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Ownership structure and financial reporting integrity: the moderating role of earnings quality in Egyptian practice

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Abstract

Purpose – This study examines the correlation between ownership structure (OS) and financial reporting integrity (FRI), with emphasis on the impact of earnings quality (EQ) in the Egyptian context.

Design/methodology/approach – The study uses data from 472 firm-year observations of Egyptian publicly listed companies between 2014 and 2021 and carried out descriptive statistics, correlation tests, multiple regression analysis and two-stage least squares (2SLS) to test the hypotheses.

Findings – The results revealed that blockholders and institutional ownership significantly enhance reporting integrity through effective oversight and monitoring. The findings underscore the vital role of concentrated OS in overseeing reporting practices and mitigating managerial opportunism, thereby improving the transparency and reliability of financial disclosures in Egypt.

Practical implications – The findings enrich the literature on corporate governance and financial reporting quality and have important implications for policymakers, regulators and corporate stakeholders.

Originality/value – This work contributes valuable insights on how OS and EQ can bolster FRI, offering crucial information for combating financial crises and facilitating smooth business operations in Egypt.

Keywords Financial reporting integrity, Earnings quality, Ownership structure, EGX100, Egypt

Paper type Research paper

1. Introduction

In recent years, the business community has been involved in a succession of legal disputes that have arisen due to financial reporting controversies and the manipulation of accounting processes (Priharta and Rahayu, 2019). The public's confidence has decreased substantially as a result of these occurrences, given that the reliability of corporate financial data has been called into question. Financial statements serve as the principal vehicle by which organizations convey their financial data to an extensive group of stakeholders, encompassing creditors, investors, regulators, and the general populace (Winoto *et al.*, 2023). Diverse stakeholders rely

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on these financial statements as critical decision-making inputs, as they are intended to present a trustworthy and transparent depiction of the financial status and operational achievements of the organization.

However, recent accounting scandals have sparked concerns about the quality and trustworthiness of the presented financial information. When companies engage in manipulative or fraudulent accounting practices, it undermines the fundamental purpose of financial reporting and erodes the confidence of stakeholders in the veracity of the financial data. This situation highlights the critical importance of maintaining the integrity of the accounting and financial reporting processes within organizations. Ensuring the reliability and transparency of financial information is essential for supporting sound decision-making, fostering trust in capital markets, and promoting the overall stability and growth of the business ecosystem.

Kieso *et al.* (2017) perceive financial statements as a comparable manifestation of accountability, comprehensibility, pertinence, and dependability. For financial reports to effectively communicate information to readers, they must also be straightforward. Additionally, the financial statements must be pertinent to reflect information on past performance. It is imperative that the financial statements comprise precise and veracious data, devoid of any plausible misinterpretation or significant error. According to Fitrawansyah and Syahnifah (2018), the "integrity of financial statements" is assessed by their ability to present accurate and truthful information.

The "integrity of financial reporting" ensures the provision of precise information and is not predicated on deliberate managerial maneuvers aimed at manipulating financial statements. A high level of integrity in financial statements is characterized by their veracity, accuracy, and non-mistreatment of financial data throughout the process of preparing them (Indah *et al.*, 2023). The presentation of "financial statements" in a manner consistent with reality constitutes the "integrity of financial statements". Financial statements are considered to have integrity if the information they contain is presented accurately and truthfully (Mayangsari, 2003).

The recent wave of accounting manipulation and financial reporting scandals has raised concerns about the effectiveness of CG practices within organizations. Many cases clearly lack adequate implementation of sound corporate governance mechanisms (Ntim and Soobaroyen, 2013; Gorety, 2017). The lack of robust governance structures can create an environment that encourages management to present financial information in a biased manner, often with the aim of maintaining a positive public perception or avoiding unfavorable stock price movements.

The OS of the company is among the most vital components of effective CG. The implementation of management and control systems, as well as the overall value of a company, can be substantially impacted by its ownership structure (Butt and Hasan, 2009). As a crucial element of CG, the OS can also influence the probability of "financial reporting" fraud (Kusumaa and Fitrianib, 2020).

