one of the determinants in presenting standard financial reports for shareholders and investors worldwide.

Studies from Ibrahim and Abubakar (2019) revealed that board size impacts positively on the FRQ, at which large boards with various ideas and perspectives would provide a large scale of monitoring towards the ways of presenting high FRQ and valuable advice and guidance in improving its quality. They also found that the large board size would give different standpoints and representation for different stakeholders with different perspectives.

Through the testing of 12 banks in Nigeria, Ajibulu et al. (2021) had proven that FRQ would be enhanced when the board size increased. They concluded that the board size should be expanded to 30 board of directors as the greater number of BoD positively develops the high FRQ.

Uwuigbe et al. (2018) observed that the increasing number of BoD in banks negatively impacts FRQ. Since different directors would have different perspectives and viewpoints, they emphasized that the large board size is less competent as they spend too much time in the decision-making process, which ultimately end in poor decision making. Consequently, the poor decision results in the low FRQ.

Chalaki et al. (2012) had examined on the FRQ towards the Iran companies that listed in Tehran Stock Exchange (TSE) through the multiple regression, and they found no relationship between the number of BoD and FRQ, which the reports' quality is not entirely controlled by board size.

Female Director (FDratio)

In contemporary corporate governance discourse, the presence and influence of female directors have garnered increasing attention. A female director refers to a woman serving on the BoDs of a company, contributing her expertise, perspective, and decision-making process to corporate affairs. The debate surrounding the impact of female directors on FRQ among Asia's banks has sparked significant scholarly interest, with researchers exploring the nature of the relationship between these variables.

Dobija et al. (2022) conducted a thorough investigation into the determinants of FRQ within Asia's banking sector, uncovering the connection between presence of female directors and FRQ is positively significant. Their study indicates that the inclusion of female directors on bank boards correlates with heightened transparency, accountability, and governance practices, ultimately leading to more accurate and reliable financial reporting. According to Dobija et al., female directors contribute unique perspectives and diverse skill sets to boardroom discussions, fostering a culture of integrity and ethical conduct essential for

maintaining high-quality financial reporting standards. Moreover, the research highlights the role of female directors in enhancing control and monitoring functions, particularly concerning the assurance of FRQ among Asia's banks. This is attributed to women's aptitude for qualitative tasks, their inclination towards open discussions, and their tendency towards conservative and ethical behaviour, all of which strengthen monitoring mechanisms and control over FRQ. It's worth noting that the study utilized data from 350 Polish companies across 17 industries listed on the Warsaw Stock Exchange between 2010 and 2015. Methodologically, the study employed various statistical techniques, including fixed-asset estimators, the Hausman test, ordinary least squares, and the generalized method of moments.

Alternatively, Luo et al. (2017) presented contradictory findings, suggesting a negative relationship between female directors and the FRQ in Asian banks. Despite findings from Chinese listed firms indicating that female directors were associated with decreased manipulation of real activities, similar advantages may not extend to the banking sector. It is plausible that female directors, particularly those with substantial ownership stakes, could enhance internal governance mechanisms, potentially reducing the likelihood of manipulative financial reporting practices. Therefore, promoting gender diversity on bank boards might serve as a strategy to bolster financial reporting integrity and transparency, thereby benefiting shareholders and supporting regulatory efforts to uphold robust corporate governance standards in the region. The study utilized a substantial dataset comprising 11,831 firm-year observations from Chinese listed companies spanning the period from 2000 to 2011.

In contrast to the aforementioned perspectives, Edwin & Timothy (2019) present findings indicating that the inclusion of FDratio is not correlated to FRQ within Asia's banking industry. Their findings challenge conventional wisdom and underscore the need for further exploration into the nuanced interplay of gender diversity and FRQ within Asian banking context.

Year of Services (LnYoS)

As per Ashafoke et al. (2021), the correlation between the length of CEO tenure (LnYoS) and financial reporting quality (FRQ) is positively connected. Altarawneh et al. (2020) and Borgi et al. (2021) have proved this statement, demonstrating that as CEO tenure extends, the organization's FRQ tends to improve.The method used in Ashafoke's team research is through sample formation. The sample consists of 15 corporates who are in the Nigerian banking sector from 2008 to 2019. They utilize the panel data analysis in testing the impact of CEO tenure on FRQ. This analysis technique is able to take care of all expectations in ordinary least squares (OLS). Therefore, no other tests are needed.

According to Uyioghosa and Amede (2019), the relationship between CEO tenure (LnYoS) and FRQ is negatively connected. In other words, when the CEO's tenure is relatively shorter, the likelihood of the company's financial reporting being of lower quality increases. Their research is based on Upper Echelon's theory which illustrates the impact of CEO tenure on FRQ. The theory was also taking personal idiosyncrasies, discretion and irrational conduct into consideration. Between 2010 and 2016, fourteen of the fifteen banks listed on the 'Nigeria Stock Exchange' were part of the sample. Correlation matrix has been employed in examining the association between independent and dependent variables. Furthermore, Zhang (2019) also supported this statement.

According to Salehi et al. (2018), there is no relation between Years of Services (LnYoS) and FRQ. The authors conducted their study with a sample of 82 listed companies on the 'Tehran Stock Exchange' from 2013 until 2016. All necessary information of the firms were collected from the Securities and Exchange Organization's website. They employed data panel regression, and the inputs were analysed via R Software. Furthermore, Shankaraiah and Amiri (2017) also mentioned that there is no relationship between Years of Services (LnYoS) and FRQ. A total of 133 companies selected randomly from Bombay Stock Exchange

with a 10-year period from 2002 to 2011. The analysis was run by using the Pearson Correlation Coefficient.

Audit (Big4)

According to Mardessi (2021), ther relationship between FRQ and audit is positively connected. Establishing a fair audit committee is connected with an enhancement in the FRQ. This finding is supported by Hasen et al. (2020) and Moses (2019). A sample of 90 listed companies from the Amsterdam Stock Exchange spanning from 2010 till 2019 in Mardessi's research. Inputs were sourced from their financial statements through their website or database. Ordinary least squares (OLS) regression was employed to investigate the respective interaction. Additionally, Safari et al. (2021) have also affirmed this correlation, a stance corroborated by the work of Agyer-Mensah (2019). The initial sample for Safari's team comprises all companies publicly listed on Tehran Stock Exchange from 2012 to 2017. Following the screening processes, 558 firm-year observations became their sample.

According to Chukwu and Nwaboch (2019), the correlation between the audit and FRQ is negative. The absence of a fair audit committee will result in a decrease in the FRQ. This project used secondary data by obtaining insurance companies' data via their annual report. The sample comprised 26 'Nigerian Stock Exchange' listed insurance firms from 2012 to 2015, with two corporations excluded due to incomplete information for regression analysis. Additionally, Majiyebo et al. (2018) also supported this claim. Their sample included 15 listed banks on the 'Nigerian Stock Exchange' in 2007 to 2016. The choice of regression as the analytical tool in this study was driven by its effectiveness in estimating the effect of one variable on another.

In the study by Madhurangi and Abeygunaseker (2021), they discovered that there is no discernible relationship between FRQ and audit, a finding that contrasts with the study conducted by Almuzaiqer (2018). There are 24 Large Commercial Banks (LCBs) and 6 Large Scale Banks (LSBs) were selected as the sample. Secondary inputs for this project were obtained from the reports of these banks annually over a five-year period. Moreover, Abid et al. (2018) additionally confirmed the assertion of no relation. Within the complete dataset, more than 440 firm-years underwent an auditing process by Big 4 audit firms. Information for all variables was sourced from the 'BVD OSIRIS' database. Specifically, audit opinions were available for the observations in the audit opinion model.

Bank Size (Total Assets in US$) (Size)

The magnitude of a firm's wealth, indicated by its size, is a key factor in its financial standing (Susanto & Ramadhani, 2016, as cited in Putri, C. W. A., & Indriani, M., 2020). Numerous studies affirm that a firm's size plays a pivotal role in determining its value, with larger enterprises demonstrating greater financial stability (Rouf, 2018, as cited in Asyik et al., 2023). This stability not only enhances the company's overall value but also serves as an attraction for investors, consequently influencing stock market prices positively. Moreover, a firm's size serves as an indicator of its operational conditions, suggesting that larger-scale firms are less prone to estimation errors (Arif et al., 2016, as cited in Asyik et al., 2023).

Several studies revealed that the relationship between Size and FRQ is positive. According to Asyik et al. (2023), a firm's size affects financial report quality by enabling diversification in business portfolios and incurring relatively lower political costs. When banks possess substantial total assets, it signifies that they have likely entered the maturity stage, whereby the company experiences positive cash flow and has promising prospects over an extended period. Moreover, larger company size tends to enhance transparency and accountability, thereby improving the FRQ. Additionally, Hung et al. (2023) utilized a machine learning approach on

a sample of 2,225 observations from the Vietnamese stock market, revealing a positive association between firm size and FRQ.

However, Alves (2014) discovered a negative correlation between firm size and FRQ. Larger firms with greater investment opportunities were linked to heightened earnings management and increased discretionary accruals, leading to a decline in earnings quality. Also, Chalaki et al. (2012) examined the Tehran Stock Exchange (TSE) listed firms from 2003 until 2011 and concluded that no discernible relationship between firm size and FRQ were found.

Total Equity to Total Assets Ratio (TETA)

TETA is one of the factors in determining the quality of financial reporting (FRQ) among Asia's banks. It is a financial metric that indicates the proportion of a company's total assets financed by its equity.

There are a few research showing a significantly negative relationship between TETA and FRQ. Firstly, Oh and Park (2023) found that the total equity to total asset ratio is negatively related to FRQ. This study included a sample of around 12 thousand commercial banks around the world. Besides, Krishnan and Zhang (2014) also researched that TETA has a negative correlation with FRQ.

In contrast, there is one research showing a positive relationship between the two variables. Eng and Nabar (2007) concluded that the TETA is positively significant towards FRQ at the level of 0.001 throughout the model's versions.

Dividend Payout Ratio (DPR)

The dividend payout ratio, a crucial financial metric, plays a significant role in determining the FRQ among Asia's banks. The dividend payout ratio represents the proportion of earnings distributed to shareholders in the form of dividends, providing insights into a bank's financial health and its commitment to rewarding investors.

Skinner & Soltes (2011) and Deng & Liao (2017) have made significant contributions to the literature by positing a positive relationship between the dividend payout ratio and FRQ. Skinner & Soltes (2011) conducted a comprehensive examination focusing on banks in the Asian region. Their study has a robust positive connection between DPR and FRQ among these banks. The research suggests that banks with higher dividend payout ratios tend to demonstrate better FRQ, thus implying a potential mechanism whereby shareholder returns positively influence reporting practices. Skinner & Soltes (2011) analyzed all firm/years spanning from 1974 to 2005, utilizing non-missing CompStat data on annual dividends and earnings for firms listed on the NYSE, AMEX, or NASDAQ and incorporated in the United States. Building upon this foundation, Deng & Liao (2017) expanded the investigation to encompass non-financial Chinese listed firms sourced from the CSMAR database. Their research was conducted in China. Their sample period ranges from 1999 to 2014. By including a different geographical and sectoral context, Deng & Liao (2017) complement Skinner & Soltes' findings, providing a broader perspective on the relationship between the dividend payout ratio and FRQ.