Scholars have examined the relationship between the "integrity of financial reporting" and different ownership forms, such as institutional ownership and managerial ownership, in the academic literature. According to Fanani *et al.* (2009), the impact of managerial ownership may not be significant since managers may still be compelled by capital market pressure to use accounting techniques that undermine the reliability of financial statements. Yulia and Basuki (2016) found a strong positive relationship between "managerial ownership" and financial statement fraud, supporting this perspective. However, Fajaryani (2015) found no connection between the level of ownership by managers and the accuracy of financial statements.

On the contrary, research has demonstrated that financial reporting fraud is substantially and adversely impacted by institutional ownership (Oktaviana and Paramitha, 2021).

A positive correlation exists between the proportion of "institutional ownership" and the probability that a company will commit financial reporting fraud. In comparison to other investors, institutional investors, including banks, insurance companies, and state-owned organizations, generally possess greater sophistication, information accessibility, and analytical capabilities (Bahadori and Hajalizadeh, 2016). This benefit enables them to diligently oversee the financial reporting practices of the organization and implement suitable measures to safeguard the veracity of the information divulged.

The literature highlights the crucial role of "CG", particularly OS, in shaping the integrity of financial reporting. The findings of prior studies suggest that strengthening governance mechanisms, such as enhancing institutional ownership and oversight, can contribute to the reliability and transparency of financial information, which are essential for sound decision-making and the overall stability of the business environment.

FRI has been linked to institutional and managerial ownership in academic literature. Fanani *et al.* (2009) argue that managerial ownership may not matter since capital market pressure may continue to force managers to use accounting practices that undermine financial statements. Yulia and Basuki (2016) revealed a strong positive link between "managerial ownership" and financial statement fraud. Fajaryani (2015) found no link between "managerial ownership" and "financial statement integrity".

One crucial aspect of "financial statements" is EQ, which pertains to the capacity of earnings information to elicit market responses. Enhanced EQ offers greater insight into the precise aspects of a company's financial performance that are pertinent to the decision-making process of certain individuals. Recently, the yearly financial reports have frequently deviated from the actual situation due to conflicts of interest within the board of directors. The presence of managerial interventions that manipulate accounting policies in financial statements can impact the reported profits, potentially leading to erroneous investment decisions by investors and subsequent profit decline (Erawati and Tunnajiha, 2023; Masruroh and Apollo, 2023; Hasanuddin *et al.*, 2021; Abbas *et al.*, 2021b; Li and Wang, 2010).

The Financial Accounting Standard Board (FASB) explains in Financial Accounting Concepts (SFAC) No. 1 that a high quality of earnings guarantees the inclusion of a comprehensive array of decision-making-relevant company financial performance characteristics (Mousa and Desoky, 2019). The evaluation of a company's financial reporting proficiency can be done in part through the quality of its earnings (Baioco and Almeida, 2017). There is substantial evidence from various studies that accruals' metrics of EQ are significantly correlated with their durability, predictability, significance to financial value, and overall quality (Hidayah *et al.*, 2021).

The concept underlying our research is evident from the preceding summary, given the critical function that the accounting process serves in establishing the caliber of earnings. Both the board and management are required to participate in financial reporting. The judgments and policies of management with respect to earnings directly influence the credibility and accuracy of financial reporting. "Earnings management" and "CG" processes may therefore have an effect on the character of earnings. Furthermore, the EQ is impacted by the composition of ownership, which includes both "managerial and institutional ownership". This, in turn, affects the integrity of financial reporting. Hence, further investigation is warranted regarding these subjects in a developing market such as Egypt, where particular economic, cultural, and accounting standards necessitate such scrutiny.

The current study seeks to unravel the complex relationship that exists between OS an FRI in Egyptian firms, with an exploration of likely moderating effect of EQ. This study provides some new insights to the debate on CG in emerging markets by focusing on this peculiar economy and culture. It is also driven by the need to remedy recent financial reporting controversies that have undermined public trust in corporate disclosures.

However, this paper borrows elements from agency and signaling theories in trying to tease out the dynamics at play between the firm owners, management, and external stakeholders. It is believed that this work will add nuance to a body of literature that has revealed mixed results on how different ownership structures might influence reporting practices. In doing so, an emerging market as Egyptian was chosen to test such relationships; where prior research in that context are lacking and useful insights for policymakers, regulators, and corporate leaders is needed to improve the integrity of financial reporting within similar economic environments.

The rest of this work is structured as follows: Section (2) provides background on the main research issues; Section (3) is the theatrical literature review; Section (4) provides the empirical literature review and formulates the hypotheses; Section (5) is the research design; Section (6) is the empirical results and discussion of results, and section (7) is the conclusion, limitations and suggestions for future research.

2. Background on the main research issues

Recently, the business world has been involved in various legal suits related to scandals in financial reporting and manipulation of accounting processes, which have resulted in massive destruction of public confidence since the reliability of the financial data regarding corporations has been under scrutiny. Financial statements hence become the primary means through which an organization is capable of communicating its financial information to different stakeholders, including creditors, investors, regulators, and the public at large. Indeed, stakeholders would use these statements as key inputs in their decisions, as the presentation in these financial statements is supposed to be trustworthy and open about the organization's financial position and success of operations.

However, in the light of recent accounting scandals, there is growing concern about the quality and reliability of the information presented. Manipulation or fraudulent accounting practices adopted by companies might very well defeat the purpose of financial reporting and shatter stakeholders' confidence related to truthfulness about financial information. This scenario therefore assumes great importance to protect the integrity of the accounting and financial reporting processes of organizations.

The FRI is based on ensuring accuracy of information and not upon a set of deliberate managerial maneuvers aimed at manipulating the financial statements. Integrity in the financial statements can be elaborated to refer to veracity, accuracy and non-mistreatment of the financial data throughout the process of statement preparation. Integrity would be associated with financial statements if the contained information was presented accurately and truthfully.

The recent accounting manipulation and financial reporting scandals have rung the alarm regarding the adequacy of the CG practices in organizations. Most of these cases obviously lack sufficient operation of good CG mechanisms. A weak structure of governance may facilitate an environment that motivates management to project financial information in a biased way, usually for the sake of maintaining a positive image before the public or avoiding unfavorable stock price changes.

The (OS) of a firm is among the most vital components of effective CG. The implementation of management and control systems, as well as the overall value of a company, can be substantially impacted by its OS (Butt and Hasan, 2009). As a crucial element of CG, the OS can also influence the probability of financial reporting fraud (Kusumaa and Fitrianib, 2020).

Scholars have examined the relationship between the FRI and different ownership forms, such as institutional ownership and managerial ownership. Research has demonstrated that financial reporting fraud is substantially and adversely impacted by institutional ownership (Oktaviana and Paramitha, 2021). Institutional investors, including banks, insurance

companies, and state-owned organizations, generally possess greater sophistication, information accessibility, and analytical capabilities compared to other investors (Bahadori and Hajalizadeh, 2016). This can, therefore, allow them to keep a very close monitoring on the financial reporting practices within the organization and ensure that proper steps are taken for protecting truthfulness information disclosed.

Considering that an accounting process aids in determining the quality of earnings, financial reporting requires involvement by both the board and the management. The judgments and policies of management with respect to earnings directly influence the credibility and accuracy of financial reporting. Earnings management and CG processes may therefore have an effect on the character of earnings. Furthermore, the EQ is impacted by the composition of ownership, which includes both managerial and institutional ownership. This, in turn, affects the integrity of financial reporting. In light of these considerations, further investigation is warranted regarding these issues in an emerging market such as Egypt, where particular economic, cultural, and accounting standards necessitate such scrutiny.

3. Theoretical literature review

The underlying theoretical frameworks commonly used to examine the relationship between OS and FRI are "agency theory" and "signaling theory". According to agency theory, it helps to understand the dynamic interactions between a company's owners and management (Jensen and Meckling, 1976). Differences in objectives between management and shareholders can give rise to conflicts of interest as each party strives to maximize their own benefits. Managers may aim to secure adequate compensation, while shareholders prioritize financial returns on their investments (Alnabsha *et al.*, 2018). Information asymmetry between shareholders and managers can be reduced through the implementation of effective CG mechanisms, such as OS (Parinduri *et al.*, 2019). This, in turn, can alleviate agency problems and improve the dependability of financial reports. The close correlation between FRI and agency theory has been underscored by recent empirical findings as well (Prananti, 2018; Yusran, 2023; Winoto *et al.*, 2023).