On the contrary, another line of research, as highlighted by Hussain & Akbar (2022) and Kim (2023), proposes a negative connection between the DPR and FRQ among Asia's banks. Hussain & Akbar (2022) conducted their research in Pakistan. They presented empirical evidence supporting the idea that higher dividend payout ratios

may lead to lower FRQ due to reduced retained earnings available for internal investments and improvements in reporting infrastructure. The sample comprises 3250 non-financial Chinese listed firms from 2009 to 2018. This study uses fixed and random-effect models as econometric techniques. Besides that, Kim (2023) conducted their study in Vietnam. They used a sample consisting of 852 observations collected from 71 firms listed on the Ho Chi Minh City Stock Exchange (excluding financial, banking, and insurance sectors) between 2009 and 2020.

However, not all studies align with the negative relationship hypothesis. Mulchandani et al. (2020) and Siladjaja et al. (2022) conducted separate investigations and found no relationship between the dividend payout ratio and FRQ. Their findings suggest that while the dividend payout ratio may influence shareholder wealth, it may not necessarily impact the accuracy or reliability of financial reporting among Asia's banks. Mulchandani et al. (2020) conducted their study in India, using a sample consisting of 107 companies listed on S&P BSE200, and analyzed data from 2004 to 2015. Multiple regression analysis was employed for their analysis. Siladjaja et al. (2022) undertook a study in Indonesia, examining 154 companies listed on the Indonesia Capital Market, with a focus on the industrial manufacturing sector. The study encompassed 384 observations spanning the years 2015 to 2020. The CAPM method was utilized in their research.

Net Margin Provision (NetMarPr)

The net margin, a key financial metric, represents the profitability of a company's operations after deducting all cash outflow. It is calculated by dividing net income by total revenue and is often used by the public and experts to assess a company's financial health and efficiency in generating profits.

Valdiansyah & Murwaningsari (2022) assert a positive relationship between net margin and FRQ among Asia's banks. The research was conducted in Indonesia. According to their findings, banks with higher net margins tend to exhibit better FRQ. This suggests that as banks generate more profits relative to their revenue, they are likely to uphold higher standards of transparency and accuracy in their financial reporting practices. The research involves 226 banking inputs before the covid pandemic from 2013 until 2019. The data were analysed via EViews.

Contrary to the findings of Valdiansyah & Murwaningsari, Hassan & Farouk (2014) propose a negative relationship between net margin and FRQ. Their research is conducted in the USA. Their research suggests that banks with lower net margins may engage in earnings management practices to artificially inflate their reported financial performance, thereby compromising the quality and reliability of their financial reports. This paper is an empirical investigation of firm attributes and earnings quality of listed oil and gas companies in Nigeria for the period of 2007-2011. The listed Oil and Gas firms are Nine (9) in numbers out of which a sample of Seven (7) were used for the study. In this research, multiple regression techniques were used, specifically employing the Ordinary Least Square (OLS) Technique, with the software SPSS.

In contrast to the conflicting perspectives presented by Valdiansyah & Murwaningsari and Hassan & Farouk, Sherlita & Kurniawan (2013) argue that there is no significant relationship between net margin and FRQ among Asia's banks. Their research, conducted in Indonesia, indicates that variations in net margin do not reveal any discernible correlation with the accuracy or reliability of financial reporting practices within the banking sector. The study, which encompassed a sample of 68 companies with a sub-sample of 204 financial reports, spanned three years from 2008 to 2010. Statistical analysis employing binary logistic regression was utilized to unveil the determinants of FRQ among Asia's banks.

Gross Domestic Product Growth (GDPgr)

The Gross Domestic Product (GDP) quantifies an overall value of all finalized goods and services generated within a country during a defined timeframe. As an indicator of a nation's economic performance, GDP growth reflects the expansion of industries and businesses, exerting a significant influence on a company's financial well-being. A thriving economy, marked by GDP growth, often leads to increased consumer spending, benefiting businesses. Conversely, economic contractions may pose challenges for businesses as consumer expenditures typically decrease. Financial analysts need to consider the implications of GDP growth when assessing a company's financial statement.

In Ozili's study (2015) examining the voluntary adoption of IFRS, bank managers were scrutinized for their impact on loan loss provision (LLP) to smooth income and signal loan quality. The study, conducted around 12 years and involving a sample of 10 banks, employed GDP to examine whether LLP exhibits procyclicality with the business cycle. Findings indicated that GDP holds statistical significance in the post-crisis period, which suggest that LLP after a crisis is impacted by the business cycle.

Examining 91 firms from 2005 to 2013, Ghareli and Mohammadi (2016) found that GDP has no significant impact on FRQ. They concluded that there is an indirect and moderate correlation between GDP and the quality of financial reporting. The study considered GDP as a crucial factor influencing FRQ, as investors seek companies with growing product and service consumption. In making investment decisions, the combination of GDP components and its growth rate was highlighted as crucial (Sami, 1997, as cited in Ghareli and Mohammadi, 2016).

Inflation - Consumer Price Index (Inflat)

Inflation is the general economic trend on the price movements, at which Consumer Price Index is the indicator in measuring inflation (Dharma et al., 2020). The changes in the Consumer Price Index would represent the rate of increase or decline in inflation. Since inflation would influence the country's economic development, banks would be affected as well in maintaining quality financial reporting.

Junior et al. (2017) had examined the countries' earning management with the sample of 4 countries by applying the method of Modified Jones Model. They concluded that the economic instability, which is inflation, positively influenced the earnings management practices. To explain this, inflation may be the benchmark tool for financial institutions in balancing the financial reports' quality. It reflects the motivation for the banks in presenting the high quality of financial reports during the economic instability period at the same time increasing investors' trust towards the banks.

Studies from Isma et al. (2023) found that inflation has negatively impacted FRQ as they claimed that the higher inflation would lower down the institutions' value. Ultimately, the FRQ would be weakened with the influence of high inflation. From the same perspective, Khan and Hanif (2020) had studied the panel of 113 economies using the GMM approach and concluded the negative relationship between the inflation growth and the institutional quality.

Boujelbene (2021) had conducted the research using the balanced panel data with the samples of North African countries and drew a conclusion that inflation would not have any significant relationship with the institutional quality until it reached the level of 5.69% with the 95% confidence level. Within this level, the higher or lower inflation would not affect the FRQ. However, when the percentage is above

the level, it would result in the negative effect on the inflation with the institutional quality.

Corruption Perception Index (CPI)

Budsaratragoon and Jitmaneeroj (2020) mentioned that corruption perception is a measurement on the country's overall level of corruption but not the anticipated impact. Financial institutions would apply CPI as a benchmark in assessing the investment risk in order to protect their investors' interests and trust.

Findings from Lourenco et al. (2016) revealed that corruption perception would provide higher intentions for firms to manage earning quality. To be more precise, banks or financial institutions would be driven by the increase of corruption perception to take more efforts in presenting the high accuracy and standards of financial reports to manage the positive relationship with the stakeholders and investors. They realized that the CPI would be a motivation tool for banks in maintaining FRQ.

Madah Marzuki and Abdul Wahab (2018) studied the IFRS in ASEAN countries by applying the panel least square regression, and they disclosed the inverse relationship between the CPI and the FRQ. They proved that corruption might lead to the banks or firms not to fully disclose the accurate information and reporting towards the public; hence, the lack of transparency of the financial reports reflects the low faithfulness of the financial information.

Similar to the previous result, Martinez-Ferrero (2014) concluded his studies that CPI brings the lower FRQ, as banks and financial institutions may not wholly

guarantee the high transparency of financial reporting due to the presence of a high
level of corruption perception.

Yemen and Can (2023) had conducted research to investigate the correlation
between the government perception index and the financial reporting with the
sample of 38 countries. By using the Linear Mixed Model (LMM), the results
disclosed the no connection between the corruption perception and FRQ. Studies
also recommended that auditors are essential in evaluating the reports' quality and
the risks.

2.3 Conceptual Framework
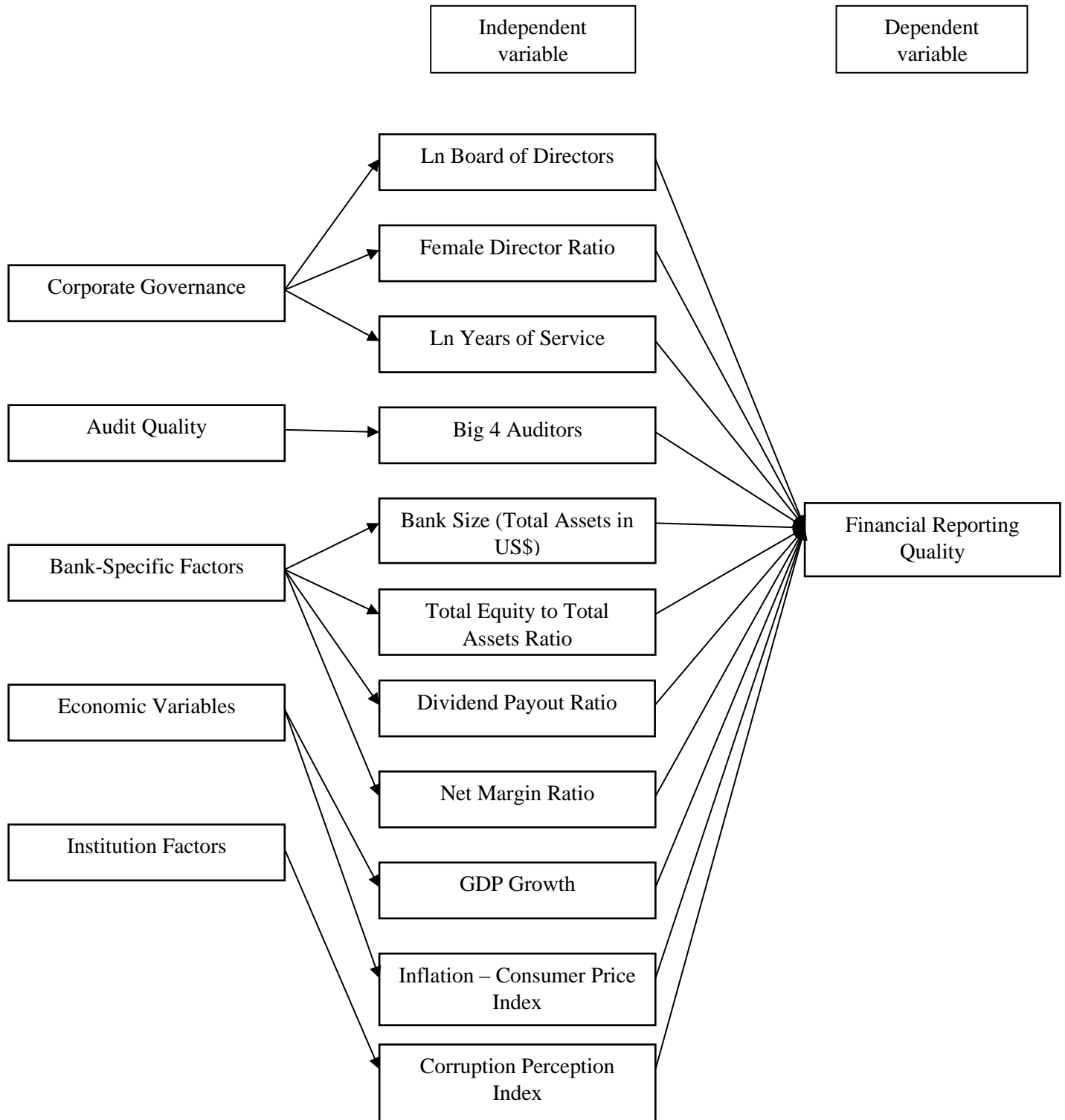
Figure 2.8: Conceptual Framework

The analytical framework presented in Figure 2.8 delves into a structured classification encompassing five key categories, namely corporate governance, audit quality, bank-specific factors, economic variables, and institutional factors. Within this framework, a total of eleven independent variables have been meticulously identified, each poised to offer insights into financial reporting quality (FRQ).