Agency theory suggests that the OS of a company, namely the presence of blockholders and institutional ownership (IO), can greatly influence FRI. Although previous research has thoroughly investigated the connection between IO and FRI, there is a noticeable scarcity of studies on the correlation between blockholder ownership and FRI. The signaling hypothesis offers an additional perspective for examining the relationship between OS and FRI. According to Spence (1973), signaling theory posits that the OS of a company can function as a communication mechanism to external stakeholders concerning the reliability and excellence of the organization's financial data. Concentrated OS, characterized by a substantial number of blockholders or institutional investors, may serve as an indication of robust monitoring and supervision mechanisms. The credibility and integrity of the "financial reporting" process may be enhanced as a result. Agency theory and signaling theory are two underlying theories that are very influential in this research. These two theories provide a comprehensive lens through which we can examine the interrelationships between OS, FRI, and EQ in the Egyptian market.

This paper contributes to the body of knowledge regarding the potential impact of OS, particularly IO and blockholder ownership, on the FRI within organizations. By integrating agency theory and signaling theory, this is accomplished. The findings will contribute to the growing corpus of knowledge concerning financial reporting quality and CG. This impacts policymakers, regulators, and individuals with a vested interest in corporations significantly. This can contribute to the development of an informed understanding of the possible effects of different ownership structures on financial reporting practices in the unique context of the Egyptian market. It is, therefore, an orientation that guides our hypotheses and explains how EQ might moderate the relationship between OS and the FRI.

4. Empirical literature review and hypotheses development

4.1 The link between "ownership structure" (OS) and "the financial reporting integrity" (FRI)

Based on both agency theory and signaling theory, a notion can be formed as to how the OS relates to FRI. The agency theory argues that the ownership itself might be concentrated, hence creating a convergence of interest between owners and managers, which would reduce information asymmetry and lead to a better quality of reports. On the other hand, the theory of signaling postulates that a firm's OS signals to its external shareholders the nature or quality of the financial reports.

The empirical literature has mixed findings on the nature of IS and FRI. For instance, Sartia *et al.* (2022), Salem *et al.* (2019), Budiharjo and Irawan (2020) have established a positive link between IO and FRI. They have argued that the greater the IO, the better the supervision can be, and hence it might deter opportunistic behavior and decrease financial manipulation.

However, some research turns out to have different results. For example, Gayatri and Saputra (2013) revealed a negative effect of IO in FRI. Other researchers, like Ulfa and Challen (2020), Prananti (2018), have also found that there is no significant relationship between such variables.

The primary purpose of financial reports (FR) is to furnish pertinent information that can be utilized by creditors, stakeholders (including prospective and existing investors), and others to improve their decision-making processes concerning investments, loans, and other comparable financial matters. In order to establish credibility, organizations must generate financial reports (FR) that are both precise and truthful (Oktaviana and Paramitha, 2021; Yasser *et al.*, 2017).

There have been numerous cases of fraudulent activities and scandals involving the manipulation or misrepresentation of FR in several large companies, such as Enron, WorldCom, Toshiba, Lehman Brothers, and others (Nurdiniah and Pradika, 2017; Arie and Suryandari, 2023). The occurrence of manipulation incidents demonstrates the absence of FRI, as they fail to accurately reflect the true economic status of the firm. Consequently, these reports are inconsequential for stakeholders seeking to make informed decisions, as they are based on erroneous information. Despite this, "the integrity of financial reports" is critical because it significantly influences the decisions made by financial report users (Pradika and Hoesada, 2019).

According to Malau and Murwaningsari (2018) and Chen *et al.* (2022), the FRI demonstrates the accuracy, responsibility, and trustworthyness of the provided information while also ensuring it remains unaffected by any intentional activities by the board of management to manipulate accounting data. Financial report manipulation cases suggest a lack of accurate application of sound CG (Achim *et al.*, 2023).

Numerous empirical and theoretical studies have reported that CG mechanisms can influence FRI. Monitoring and control mechanisms, which are commonly established through the implementation of a CG framework, are essential to ensure the creation of high FRI and to reduce the possibility of fraud, which can impact any organization (Siahaan, 2013). OS is one of the most important CG mechanisms that significantly affects the firm's overall value, as it helps to implement a system of ownership and management (Yasser *et al.*, 2017; Butt and Hasan, 2009).

Oktaviana and Paramitha (2021) found that IO influences firm risk index (FRI). IO refers to the impact of institutional shareholders on the management performance of enterprises, which in turn affects the financial reporting of the firm. Managers typically demonstrate an entrepreneurial mindset and so prioritize the financial health of the organization. This is because they face financial constraints and are compelled to make optimal decisions and maintain accurate financial records. Therefore, Information Overload (IO) acts as a proficient surveillance tool for supervising corporate performance and has the potential to diminish management's inclination to prioritize their personal interests. Consequently, IO has a

significant impact on the decision-making procedures within management (Savitri, 2016). Satria *et al.* (2022), Budiharjo and Irawan (2020), and Salem *et al.* (2019) have all supported the idea that there is a positive correlation between IO and FRI. Their research shows that when there is a high level of IO, investors have better supervision and oversight. When a corporation has a significant number of its shares owned by institutional investors, it allows for more investor oversight, which can discourage opportunistic behavior and the manipulation of financial records. Similarly, Gayatri and Saputra (2013) determined that IO has a negative impact on FRI. Conversely, other studies have shown that IO does not have an impact on FRI, as demonstrated by the research conducted by Oktaviana and Paramitha (2021), Ulfa and Challen (2020), and Prananti (2018).

In the Egyptian context, there is a need to pinpoint the special features characterizing its business environment. Being an emerging economy, its practices in CG and institutional frameworks may differ from those characterizing more mature markets. Although growing, the Egyptian stock market is relatively nascent and may lack the sophistication of institutional investors compared to more mature markets.

Given the reasoning presented above, the first hypothesis can be stated as follows:

H1. There is a positive association between ownership structure and the financial reporting integrity in the Egyptian firms.

Here, we hypothesize that for the case of Egypt, higher IO will result in better FRI. We expect that due to their status as being better resourced and experienced, institutional investors will be more effective monitors of management, hence reducing the propensity for financial reporting manipulation and generally enhancing the quality of reporting.

4.2 Earning quality and financial reporting integrity

Using the theoretical framework, further the discussion on the relationship between OS, FRI and EQ with an information asymmetry theory perspective. According to this theory, financial markets will contain some people who have more or better information than others, which may lead to inefficiencies, hence possible market failure. The qualitative characteristics of financial statements are critical to ensuring their utility for decision-making purposes. Central among these characteristics is the integrity of financial reporting, which reflects the faithful representation of a company's true financial position and performance (IASB, 2018). However, achieving FRI in practice has proven to be a significant challenge, as evidenced by the numerous cases of financial statement manipulation and accounting scandals.

In this context, EQ can be seen to be a means to the end of mitigating information asymmetry between firm insiders and external stakeholders. High-quality earnings indicate actual financial performance more accurately to investors and other relevant stakeholders, hence helping them make more effective decisions. Empirical literature reports mixed findings on the effect of EQ in relation to FRI. Other studies, such as Klein (2002) and Doyle *et al.* (2007), show that the presence of more superior governance practices and more efficient internal controls is significantly related to high EQ and, by extension, more reliable financial reporting. Such findings are in line with the expectation that EQ may mitigate or amplify the relationship between OS and FRI.

Financial statements with integrity are those that accurately and transparently depict the actual condition of a company without concealing or misrepresenting any relevant information (Nurjannah and Pratomo, 2014; Hardiningsih, 2010). Integrity in financial reporting ensures that the information presented is free from material errors and biases and faithfully represents the underlying economic reality. The prevalence of financial scandals and fraudulent reporting practices suggests that many companies still struggle to produce

financial statements with the necessary level of integrity and honesty. The desire to maintain shareholder confidence and avoid unfavorable market reactions often drives managers to make inappropriate decisions or engage in manipulative practices to present a favorable impression of the company's performance. This phenomenon highlights the critical need for robust CG mechanisms and a strong commitment to ethical financial reporting practices. Enhancing the "integrity of financial reporting" is essential not only for supporting sound decision-making by various stakeholders but also for promoting the overall transparency and reliability of the financial ecosystem.

Further research is necessary to comprehend the factors that lead to the erosion of FRI, and to devise strategies and best practices that can assist organizations in surmounting these challenges and reinstating trust in their financial disclosures. Addressing the FRI issue is a pressing concern for policymakers, regulators, and corporate leaders, as it is fundamental to the efficient functioning of capital markets and the long-term sustainability of businesses.

This issue prompts several inquiries for different stakeholders, particularly concerning the company's management system and the structure of ownership, sometimes referred to as "CG." Poor CG can incentivize accounting manipulation, whereby management presents information with a favorable impact and encourages companies to modify it in order to prevent a decline in stock prices. The manipulation of financial figures in this scenario will have a negative impact on the public as they are deprived of accurate information (Winoto *et al.*, 2023).