Firstly, the natural logarithm of the board of directors serves as a measure of governance depth, while the ratio of female directors brings gender diversity into focus. Additionally, the natural logarithm of years of service reflects the stability and experience of the board. The inclusion of Big 4 auditors underscores the significance of audit quality.

Moving beyond governance, financial indicators such as total equity/total assets and dividend payout ratio shed light on the financial health and shareholder value orientation of the banks under scrutiny. Size, as another variable, likely captures economies of scale and operational complexity. Furthermore, net margin ratio provides insights into profitability dynamics.

Economic variables, including GDP growth and inflation - consumer price index, offer a macroeconomic backdrop against which banking performance can be evaluated. Finally, the Corruption Perception Index introduces a crucial institutional dimension, highlighting the regulatory environment's potential impact on FRQ.

Drawing from a comprehensive review of existing literatures, it is evident that past researchers concur on the substantial influence these independent variables are

expected to exert on FRQ. This framework thus serves as a robust basis for exploring the intricate interplay between diverse determinants and the FRQ among Asia's banks.

2.4 Hypothesis Development

2.4.1 Board of Directors (LnBoD)

H_0: The relationship between board of directors (LnBoD) and financial reporting quality (FRQ) among Asia's banks is significant.

H_1: The relationship between the board of directors (LnBoD) and financial reporting quality (FRQ) among Asia's banks is insignificant.

2.4.2 Female Directors (FDratio)

H_0: The relationship between female directors (FDratio) and FRQ among Asia's banks is significant.

H_1: The relationship between female directors (FDratio) and FRQ among Asia's banks is insignificant.

2.4.3 Year of Services (LnYoS)

H_0: The relationship between year of services (LnYoS) and FRQ among Asia's banks is significant.

H$_1$: The relationship between year of services (LnYoS) and FRQ among Asia's banks is insignificant.

2.4.4 Audit (Big4)

H$_0$: The relationship between audit (Big4) and FRQ among Asia's banks is significant.

H$_1$: The relationship between audit (Big4) and FRQ among Asia's banks is insignificant.

2.4.5 Bank Size (Total Assets in $) (Size)

H$_0$: The relationship between bank size (total assets in US dollar) (size) and FRQ among Asia's banks is significant.

H$_1$: The relationship between bank size (total assets in US dollar) (size) and FRQ among Asia's banks is insignificant.

2.4.6 Total Equity/Total Assets (TETA)

H$_0$: The relationship between total equity to total assets ratio (TETA) and FRQ among Asia's banks is significant.

H$_1$: The relationship between total equity to total assets ratio (TETA) and FRQ among Asia's banks is insignificant.

2.4.7 Dividend Payout Ratio (DPR)

H_0: The relationship between dividend payout ratio (DPR) and FRQ among Asia's banks is significant.

H_1: The relationship between dividend payout ratio (DPR) and FRQ among Asia's banks is insignificant.

2.4.8 Net Margin (NetMarPr)

H_0: The relationship between net margin (NetMarPr) and FRQ among Asia's banks is significant.

H_1: The relationship between net margin (NetMarPr) and FRQ among Asia's banks is insignificant.

2.4.9 Gross Domestic Product Growth (GDPgr)

H_0: The relationship between GDP growth (GDPgr) and FRQ among Asia's banks is significant.

H_1: The relationship between GDP growth (GDPgr) and FRQ among Asia's banks is insignificant.

2.4.10 Inflation - Consumer Price Index (Inflat)

H_0: The relationship between inflation (Inflat) and FRQ among Asia's banks is significant.

H_1: The relationship between inflation (Inflat) and FRQ among Asia's banks is insignificant.

2.4.11 Corruption Perception Index (CPI)

H_0: The relationship between corruption perception index (CPI) and FRQ among Asia's banks is significant.

H_1: There relationship between corruption perception index (CPI) and FRQ among Asia's banks is insignificant.

2.5 Conclusion

To end up this chapter, the review variables namely board of directors, female directors, year of services, Big 4 audit firms, total equity to total assets, size of total assets in US dollars, dividend payout ratio, net margin ratio, GDP growth, Inflation Consumer Price Index and Corruption Perception Index are being discussed in detailed to further examine the relationships with the dependent variables of FRQ of banks across Asia. Besides, the theories specified to the research will further enhance the understanding of the review variables towards the FRQ. In addition, the theoretical frameworks are constructed as guidelines for further elaboration towards the theories with the research project.

CHAPTER 3: RESEARCH METHODOLOGY

3.0 Introduction

Here discusses the methodology of research, outlining the specific processes used in gathering data and analysing statistics. It encompasses scope of study, research instruments and data analysis approaches. Furthermore, panel data regression analysis will be utilized to examine the financial reporting quality of 52 commercial banks in Asia, spanning from 2010 to 2022. As the chapter concludes, clarification will be provided regarding the acceptable econometric model chosen for the research, along with an explanation of various types of tests utilized in the implementation of the research.

3.1 Scope of Study

Our scope of study includes secondary data, such as books or databases, which offers existing insights that can complement or contextualize the study's findings. Secondary data refers to information previously gathered and published by other researchers or organizations for purposes other than the current study. In our case, we're sourcing data like financial statements, annual reports, and academic studies related to bank performance and reporting practices in Asian countries. Through analysing this existing data, our study aims to uncover factors influencing FRQ among regional banks. Using secondary data is efficient for gaining insights across a wide geographical and temporal range. It allows researchers to build on previous

work and make comparisons across institutions and time periods. For instance, Soyemi and Olawale (2019) employed secondary data aligned with a quantitative approach, drawn from audited financial reports of selected companies within their study time frame.

Table 3.1:

Proxies, Explanations, Unit Measurement and Sources of the Variables

Explained Variable	Proxy	Explanations	Unit Measurement	Sources
Financial Reporting Quality	Quality	A measure or indicator that represents the level or extent of quality in financial reports	-	Own Calculation (Cash Flow from Operations divided by Net Income)
Explanatory Variable	**Proxy**	**Explanations**	**Unit Measurement**	**Sources**
Board of Directors	LnBoD	The total amount of board of directors in the banks	-	Banks' Annual Reports
Female Director Ratio	FDratio	Proportion of female directors on a company's board compared to the total number of directors	%	Own Calculation (Total Female Directors divided by Total Board of Directors)
Years of Service	LnYoS	The amount of time an individual has spent working for a particular organization or employer	No. of years	Banks' Annual Reports

Big 4 Audit Firm	Big4	Represents the count or frequency of instances where one of the Big 4 audit firms is involved in providing auditing services.	'Do not have external audit' – 0 'Have external audit' – 1	Banks' Annual Reports
Bank Size (Total Assets in US$)	Size	Log total assets in US$	-	Own Calculation (Log the Total Assets in US$)
Total Equity to Total Assets Ratio	TETA	Ratio of total equity over total assets	-	Own Calculation (Total Equity divided by Total Assets)
Dividend Payout Ratio	DPR	Measures the proportion of a company's earnings that are distributed to shareholders in the form of dividends	%	Refinitiv
Net Margin Ratio	NetMarPr	Proportion of a company's net profit compared to its total revenue.	%	Refinitiv
Gross Domestic Product Growth Rate	GDPgr	Annual percentage of growth rate of GDP in the market price based on the local currency	Percentage (%)	World Bank Database
Inflation – Consumer Price Index (CPI)	Inflat	Inflation - CPI for the particular Asia's countries	Percentage (%)	World Bank Database
Corruption Perception Index	CPI	Corruption Perception Index for the particular Asia's countries	-	World Bank Database

3.2 Research Instrument

3.2.1 Statistical Data

Here used to gather secondary data is statistical data which refers to pre-existing and collected information from sources such as financial statements, regulatory reports, and databases of various banks across Asia. This data serves as a foundation for the study's investigation into the factors that influence the quality of financial reporting within the banking sector of the Asian region. By analyzing this secondary data through statistical methods, we aim to uncover patterns, correlations, and trends that contribute to understanding the determinants of FRQ among banks in Asia. This approach enables us to draw insights and conclusions based on a comprehensive dataset, enhancing the robustness and validity of our findings. After collecting the data, we use Stata software to perform various data manipulation tasks, conduct statistical analyses, and generate graphical representations of data.

3.3 Data Analysis

3.3.1 Model Alternative

3.3.1.1 Pooled Ordinary Least Squares Model (POLS)

POLS is the model with the merger of time-series data and cross-section data, which is the easiest way in estimating the model parameters (Amil et al., 2023). The

disadvantage of POLS is that if any heterogeneity exists among the inspections across the period, then it will lead to the estimated parameter values becoming biased, inconsistent and inefficient. Thus, compared with FEM and REM, POLS is less flexible.

One of the assumptions of POLS is that the parameter is linear with which a linear regression model is formed. Secondly, the disturbances and regressors are independent and not correlated with each other. Besides, POLS model is assumed to be homoscedasticity where the disturbances have a constant variance. Also, there is no autocorrelation in this model where the disturbances are not related to each other. Fifthly, the POLS model assumes that the disturbances are independent and normally distributed. Another assumption is that no multicollinearity occurred in the POLS model. If any assumptions are absent in the POLS model, it would lead to the parameters becoming biased, which affect the reliability of the results through the model.

In order to evaluate the appropriateness of using POLS for this research, two tests namely 'Poolability F-test' and 'Breusch-Pagan Lagrange Multiplier (BPLM)' test will be conducted. Poolability F-test will be executed to assess the fitness between POLS and FEM, whereas BPLM test will be conducted to compare the suitability between POLS and REM to further enhance the model more significantly. To generate the results of these two tests, STATA may be utilized.

In this study, the econometric model is illustrated as below according to the Pooled Ordinary Least Squares Model:

$$Quality_{it} = \beta 0 + \beta 1 LnBoD_{it} + \beta 2 FDratio_{it} + \beta 3 LnYoS_{it} + \beta 4 Big4_{it} + \beta 5 Size_{it} +$$

$$\beta 6 TETA_{it} + \beta 7 DPR_{it} + \beta 8 NetMarPr_{it} + \beta 9 GDPgr_{it} + \beta 10 Inflat_{it} + \beta 11 CPI_{it} + \varepsilon_{it}$$

3.3.1.2 Fixed Effect Model (FEM)

Fixed Effect Model (FEM), also called covariance model, allows intercept to be different across cases, at the same time the slope coefficient is constant and time invariant (Zulfikar & STp, 2018). To put it briefly, FEM takes into account by allowing the intercept to differ across cases while the slope coefficients are constant across banks. In FEM, we presume that all individual differences were taken by the differences in the intercept parameters; hence, we consider the intercepts $\beta 0$ are "fixed" parameters which we can directly use the OLS estimator to estimate the model (Ceesay & Moussa, 2022). Although the FEM varies from the common effect, OLS still can be used. In FEM, more models are required to capture the difference as FEM assumes to create a constant intercept for each cross-section in addition to no time effect.

The limitation of FEM is that individual-specific dummy variables applied in FEM encompass the effect of time-invariant characteristics of individuals on the regression. Therefore, certain group variances such as gender, race and wage gaps are difficult to be estimated as FEM fails to evaluate the time-variant coefficients at the same investigation level. Secondly, FEM assumes that the individuals under research are the interest population, instead of being a symbolic sample that is simply drawn from the population. Also, the intercepts are assumed as fixed parameters, rather than random variables. To specialize this, the results drawn in FEM are typically limited to the individual included in the research only; meanwhile, extending these findings to other groups can pose challenges.

FEM is highly applied by researchers to determine the banks' FRQ. To determine the suitability of applying either FEM or REM, a Hausman test will be carried out. Akoi and Andrea (2020) had conducted the research on the performance of banking sectors, and they found that FEM is the best model in explaining the bank performance compared to REM. The test shows that determinants such as economic

growth, inflation and total assets had significantly affected the bank's performance. Also, FEM has been chosen as the best model in investigating the FRQ in Vietnam (Viet et al., 2018).

According to the FEM, the structural equation model in this research is shown as below:

$$Quality_{it} = \beta_0 + \beta_1 LnBoD_{it} + \beta_2 FDratio_{it} + \beta_3 LnYoS_{it} + \beta_4 Big4_{it} + \beta_5 Size_{it} +$$

$$\beta_6 TETA_{it} + \beta_7 DPR_{it} + \beta_8 NetMarPr_{it} + \beta_9 GDPgr_{it} + \beta_{10} Inflat_{it} + \beta_{11} CPI_{it} + \mu_{it} +$$

$$\varepsilon_{it}$$

3.3.1.3 Random Effect Model (REM)

REM is defined as a model that evaluates panel data where interference variables may be coordinated between individuals and time. REM is varied from fixed effect as REM applies the principle of 'maximum likelihood' (Zulfikar & STp, 2018). In REM, the intercept parameters will take all individual differences into consideration, and the individuals will be randomly selected (Ceesay & Moussa, 2022).

REM is analogous to random error terms, and we assume that there are no correlations between the error terms and no autocorrelation across both time-series and cross-section units. Also, REM has standard assumptions of zero mean and constant variance. In REM, since the individual's error term does not correspond to the regressors, it permits the existence of time invariant variables. It can be proved that REM will eliminate heteroscedasticity since REM allows for the individual-specific random effects.

REM applies an intercept term to define the mean effect of all individuals. Also, the variation among individuals is adjusted through a related error term, which indicates the effect on the regression model of differences among individuals. REM has also a common intercept and slope estimate. However, the error terms of REM have two different variances. The first variance is correlated to the differences across individuals, while the second variance is ordinary to all individuals and all points of time.

REM has also been widely applied by researchers in estimating the banks' FRQ. Research from Ajibulu et al. (2022) concluded that REM is the best model in investigating the FRQ of banks in Nigeria by showing results that the increased BoDs will boost the FRQ. Hendra (2016) also used the REM in estimating the banks' FRQ.

The REM in this research is expressed as below:

$$Quality_{it} = \beta_0 + \beta_1 LnBoD_{it} + \beta_2 FDratio_{it} + \beta_3 LnYoS_{it} + \beta_4 Big4_{it} + \beta_5 Size_{it} +$$

$$\beta_6 TETA_{it} + \beta_7 DPR_{it} + \beta_8 NetMarPr_{it} + \beta_9 GDPgr_{it} + \beta_{10} Inflat_{it} + \beta_{11} CPI_{it} + w_{it}$$

3.3.2 Panel Data Analysis

3.3.2.1 Poolability F-Test

The Poolability F-test is a statistical test used within panel data regression frameworks to determine the suitability of either pooling the data (POLS) or employing fixed effects estimation (FEM) (Soh et al., 2021). It is also used in examining the constancy of cross-sections or time constants in POLS model. Moreover, the primary motivation for pooling a time series of cross-sections is to broaden the dataset, aiming to enhance the precision and reliability of the model parameter estimates.

Hypothesis:

H_0: Pooled Ordinary Least Squares (POLS) regression model is recommended.

H_1: Fixed Effects Model (FEM) is recommended.

Below is the F-test statistic formula:

$$F = \frac{(R^2_{FEM} - R^2_{Pooled})/(k_{FEM} - k_{Pooled})}{(1 - R^2_{FEM})/[n - (k_{FEM} + 1)]}$$

3.3.2.2 Breusch-Pagan Lagrange Multiplier (BPLM) Test

BPLM test is a valuable tool for researchers when choosing between a random effects regression (REM) and a Pooled Ordinary Least Squares (POLS) regression

(Greene & McKenzie, 2012). Developed by Breusch and Pagan (1979), the LM test for random effects in a linear model utilizes pooled OLS residuals. The alternative model estimation involves generalized least squares, implemented through either a two-step procedure or maximum likelihood. Furthermore, the BPLM test holds significance as one of the key tests for detecting heteroscedasticity in linear regression models (Martín, 2023).

The hypothesis is as followed:

H_0: Pooled Ordinary Least Squares (POLS) is applicable.

H_1: Random Effects Model (REM) is applicable.

3.3.2.3 Hausman Test

The Hausman test acts as a pivotal tool in econometrics, particularly for navigating the complexities of panel data analysis. Its primary function lies in scrutinizing the consistency of parameter estimates between fixed effects and random effects models. By directly comparing the coefficients derived from both models, the test illuminates whether the random effects assumption remains valid. Should the coefficients exhibit significant disparities, signaling a breach of the random effects assumption, the fixed effects model is deemed more suitable. This preference stems from its capacity to accommodate unobserved individual heterogeneity. Conversely, if the coefficients prove consistent, the random effects model is favored for its efficiency gains. Ultimately, the Hausman test empowers researchers in selecting the most appropriate model for their panel data analysis, thereby bolstering the reliability and accuracy of their empirical findings (Sheytanova, 2015).

Below is the hypothesis:
$H0$: Cov $(\mu i, xit) = 0$ (REM is preferable) (Exogeneity)
$H1$: Cov $(\mu i, xit) \neq 0$ (FEM is preferable) (Endogeneity)

3.3.3 Econometric Diagnosis Testing

3.3.3.1 Multicollinearity Test

Multicollinearity happens as two factors within a multiple regression model are correlated with each other. This leads to the increased standard errors and variances of coefficients, which will affect the results. To solve this, Variance Inflation Factor (VIF) is used to calculate how much variance of predicted regression coefficient is inflated when independent variables are correlated. Low tolerance indicates potential multicollinearity. VIF values near 1 denote no correlation, 1 to 5 show moderate correlation, 5 to 10 suggest existing multicollinearity, and above 10 mean ineffective coefficient estimation due to the presence of multicollinearity.

3.3.3.2 Normality

The 'Classical Linear Regression Models (CLRM)' assumes error terms possess a normal distribution and departing from this assumption can lead to inaccuracies in regression results. Consequently, it is essential to use the 'Jarque-Bera' test in examining the sample data's skewness and kurtosis, providing insights into the normality of the distribution. The preference for the Jarque-Bera test is based on its widespread use and simplicity. Additionally, the 'Central Limit Theorem' derived from Kwak and Kim (2017) states that the mean is anticipated to exhibit a normal distribution as sample sizes increase. Once the size of the sample exceeds 100, the sample distribution naturally tends towards normality. However, if researchers encounter difficulties in applying the 'Jarque-Bera test' to large samples, the 'skewness and kurtosis test' can serve as an alternative measure.

The hypothesis is as followed:

H_0: The error terms are normally distributed.

H_1: The error terms are not normally distributed.

3.3.3.3 Heteroscedasticity

Heteroscedasticity arises in the condition that the error term's variability varies inconsistently all through the discussed observations. It occurs primarily due to misspecification, caused by unaccounted-for nonlinear predictors or omitted predictors. The consequence of the test is that the least square estimator remains unbiased but turns out not efficient. Identifying the issue is done through graphical methods or formal tests, including the White test and modified Wald test. Researchers often use the 'White test', and the modified 'Wald test' is applied in situations of groupwise heteroscedasticity, especially when employing Fixed Effects Models (FEM).

Hypothesis:

H_0: The model possesses homoscedasticity.

H_1: The model shows heteroscedasticity.

3.3.3.4 Autocorrelation

Autocorrelation arises at the time that error terms show correlation spatially or serially with each other. The 2 autocorrelation types are pure serial correlation, linked to errors in accurately specifying an equation, and impure serial correlation, resulting from factors like specification bias (e.g., omitted variables). This issue makes the least square estimation unbiased but inefficient, affecting variance and not meeting asymptotic conditions. A smaller standard error leads to a higher t-

statistic, causing variables to transition from insignificance to significance. Additionally, the optimistic characteristic of a least square estimation is not fulfilled. The Wooldridge test is a chosen method to identify autocorrelation due to its applicability under general conditions, simplicity, and good attributes in appropriately sized samples (Drukker, 2003).

Below is the hypothesis:

H_0: There is no problem with autocorrelation.

H_1: Autocorrelation problem is present.

3.4 Conclusion

In conclusion, this chapter showed the data acquisition's sources, formulates model alternatives, and specifies the relevant statistical and empirical testing methodologies which are employed in this research. The empirical findings and their interpretation will be discussed in the following chapter.