Enforcing CG rules is the most efficient means of supervising management actions (Dechow *et al.*, 2010). The OS is a crucial CG mechanism that has a substantial impact on a company's overall worth. It plays a key role in establishing a system of ownership and management. Companies that adhere to sound CG standards are capable of providing accurate, pertinent, and timely information. This ensures that the earnings information communicated by the company is trusted by investors (Jao *et al.*, 2023).

Financial statements serve as the primary means for corporations to communicate financial information pertaining to management accountability within the framework of developing effective CG. Nevertheless, in reality, there exists a disparity in the possession of information between management and external entities such as investors, creditors, and the government. This information asymmetry arises from certain parties having the ability to acquire and exploit information for their advantage, while others are unable to access the same information (Simamora and Setiyawati, 2023).

Financial statements serve as a vital and indispensable information resource for investors. The primary function of financial statements is to provide investors with accurate and dependable information so that they may formulate judicious investment judgments concerning the profitability of the organization. The net profit figure holds significant importance within financial reports. The potential for EQ to reduce capital expenses is an essential criterion for investment decision-making. Furthermore, an upward trend in profits can lead to an improvement in stock returns corresponding to the caliber of earnings.

Earnings are a highly consolidated and crucial financial metric utilized by decision-makers. Earnings are utilized by decision makers for the dual purposes of firm valuation and management performance evaluation. The phrase "EQ" is associated with the potential for consumers to make more informed decisions. However, EQ can also be defined as adhering to current accounting standards and not concealing any significant things that, if disclosed, could lead to a poorer evaluation of a company by readers of financial statements, such as financial analysts (Michalak *et al.*, 2012).

The subjective nature of accounting, in which different organizations may have unique business characteristics and multiple parties may interpret the economic aspects of a transaction differently, gives rise to the notion of profit quality. EQ is synonymous with the concept that opposes earnings management. Put simply, an increased degree of earnings management results in a diminished quality of earnings (Radzi *et al.*, 2011).

Scholars have made the discovery that, apart from intrinsic qualities, the infrastructure of a company also influences the character of its earnings. Klein (2002) identifies an association between the character of accruals and the presence of independent board members in organizations as positive. This discovery implies that more stringent governance practices serve to restrict the manipulation of earnings. Doyle *et al.* (2007) posit that insufficient internal controls over financial reporting result in diminished EQ, impeding the probability of identifying and resolving intentional misstatements or errors.

Earning quality concerns both the accuracy with which stated earnings reflect the actual earnings of the organization and the predictive power of those earnings for future earnings (Francis *et al.*, 2004). The assessment of EQ is predicated on the results of confirmatory factor analysis conducted on the four accounting basis qualities of EQ—accrual quality, predictability, persistence, and income smoothing (Fanani, 2011; Sumiadji *et al.*, 2019).

Warrad (2017) defines EQ as the ability of reported profits to accurately anticipate future cash flows. Quality accounting profits refer to profits that are able to reduce perceived disruptions and are not influenced by manipulated profits, such as discretionary accruals. Fonou-Dombeu *et al.* (2023) found that managers are susceptible to manipulation when measuring profits quality due to their use of conservatism and accrual quality, which allows for discretion.

Accounting regulations and accounting standards setters consider earnings to be of “high quality” when they are recorded in accordance with existing regulations, such as IFRS or the Polish Accounting Act. Financial statement customers desire earnings that are considered high quality, which means they are free from fraud and other forms of illegal manipulation. This perspective is crucial due to numerous instances of “financial scandals,” such as the Enron, WorldCom, and Lehman Brothers cases.

The enhancement of accounting profits quality is contingent upon two key factors: the presence of high-caliber accounting standards and the level of investor protection inside a given jurisdiction (Houqe *et al.*, 2012). The implementation of a uniform set of accounting standards, such as IFRS, enhances the quality of earnings as it compels management to present an accurate and unbiased perspective, hence reducing the occurrence of manipulative earnings practices (Soderstrom and Sun, 2007). Additionally, the implementation of superior accounting standards resulted in a decrease in earnings manipulation and an enhancement in the reliability of earnings and FRI (Ewert and Wagenhofer, 2005).