CHAPTER 4: RESULTS AND INTERPRETATION

4.0 Introduction

This section examines the determinants of FRQ among Asia's banks. It is crucial in assessing the adequacy of the collected data for interpretation through tables and graphs. A descriptive analysis and statistical analysis will be conducted. The empirical findings will aid in identifying the most appropriate econometric model for the study. Subsequently, tests will be done to ascertain the significance of each model in achieving objectives. Finally, econometric diagnostic testing will be conducted to identify and address potential econometric errors.

4.1 Descriptive Analysis

52 Asian banks are being selected as the sample with the data range of 2010 to 2022. Table 4.1 provides related information including observation, mean, standard deviation (SD), lowest and highest value, median, variance, skewness and kurtosis. The respective explanatory variables namely board of directors, female director, years of service, audit, size, total equity/total asset, dividend payout ratio, net margin provision, GDP growth, inflation and consumer price index.

Table 4.1:

Descriptive Statistics

Variables	Obs	Mean	Std. dev.	Min	Max	Median	Variance	Skewness	Kurtosis
LnBoD	679	2.390	0.351	1.099	3.045	2.398	0.123	-1.003	4.994
FDratio	679	0.191	0.140	0.000	0.667	0.167	0.020	0.919	4.134
LnYoS	678	1.706	1.040	-2.766	3.807	1.792	1.082	-0.344	2.919
Big4	679	0.860	0.347	0.000	1.000	1.000	0.121	-2.076	5.310
Size	679	10.91	1.835	6.306	15.43	10.709	3.368	0.405	2.909
TETA	679	0.102	0.0423	-0.0679	0.496	0.097	0.002	1.679	15.374
DPR	669	31.56	54.57	0.000	1276	28.3	2978.105	18.083	406.920
NetMarPr	679	30.96	14.72	-83.35	123	31.32	216.685	-0.771	20.614
GDPgr	679	4.905	3.362	-9.500	14.50	5.6	11.303	-2.223	9.364
Inflat	679	3.084	2.284	-1.100	18.68	2.9	5.218	2.545	17.663
CPI	679	39.53	10.59	24.000	93	36	112.134	2.472	10.887

4.1.1 Board of Directors (LnBoD)

Table 4.1 reveals that the LnBoD has the mean and median value of 2.39 and 2.398 respectively. The range of LnBoD is from 1.099 to 3.045. LnBoD has a SD of 0.351. It is left skewed, with a skewness coefficient of -1.003, and its kurtosis coefficient is 4.994.

4.1.2 Female Director (FDratio)

Based on Table 4.1, the mean value for female director (FDratio) is approximately 0.191 and a median value of 0.167. The min and max values for FDratio are 0 and 0.667 respectively. The standard deviation is approximately 0.140. Furthermore, it exhibits a right skewness of 0.919, indicating a positive deviation. Additionally, its kurtosis coefficient will be 4.134.

4.1.3 Years of Service (LnYoS)

Based on Table 4.1, the Years of Service (LnYoS) variable has an average value of 1.706 and a middle value of 1.792. The range of FRQ extends from -2.766 to 3.807, with a deviation of 1.040. The distribution of FRQ is inclined towards the left side, with a skewness coefficient of -0.344. Furthermore, the kurtosis coefficient stands at 2.919.

4.1.4 Audit (Big4)

Table 4.1 indicates that the Big 4 variable has an average of 0.860 and a middle value 1.000. The range and SD of this variable is 1 and 0.347 respectively. Its distribution is skewed leftward, with a skewness coefficient of -2.076, suggesting a negative value. Moreover, the kurtosis coefficient is 5.310.

4.1.5 Bank Size (Total Assets in US$) (Size)

Table 4.1 exhibits that the Size variable has a mean value of 10.91 and a middle value of 10.709. The Size variable ranges from 6.306 to 15.43, and its standard deviation is 1.835. The distribution of the Size variable is skewed to the right, with a skewness coefficient of 0.405, indicating a positive value. Additionally, the kurtosis coefficient is 2.909.

4.1.6 Total Equity to Total Assets Ratio (TETA)

In Table 4.1, the Total Equity/Total Assets (TETA) variable has an average value of 0.102 and a median value of 0.09. TETA ranges from -0.0679 to 0.496, with a standard deviation of 0.0423. The distribution of TETA is skewed to the right, with a skewness coefficient of 1.679, indicating a positive value. Additionally, the kurtosis coefficient is 15.374.

4.1.7 Dividend Payout Ratio (DPR)

DPR exhibits a mean of 31.56 and a median value 28.3. The DPR has a range of 1276 with a standard deviation of 54.57. With a positive skewness of 18.083, it exhibits a rightward skew. Additionally, it has a kurtosis coefficient of 406.920.

4.1.8 Net Margin (NetMarPr)

According to Table 4.1, the Net Margin (NetMarPr), representing net margin, exhibits a mean of 30.96 together with a median value of 31.32. NetMarPr ranges

from 39.65 and the SD stands at 14.72. Its distribution is left-skewed at 0.771 negatively, and the coefficient of kurtosis is 20.614.

4.1.9 Gross Domestic Product Growth (GDPgr)

Table 4.1 shows the Gross Domestic Product Growth (GDPgr) variable has an average of 4.905 and a middle value of 5.6. The range of GDPgr is between -9.500 to 14.50, with a standard deviation of 3.362. The distribution of GDPgr is skewed to the left, with a skewness coefficient of -2.223, showing a negative value. Additionally, the kurtosis coefficient is 9.364.

4.1.10 Inflation - Consumer Price Index (Inflat)

Referring to Table 4.1, 3.084 and 2.90 is the mean and median value of Inflation Consumer Price Index (Inflat) respectively. It ranges from -1.100 to 18.68, and it obtains the standard deviation of 2.284. Inflat is right-skewed at 2.545, and also its kurtosis coefficient is 17.663.

4.1.11 Corruption Perception Index (CPI)

Based on Table 4.1, Corruption Perception Index (CPI) obtains the mean value of 39.53, median value of 36 and standard deviation of 10.59. The range of CPI is between 24 to 93, which is 69. CPI is right skewed at 2.472, and 10.887 is its kurtosis coefficient.

4.2 Panel Data Analysis

Table 4.2:

Panel Data Analysis

FACTORS	VARIABLES	(1) POLS QUALITY	(2) FEM QUALITY	(3) REM QUALITY
Corporate Governance	LnBoD	4.49610	5.73152	4.49610
		(4.13800)	(9.55012)	(4.13800)
	FDratio	28.51224*	15.93405	28.51224*
		(9.12156)	(15.55360)	(9.12156)
	LnYoS	-0.79656	0.39020	-0.79656
		(1.18907)	(1.88399)	(1.18907)
Audit Quality	Big4	8.61289**	10.28053	8.61289**
		(3.94322)	(18.41931)	(3.94322)
Bank-Specific Factors	Size	1.01712	7.22986**	1.01712
		(0.79245)	(3.44686)	(0.79245)
	TETA	-34.94431	-66.63249	-34.94431
		(30.28959)	(43.67789)	(30.28959)
	DPR	0.04200*	0.04566*	0.04200**
		(0.02141)	(0.02386)	(0.02141)
	NetMarPr	0.29703*	0.31884*	0.29703*
		(0.09303)	(0.11751)	(0.09303)
Economic Variables	GDPgr	-0.90574**	-0.80586**	-0.90574**
		(0.36915)	(0.39717)	(0.36915)
	Inflat	1.02436*	1.60629**	1.02436*
		(0.58145)	(0.65681)	(0.58145)
Institution Factor	CPI	-0.21869*	0.43456	-0.21869*
		(0.12706)	(0.43229)	(0.12706)
	Constant	-30.89699**	-128.39973*	-30.89699**
		(13.63010)	(47.77940)	(13.63010)
	Observations	668	668	668
	R-squared	0.06481	0.04860	0.06480
	Number of idc		52	52

Standard errors in parentheses

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

Poolability F-test: probability > F (11,605) = 0.0014

BPLM test: probability > chibar2 = 1.0000

Hausman test: probability > chi2 = 0.5222

To determine the most suitable model to be applied in concluding the factors of FRQ of Asia's banks, 3 tests namely Poolability F-test, Breusch-Pagan Lagrange Multiplier (BPLM) and Hausman test will be carried out.

Firstly, the Poolability F-test has been conducted to determine the suitability between the models of POLS and FEM. Appendix 4.2 reveals that the probability > F (11,605) is at 0.0014, which is less than 0.05. So, the alternative hypothesis is accepted, and the Quality is significant at 0.05. To summarize this, compared with the POLS model, the **FEM** model is more suitable to explore the determinants of FRQ of Asia's banks.

Secondly, the BPLM test has been performed to compare the appropriateness between the POLS model and REM. Referring to Appendix 4.4, the probability > chibar2 at 1.0000. Since the p-value is equal to 1, there is no difference in choosing between POLS and REM; so, we have no evidence to reject the null hypothesis. To be more concise, **both POLS and REM** are acceptable to be applied.

Thirdly, the Hausman test has been carried out to make comparisons between FEM and REM. Appendix 4.5 shows that the probability > chi2 at 0.5222. As it is more than the significance level at 5%, we would accept the H_0. To summarize this, **REM** is more desirable compared to FEM because the p-value is more than 0.05.

In short, there is enough proof to prove that **REM** is the most suitable model to be applied in this research since it satisfied both BPLM and Hausman tests. Since the BPLM test obtains the result of p-value equal to 1, both POLS model and REM are acceptable to be applied as there is no difference in choosing between these two models. Therefore, it is assumed that REM is suitable to be applied from the results obtained in the BPLM test.

4.3 Diagnostic Checking

4.3.1 Normality Test

Table 4.3:

Skewness and Kurtosis Tests for Normality

Variable	Observations	Probability of Skewness	Probability of Kurtosis	Adj chi2 (2)	Prob>chi2
myResiduals	668	.0000	.0425	18.44	.0001
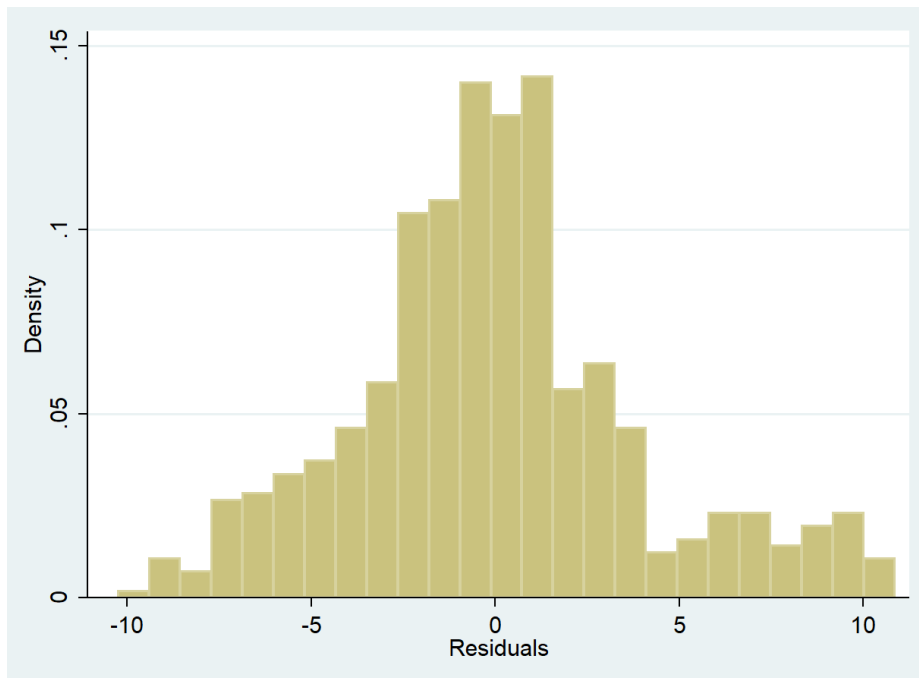
Figure 4.1: Histogram for Normality Test

Most commonly used test to assess the normality of a distribution is the Jarque-Bera (JB) test. However, its application was not feasible in this study due to the violation of the central limit theorem (CLT), which suggests that a distribution tends towards normality, particularly with independent variables exceeding 30 (Islam, 2018). The sample size of 676 observations (52 banks multiplied by 13 years) is sufficiently large, which satisfies the CLT. According to the CLT, as the increased sample size, the sample means' distribution tends to be approximately normal, regardless of the underlying population distribution. This is proved by Ghasemi and Zahediasl (2012), whereby sample size exceeding 30 or 40 does not violate the assumption of normality. This indicates that parametric methods can be employed even when data distributions are not strictly normal. Besides, a distribution is considered approximately normal when the skewness or kurtosis of the data falls within the range of -1 to +1 (Mishra et al., 2019). Curran-Everett (2017) and Pek et al. (2018) also found that if the sample size is sufficiently large, the distribution of those sample means will tend towards normality, disregarding to the distribution of the population from which the observations were drawn.

4.3.2 Multicollinearity Test

Table 4.4:

Pairwise Correlation Analysis

	LnBOD	FDratio	LnYoS	Big4	Size	TETA	DPR	NetMarPr	GDPgr	Inflat	CPI
LnBOD	1.0000										
FDratio	-0.3572*	1.0000									
LnYoS	0.1779*	0.0223	1.0000								
Big4	0.3928*	-0.1534*	0.2928*	1.0000							
Size	0.3967*	-0.2290*	-0.0242	0.2067*	1.0000						
TETA	-0.1818*	0.2476*	-0.0445	-0.0431	-0.3691*	1.0000					
DPR	0.0344	-0.0092	-0.0481	0.0434	0.0713	-0.0219	1.0000				
NetMarPr	0.0743	-0.0650	0.0453	0.0864*	0.3411*	-0.1638*	-0.0005	1.0000			
GDPgr	-0.0159	-0.1298*	0.0279	-0.0673	0.0703	-0.1938*	-0.0145	0.1655*	1.0000		
Inflat	-0.1584*	0.0732	-0.1156*	-0.3153*	-0.1947*	-0.0008	-0.0320	0.0324	0.2644*	1.0000	
CPI	-0.0783*	0.0437	-0.0181	0.2073*	0.2101*	-0.0610	0.1452*	0.2729*	-0.1157*	-0.3085*	1.0000

The identification of multicollinearity issues can be achieved through a pairwise correlation analysis conducted in STATA. As per the findings in Table 4.4, it is evident that all pairwise correlation coefficients under the range of -0.4 to 0.4. This suggests a moderate level of correlation between the variables but not strong enough to raise concerns of multicollinearity based solely on the correlation coefficients. Notably, the combination of LnBoD and Size exhibits the highest positive correlation, with a coefficient value of 0.3967. Conversely, the pair comprising FDratio and LnYoS displays the lowest but still positively significant correlation at 0.0223. Furthermore, the grouping of Size and TETA demonstrates the most pronounced negative association, with a correlation coefficient of -0.3691, while the grouping of DPR and NetMarPr exhibits the weakest negative correlation at -0.0005.

4.3.3 Heteroscedasticity Test

Cross-sectional times-series FGLS regression

H_0: sigma(i)^2 = sigma^2 for all i

Wald chi2(11) = 46.29

Prob > chi2 = 0.0000

The heteroscedasticity test studies the assumption that error variances are constant across all independent variable levels. The p-value is extremely low, approximately 0.0000, indicating strong evidence against the null hypothesis (H_0). Hence, H_0 will be rejected, and we can draw a conclusion that there is evidence of heteroscedasticity significantly, suggesting that error variances vary across the individual units in the model. This finding implies that the assumption of homoscedasticity is violated, and adjustments may be needed to account for the heteroscedasticity in the model estimation and inference.

4.3.4 Autocorrelation Test

Wooldridge Test for Autocorrelation in Panel Data

: no first order autocorrelation

$F (1, 51) = 0.151$

Prob > F = 0.6989

The Wooldridge test for autocorrelation aims to assess whether there is first-order autocorrelation present in the data. If the p-value is more than the chosen significance level (0.05), we will not reject the H_0, indicating no significant evidence of first-order autocorrelation. In this case, with a p-value of 0.6989, showing insufficient evidence to reject H_0, suggesting that there is no first-order autocorrelation in the panel data.

4.4.1 R-squared

R-squared quantifies the goodness of fit in a model, representing the proportion of the dependent variable's variation explained by the explanatory variables. Researchers can utilize it in discovering the factors including board of directors, female directors, years of service, audit, size, total equity/total asset, dividend payout ratio, net margin provision, GDP growth, inflation and consumer price index to clarify the FRQ. In the REM model, the R-squared value is reported as 0.06480 in Table 4.2. This suggests that 6.48% of the variation in FRQ can be accounted for by the fluctuations observed in the independent variables gathered throughout 2010 to 2022.

4.4.2 F-Test

Table 4.5:

F-Test Result

Source	SS	df	MS
Model	40193.501	11	3653.95464
Residual	579986.918	656	884.126399
Total	620180.419	667	929.805726

Number of obs = 668

$F_{(11,656)} = 4.13$

Prob > F = 0.0000

R-squared = 0.0648

Adj R-squared = 0.0491

Root MSE = 29.734

H_0 = All explanatory variables are not crucial to express financial reporting quality of Asia banks.

H_1 = At least one of the explanatory variables is crucial to express the financial reporting quality of Asia banks.

As per Table 4.5, the probability linked with the F-statistics is recorded as 0.0000, falling below the 5% significance level. Therefore, the H_0 is dismissed, offering substantial evidence to demonstrate the significance of at least one explanatory variable to explain the quality of financial reporting among banks in Asia.

4.5 Conclusion

The initial step of this chapter involves performing descriptive statistics. Following the implementation of 3 tests, the Random Effects Model (REM) is preferred and selected. All collected data's quality is deemed satisfactory as it successfully passes tests for normality, multicollinearity, heteroscedasticity, and autocorrelation, which shows the absence of econometric issues in the results. Within the REM model, there are 7 out of a total of 11 statistically significant independent variables. These variables include FDratio, Big4, DPR, NetMarPr, GDPgr, Inflat, and CPI, all of which show a positive relationship with FRQ, except for GDPgr and CPI, showing the opposite. Meanwhile, the variables such as the size of LnBoD, LnYoS, Size, and TETA are found to be statistically insignificant.

CHAPTER 5: DISCUSSION, CONCLUSION, AND IMPLICATIONS

5.0 Introduction

Our research's primary work will be outlined in this chapter. It includes statistical analysis summary, key findings of results, implications and restrictions. Additionally, future research's recommendations are provided after the study's limitations. Lastly, we will draw a conclusion.

5.1 Summary of Statistical Analysis

Table 5.1:

Result of Summary of Diagnostic Checking

Diagnostic Checking	Value	Result
Skewness Kurtosis Test	P = 0.0001	The distribution is approximately normal.
Pairwise Correlations	Not more than 0.4	Not strong enough to raise the multicollinearity issue.
Random-Effects GLS Regression	P = 0.0000	There is the existence of heteroscedasticity issues.
Wooldridge Test	P = 0.6989	There is no existence of autocorrelation issues.
R-Square	0.06480	6.48% of the changes in explanatory variables can explain the changes of Asia's banks' financial reporting quality.
F-Test	P = 0.0000	At least one explanatory variable demonstrates significance in explaining financial reporting quality across Asia's banks at 0.05 level of significance.

The summary of diagnostic checking results that concluded in this chapter can be seen in Table 5.1. The findings indicate that the data deviates from normal distribution. Additionally, there is a moderate correlation between variables, which is not significant enough to cause multicollinearity. However, the model exhibits heteroscedasticity, as indicated by a p-value below the 0.05 level. Besides, autocorrelation is not an issue in this model, given that its p-value exceeds the 5% level. The R-square value suggests that explanatory variables can account for 6.48% of the variance in the financial reporting quality of Asia's banks. Lastly, the F-test

indicates that at least one explanatory variable significantly influences the FRQ of Asia's banks at 5% significance level.

5.2 Discussion of Major Findings

5.2.1 Board of Directors (LnBoD)

Based on the results shown, the number of BoD is positive and insignificant to the FRQ of Asia's banks. This statement is proved by Ibrahim & Abubakar (2019), as their studies found that the larger number of BoD is positively yet insignificant in influencing FRQ as they observed that larger number of board of directors will provide greater monitoring and advice, which support the enhancement of FRQ. The researchers also claimed that the greater number of board of directors will deliver a large scale of monitoring in presenting the quality financial reports. Besides, the FRQ will be enhanced when the board size expands as the large board size will result in the FRQ enhancement (Ajibulu et al., 2021).

5.2.2 Female Directors (FDratio)

Based on the results shown, the FDratio is positively significant to the FRQ. The major findings of the research reveal that female directors positively influence FRQ in the banking industry (Dobija et al., 2022). This suggests that gender diversity in leadership positions, specifically at the director level, contributes to more accurate and transparent financial reporting practices. The study sheds light on the power of diversity in corporate governance and its potential impact on financial outcomes. Furthermore, the research provides valuable intuition for policymakers, regulators, as well as industry shareholders in Asia, emphasizing the need to promote gender

diversity as a means to enhance FRQ and overall corporate governance within the banking sector.

5.2.3 Years of Service (LnYoS)

According to the result of this paper, years of service are negatively insignificant on FRQ. It showed that fewer years of service of a CEO leads its organization's FRQ to be higher. This is supported by Uyioghosa and Amede (2019). CEO tenure has contributed to the perception of financial statement quality by external entities. This is due to a positive correlation between CEO tenure and reputation. A CEO with a favourable reputation is less inclined to endorse inaccurate or deceitful financial statements. In addition, Zhang (2019)'s findings indicate that companies with Top Management Teams (TMTs) possessing extended shared work experience and similar backgrounds are prone to experiencing misstatements. Furthermore, these companies tend to employ both accrual and real earnings management strategies when confronted with incentives to increase income.

5.2.4 Audit (Big4)

It was found that the connection of audit and FRQ is significantly positive based on this research. Mardessi (2021), Safari et al. (2021), Hasen et al. (2020), Agyer-Mensah (2019) and Moses (2019) agreed on this statement. Mardessi (2021) declared that the autonomy of the Audit Committee (AC) enhances its effectiveness, reducing the likelihood of the agency problem and the potential for insider expropriation. Independence enables the committee to maintain objectivity in overseeing the transparency of financial reporting, thereby mitigating the agency problem between executives and other shareholders. According to Hasen et al. (2020), engaging Big 4 auditors aids companies in identifying significant losses sooner, consequently minimizing the opportunity for manipulation of earnings. When a company opts for Big 4, it reflects the company's dedicated commitment to

achieving high FRQ. This commitment, in turn, provides shareholders with access
to proprietary and confidential information, contributing to a reduction in the scope
of accounting misrepresentations.

5.2.5 Bank Size (Total Assets in US$) (Size)

In this study, bank size was found to be positively insignificant in relation to FRQ.
This statement is supported by Chalaki et al. (2011), Mahboub (2017), Putri &
Indriani (2020), and Olowokure et al. (2015), who found that the size of banks in
Lebanon, Indonesia, and Nigeria did not have a statistically significant impact on
explaining the FRQ in the banking sector.

However, contrasting findings were reported in several empirical studies, revealing
a negative relationship between size (total assets in US$) and FRQ. Asyik et al.
(2023), Soyemi and Olawale (2019), Hasbullah et al. (2023), and Martínez-Ferrero
(2014) discovered that the size of a firm had a significantly positive correlation
towards FRQ. This suggests that larger banks may have the financial capacity to
implement a well-structured internal control system or enlist the services of
reputable auditing firms, thereby improving the FRQ.

5.2.6 Total Equity/Total Assets (TETA)

Based on our study findings, the relationship of Total Equity over Total Assets and
FRQ was found to be negative and statistically insignificant. This suggests that the
Total Equity over Total Assets does not have a significant impact on FRQ.

In contrast, Eng and Nabar (2007), Krishnan and Zhang (2014), Citra et al. (2021), and Oh and Park (2023) arrived at different conclusions, suggesting a significant positive effect of Total Equity over Total Assets on FRQ. They found that a higher Total Equity over Total Assets, represented by capital ratio, is positively and significantly associated with improved FRQ. This aligns with the findings of Collins et al. (1995) as cited in Eng and Nabar (2007), indicating that banks with a high capital ratio tend to enhance FRQ, represented by discretionary loan loss provisions.

5.2.7 Dividend Payout Ratio (DPR)

The results showed that DPR has a positively significant influence on FRQ within the context of Asia's banks. According to Skinner & Soltes (2011) and Deng & Liao (2017), they revealed a significant impact of DPR on FRQ among the sampled banks. A higher DPR was associated with lower FRQ, indicating that banks with a more generous dividend distribution may face challenges in maintaining the accuracy and transparency of their financial reporting. This suggests that dividend payout decisions can have implications for the overall FRQ disclosed by banks in the Asian region. These findings have important implications for stakeholders, including regulators, investors, and financial analysts, as they underscore the need for a balanced approach to dividend distribution that considers the potential trade-offs with FRQ.

5.2.8 Net Margin (NetMarPr)

The result claimed that NetMarPr had a positive and significant relationship with FRQ. Valdiansyah & Murwaningsari (2022) highlighted that their major findings of the study reveal significant insights into the factors influencing FRQ in the banking sector across Asia. By analyzing the net margin, researchers were able to identify its impact on the accuracy and reliability of financial reporting among

banks in the region. The study sheds light on how variations in net margin can affect the quality of financial information disclosed by banks, thereby highlighting the importance of maintaining healthy profit margins for ensuring transparent and trustworthy financial reporting practices. Additionally, the research contributes to a better understanding of the determinants that drive FRQ, providing valuable insights for regulators, policymakers, and shareholders in the banking sector.

5.2.9 Gross Domestic Product Growth (GDPgr)

GDP Growth was found to have a negatively significant influence on FRQ within the context of Asia's banks. This finding is supported by Hamadi et al. (2016), where it was observed that GDP growth is negatively and significantly related to FRQ. This indicates that when GDP growth is higher, the FRQ tends to be lower.

Contrastingly, Li and Shroff (2010), Ozili (2015), and Burca et al. (2020) observed a positive correlation between GDP growth and FRQ. They argue that enhanced reporting quality facilitates better project identification and selection, reduces the cost of capital, and contributes to faster growth. Moreover, the asymmetric timeliness of accounting earnings is highlighted as a crucial factor driving the improvement of GDP growth estimates accuracy.

5.2.10 Inflation - Consumer Price Index (Inflat)

The result shows that the Inflation Consumer Price Index is positively and significantly towards FRQ. This statement is agreed by Junior et al. (2017) as their studies found that inflation will be a motivation in delivering more detailed and accurate financial reports at which the high transparency will enhance the investors' confidence towards the banks. The high disclosure of financial reporting will

definitely enhance the FRQ as the reports will fully provide the comprehensive and precise information. In addition, banks will choose to use accruals to manage the results to maintain the FRQ.

5.2.11 Corruption Perception Index (CPI)

The result proves that the Corruption Perception Index (CPI) has a negative and significant impact on Asia's banks' FRQ. This statement is supported by Madah Marzuki & Abdul Wahab (2018) since their studies concluded that the CPI will diminish the conditional conservatism in terms of delivering the high disclosure of financial information and statements to the public. As a result, the lack of transparency will negatively impact the quality of financial reports. Additionally, Martinez-Ferrero (2014) supported this statement as their research found that the presence of a high level of CPI challenges banks and financial institutions in providing the high transparency of financial reporting, which reduces its quality.

5.3 Implication of Study

In unveiling the determinants of FRQ among Asia's banks, this study delves into the multifaceted determinants shaping the landscape of financial transparency and reliability. Amidst the diverse banking environments of Malaysia, Singapore, China, Hong Kong, Thailand, Vietnam, Philippines, and Indonesia, this research sheds light on the nuanced interplay of regulatory frameworks, corporate governance structures, and economic factors influencing the FRQ. By uncovering these underlying determinants, this study not only offers valuable insights into the current state of financial reporting practices but also provides a foundation for

policymakers, regulators, and industry practitioners to enhance transparency and accountability within the banking sector across the Asian continent.

5.3.1 Board of Directors (LnBoD)

From the study, the result shows that the number of BoD shows positively insignificant correlation towards the FRQ across Asia's banks. This implies that the number of BoD has no effect towards the FRQ. Despite the large board size having their responsibilities in reviewing financial statements or setting financial statement policies, their involvement may not greatly boost the transparency and accuracy of the financial information provided. Therefore, future researchers are encouraged to exclude it from their future research as the variable is not significant for FRQ.

5.3.2 Female Directors (FDratio)

The study investigates the relationship between female directors and FRQ among banks in Asia. Through rigorous analysis, it uncovers significant implications regarding the influence of gender diversity on financial reporting practices. The findings suggest that the presence of female directors positively impacts FRQ within the banking sector. This implies that gender diversity at the board level plays a crucial role in fostering transparency, accountability, and adherence to reporting standards. Furthermore, the study underscores the importance of promoting diversity and inclusion initiatives within corporate governance structures to enhance overall financial integrity and trust in the banking industry.

5.3.3 Years of Service (LnYoS)

This study showed an insignificantly negative relationship between years of service and FRQ. It means that when the tenure of a CEO is longer, their FRQ is lower.

Therefore, the management of banks need to put more effort in emphasizing open and consistent communication with shareholders, incorporating regular and transparent reporting practices. A lengthier CEO tenure has the potential to foster trust and credibility among investors, thereby strengthening the dedication to maintaining high standards of FRQ.

5.3.4 Audit (Big4)

This research specified that audit is positively significant on FRQ. Thus, involving Big 4 auditors can result in higher FRQ. It can act as a valuable resource for investors, influencing their decisions regarding bank investments by considering the ratings provided by the auditors involved. Furthermore, future researchers may find it imperative to incorporate this variable in upcoming studies as it plays a vital role in assessing banks' FRQ.

5.3.5 Bank Size (Total Assets in US$)

It was found that Size shows positive and insignificant correlation towards FRQ among Asia's banks. This indicates that the total assets in US$ has no effect on FRQ. Hence, investors can determine their bank investment decisions based on other factors excluding the total assets in US$ of Asian banks as it may not be a reliable indicator of their financial reporting reliability or transparency.

5.3.6 Total Equity/Total Assets (TETA)

Based on the findings of our study, the Total Equity to Total Assets ratio (TETA) was determined to have a negative and insignificant association with FRQ. This

indicates that variations in the TETA do not significantly impact FRQ. Therefore, it may be advisable for future management teams or researchers to exclude this variable from their studies. Additionally, investors and shareholders should not anticipate improvements or deteriorations in FRQ solely based on fluctuations in the TETA.

5.3.7 Dividend Payout Ratio (DPR)

By examining the dependent variable of FRQ in tandem with the independent variable of dividend payout ratio, the research uncovers significant implications. It elucidates how dividend payout ratios can serve as a determinant of FRQ within the banking sector of Asia. The findings underscore the nuanced interplay between dividend policies and the transparency and accuracy of financial disclosures, elucidating the multifaceted dynamics at play within these institutions. Understanding these determinants is crucial for regulators, investors, and financial institutions alike, as it provides valuable insights into the factors shaping financial reporting practices and the broader economic landscape in Asia.

5.3.8 Net Margin (NetMarPr)

In the examination of FRQ among Asia's banks, the study delved into the significant findings regarding the relationship between net margin and FRQ. The research revealed net margin, as an independent variable, plays a crucial role in shaping the dependent variable of FRQ. This suggests that the profitability of banks, as reflected in their net margin, has a direct impact on the transparency, accuracy, and reliability of their financial reporting. A higher net margin may indicate stronger financial health and management practices, potentially leading to better reporting quality. Conversely, lower net margins might signal financial challenges or poor management, potentially resulting in lower FRQ. Understanding this relationship sheds light on the intricate dynamics influencing financial reporting practices in the

banking sector across Asia, offering valuable insights for regulators, policymakers, and stakeholders alike.

5.3.9 Gross Domestic Product Growth (GDPgr)

This study showed a significantly negative relationship between GDP Growth and FRQ among Asia's banks. This indicates that the increasing growth of Gross Domestic Product (GDP) reduces the FRQ among Asia's banks. For investors, this finding implies that GDP growth alone may not guarantee improved FRQ in the Asian banking sector. Hence, the government can strengthen regulatory frameworks to ensure that banks adhere to reporting standards especially during periods of GDP growth.

5.3.10 Inflation - Consumer Price Index (Inflat)

This research proves a positive and significant relationship between the Inflation Consumer Price Index and the FRQ of Asia's banks. This represents that the higher inflation rate may lead to the motivation for banks in presenting higher FRQ. In the high inflation situation, banks will try to fully disclose all the financial information to shareholders which help enhance their confidence towards the FRQ.

5.3.11 Corruption Perception Index (CPI)

In this study, the Corruption Perception Index (CPI) has a negatively significant impact on the FRQ of Asia's banks. This indicates that the higher CPI of Asia's country will reduce the FRQ. In addition, the unstable CPI value will affect banks'

effectiveness in delivering high accuracy and transparency reports. Hence, this variable is encouraged to be included in upcoming research as it is a crucial variable in investigating the FRQ of Asia's banks.

5.4 Limitation of Study

The limitation of the study "Unveiling the Determinants of Financial Reporting Quality Among Asia's Banks" is the potential for data availability and reliability issues. While the research aims to investigate various determinants affecting financial reporting quality across Asia's banks, the availability and reliability of data on these determinants may vary among different countries and institutions. For instance, accessing comprehensive and accurate data on corporate governance practices, audit quality, and institutional factors across all banks in Asia could be challenging due to differences in regulatory frameworks, disclosure requirements, and data collection methodologies across countries. As a result, the study may face limitations in obtaining a complete and consistent dataset, which could potentially impact the robustness and generalizability of the findings. Additionally, differences in data quality and reporting standards among countries may introduce biases or inconsistencies in the analysis, thereby affecting the accuracy of the results and the validity of the conclusions drawn regarding the determinants of financial reporting quality among Asia's banks. Therefore, researchers should acknowledge and carefully consider these data-related limitations when interpreting the study's findings and drawing conclusions about the determinants influencing financial reporting quality in the region.

5.5 Future Recommendations

In subsequent research endeavours, scholars have the opportunity to expand their investigations to encompass additional countries within the Asian region. The current study, limited to a sample size from only 7 out of 48 countries in Asia, implies that the findings may not be representative of the entire region. Therefore, it is advisable for future researchers to conduct research involving a more extensive selection of banks in the Asian region. For instance, including countries such as India, Japan, Turkey, Laos, and Saudi Arabia would contribute to a more robust, reliable, and accurate study.

Moreover, it is recommended that future researchers employ diverse methodologies to analyse the data. While this study utilized Stata for data regression, alternative tools like E-View can also be employed for regression analysis. Utilizing E-View for diagnostic checks, for example, could enhance the reliability of the study.

Additionally, it is suggested for upcoming researchers to embrace a different sampling technique in their studies. Utilizing an alternative sampling approach can afford future researchers a clearer insight into the similarities and variations in results when employing two different sampling methods.

5.6 Conclusion

The purpose of this research is to explore the factors influencing FRQ among Asia's banks. Three corporate governance factors, one audit quality factor, four bank-specific factors, two economic variables, and one institutional factor were identified as key potential variables affecting FRQ. Data from 52 banks across Asia were gathered and subjected to empirical analysis for the years 2010 to 2022.

To analyse the data, the Random Effects Model (REM) was selected for this study. Based on the result, Female Director (FDratio), Big 4 Audit Firm (Big4), Dividend Payout Ratio (DPR), Nobjectivet Margin (NetMarPr), Gross Domestic Product Growth (GDPgr), Inflation Consumer Price Index (Inflat), and Corruption Perception Index (CPI) have a significant relationship towards FRQ while other variables are insignificant. In addition, Board of Directors (LnBoD), Female Director (FDratio), Big 4 Audit Firm (Big4), Total Assets in $ (Size), Dividend Payout Ratio (DPR), Net Margin (NetMarPr), and Inflation Consumer Price Index (Inflat) are positively related to FRQ while the remaining variables are negatively related.

In conclusion, this research successfully achieves its objectives by clearly defining the relationship and impact of independent variables on FRQ among Asia's banks. Additionally, this research also presents the results of each independent variable on the FRQ among Asia's banks in seven different Asian countries, together with acknowledging some limitations throughout the research. The researchers anticipate that this research will contribute to a deeper understanding on how the chosen explanatory variables affect FRQ among Asia's banks, benefiting bank management, investors, regulators, and future researchers.

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APPENDIX

Appendix 4.1: Results of POLS

Source	SS	df	MS
Model	40193.501	11	3653.95464
Residual	579986.918	656	884.126399
Total	620180.419	667	929.80576

Number of obs	=	668
F (11,656)	=	4.13
Prob > F	=	0.0000
R-squared	=	0.0648
Adj R-squared	=	0.0491
Root MSE	=	29.734

Quality	Coef.	Std. Err.	T	p > | t |	[95% Conf. Interval]	
LnBoD	4.496096	4.138003	1.09	0.278	-3.629232	12.62142
FDratio	28.51224	9.121562	3.13	0.002	10.60127	46.42322
LnYoS	-.7965553	1.189066	-0.67	0.503	-3.13139	1.53828
Big4	8.612886	3.943222	2.18	0.029	.8700267	16.35574
Size	1.017116	.7924476	1.28	0.200	-.5389238	2.573156
TETA	-34.94431	30.28959	-1.15	0.249	-94.42055	24.53192
DPR	.0420002	.0214139	1.96	0.050	-.0000479	.0840483
NetMarPr	.2970258	.093029	3.19	0.001	.1143553	.4796964
GDPgr	-.9057438	.3691522	-2.45	0.014	-1.630606	-.1808815
Inflat	1.024362	.581449	1.76	0.079	-.1173635	2.166088
CPI	-.2186935	.1270614	-1.72	0.086	-.4681896	.0308026
_cons	-30.89699	13.6301	-2.27	0.024	-57.66087	-4.133105

Appendix 4.2: Results of FEM

| Fixed-effects (within) regression | Number of obs | = | 668 |
| Group variable: idc | Number of groups | = | 52 |

R-sq:

Obs per group:

Within	= 0.0486		min	=	9
Between	= 0.1256		avg	=	12.8
Overall	= 0.0286		max	=	14

			F (11,605)	=	2.81
corr (u_i, Xb)	= -0.8269		Prob > F	=	0.0014

Quality	Coef.	Std. Err.	T	p > |t|	[95% Conf. Interval]	
LnBoD	5.731516	9.550117	0.60	0.549	-13.02389	24.48692
FDratio	15.93405	15.5536	1.02	0.306	-14.61154	46.47965
LnYoS	.390203	1.883986	0.21	0.836	-3.309743	4.090149
Big4	10.28053	18.41931	0.56	0.577	-25.89302	46.45407
Size	7.229858	3.44686	2.10	0.036	.4605936	13.99912
TETA	-66.63249	43.67789	-1.53	0.128	-152.4112	19.1462
DPR	.0456603	.0238588	1.91	0.056	-.0011959	.0925164
NetMarPr	.3188371	.1175149	2.71	0.007	.0880504	.5496238
GDPgr	-.8058616	.397169	-2.03	0.043	-1.585859	-.0258643
Inflat	1.606292	.6568115	2.45	0.015	.3163845	2.896199
CPI	.4345562	.4322878	1.01	0.315	-.4144107	1.283523
_cons	-128.3997	47.7794	-2.69	0.007	-222.2333	-34.56611
sigma_u	17.677502					
sigma_e	29.785914					
rho	.26047798	(fraction of variance due to u_i)				

F test that all u_i = 0: F(51, 605) = 0.96   Prob > F = 0.5640

Appendix 4.3: Results of REM

Random-effects GLS regression			Number of obs	=	668
Group variable: idc			Number of groups	=	52

R-sq:			Obs per group:		
Within	= 0.0347		min	=	9
Between	= 0.3662		avg	=	12.8
Overall	= 0.0648		max	=	14

			F (11,605)	=	45.46
corr (u_i, Xb)	= 0 (assumed)		Prob > F	=	0.0000

Quality	Coef.	Std. Err.	z	p > | z |	[95% Conf. Interval]	
LnBoD	4.496096	4.138003	1.09	0.277	-3.61424	12.60643
FDratio	28.51224	9.121562	3.13	0.002	10.63431	46.39018
LnYoS	-.7965553	1.189066	-0.67	0.503	-3.127082	1.533972
Big4	8.612886	3.943222	2.18	0.029	.8843124	16.34146
Size	1.017116	.7924476	1.28	0.199	-.5360529	2.570285
TETA	-34.94431	30.28959	-1.15	0.249	-94.31081	24.42218
DPR	.0420002	.0214139	1.96	0.050	.0000296	.0839707
NetMarPr	.2970258	.093029	3.19	0.001	.1146923	.4793594
GDPgr	-.9057438	.3691522	-2.45	0.014	-1.629269	-.1822189
Inflat	1.024362	.581449	1.76	0.078	-.115257	2.163981
CPI	-.2186935	.1270614	-1.72	0.085	-.4677293	.0303423
_cons	-30.89699	13.6301	-2.27	0.023	-57.61149	-4.182485
sigma_u	0					
sigma_e	29.785914					
rho	0	(fraction of variance due to u_i)				

Appendix 4.4: Result of Breusch and Pagan Lagrange Multiplier (BPLM) Test

Quality [idc, t] = Xb + u[idc] + e[idc, t]

Estimated results:

	Var	sd = sqrt (Var)
Quality	929.8057	30.49272
e	887.2007	29.78591
u	0	0

Test: Var(u) = 0

chibar2(01)	=	0.00
Prob > chibar2	=	1.0000

Appendix 4.5: Result of Hausman Test

--------Coefficient-------

Quality	(b) FEM	(B) REM	(b-B) Difference	sqrt (diag (V_b- V_B) S.E.
LnBoD	5.731516	4.496096	1.23542	8.588692
FDratio	15.93405	28.51224	-12.57819	12.56476
LnYoS	.390203	-.7965553	1.186758	1.457129
Big4	10.28053	8.612886	1.667642	17.95957
Size	7.229858	1.017116	6.212742	3.348388
TETA	-66.63249	-34.94431	-31.68818	31.3638
DPR	.0456603	.0420002	.0036601	.0104266
NetMarPr	.3188371	.2970258	.0218113	.0714668
GDPgr	-.8058616	-.9057438	.0998822	.1446488
Inflat	1.606292	1.024362	.5819297	.3030239
CPI	.4345562	-.2186935	.6532497	.412083
_cons	-128.3997	-30.89699	-97.50274	45.70756

b = consistent under H0 and Ha; obtained from xtreg

B = inconsistent under Ha, efficient under H0; obtained from xtreg

Test: H0: difference in coefficients not systematic

chi2 (11) = (b-B)' [(V_b-V_B) ^ (-1)] (b-B)

= 10.09

Prob > chi2 = 0.5222

(V_b-V_B is not positive definite)