The concept of “EQ” concerns the ability of earnings data to provoke reactions from the market. Enhanced “EQ” provides more detailed information regarding the specific elements of a firm’s financial performance that are significant for specific individuals’ decision-making (Erawati and Tunnajiha, 2023). In addition to earnings, the importance of reliable information is generally acknowledged, especially when it comes to accurately reflecting the financial performance of a company. Clearly, this is demonstrated by the profits detailed in its financial statements. Furthermore, such data is crucial for investors in order to facilitate well-informed investment decisions and to predict the prospective profitability of the organization.

The analysis mentioned above underscores the considerable importance of EQ and its critical role in evaluating the extent to which the information revealed in financial statements is utilized, specifically in the Egyptian market, as is the case in developing nations like Egypt. On the contrary, a number of studies contend that a robust standard of EQ will substantially influence the credibility of financial reporting. The objective of this research is to examine whether EQ acts as a moderator in the relationship between OS and FRI, in accordance with the aforementioned arguments.

Therefore, the second hypothesis is as follows:

H2. Earnings quality has a positive influence on the association between “ownership structure” and “the financial reporting integrity” in the Egyptian firms.

Based on the above discussion, it is expected in the case of Egypt, an increase in EQ enhances the positive association between IO and FRI. It is hypothesized that high EQ enhances the ability of institutional investors to monitor management effectively and assure the integrity of financial reporting. Conversely, the low quality of earnings may weaken the positive impact of IO on FRI; since it is more difficult for investors to correctly appraise a company's financial performance.

5. Research design

5.1 Sample and data collection

This study investigates the relationship between OS and FRI by analyzing a sample of firms listed on the Egyptian Stock Exchange (EGX). The sample was intentionally chosen from the population of firms of the EGX 100 index, which encompasses a wide variety of firms operating in the Egyptian corporate sector. Utilizing the EGX 100 index for sample selection has numerous benefits. The index includes a wide variety of companies, providing a more comprehensive and accurate overview of the Egyptian corporate sector.

To ensure the precision, uniformity of data, businesses in the banking and financial industries were excluded due to their unique operational and regulatory features. This study guarantees the dependability and uniformity of the data by concentrating on firms that are continuously included in the index during the period selected. This allows for a more rigorous examination of the links being investigated of the longitudinal analysis, therefore, we deliberately excluded firms that were only included in the EGX 100 index for a single year between 2014 and 2021. The final sample comprised 59 non-financial firms with 472 firm-year data that were constantly part of the EGX 100 index during the whole study period. Table 1 summarizes the steps of sample selection.

5.2 The study variables

In this paper, a set of variables are used to test the link between OS and the FRI as well as, the impact of EQ on such relationship. The dependent variable is FRI, proxied by the Market-to-Book ratio. This is taken as representing market perception about reporting quality and future prospects of the firm. Two independent variables are used: block-holders' ownership (BHO) and institutional ownership structure (IOS). Such variables would allow us to value the impact of ownership concentration and the presence of sophisticated investors on FRI. EQ is introduced as a moderating variable; to further elaborate on how it might influence the relationship between OS and FRI. Additionally control variables are used to control other factors that may cause an impact on FRI. This set of variables captures the complex relationship between the OS and FRI within the Egyptian market. Table 2 shows the variables and its measurements.

5.3 The study models

To test the hypothesis (H1) the below regression model is formed:

	No. of firms
EGX 100 index companies	100
Exclude financial and banking sector firms	(15)
Exclude firms not consistently listed in EGX 100 (2014–2021)	(26)
Final sample	59

Source(s): Table by authors'

Table 1.
Sample selection

Variables	Measurements	Reference
Dependent variable		
Financial reporting integrity	Market-to-Book Ratio (P/B ratio) = Market Price per Share/ Book Value per Share	Ma *et al.* (2023)
Independent variable		
Ownership structure	Block-holders' ownership: The proportion of shares owned by shareholders who hold at least 5% of shares outstanding Institutional ownership: The proportion of shares owned by institutional shareholders	Diab *et al.* (2023), Farooque *et al.*, (2022)
Moderating variable		
Earnings quality	Earnings quality $= \frac{Cash\ flowfrom\ operaation}{net\ income}$	El-Deeb and Albanna (2018)
Control variables		
Firm size	Log of total assets	Oppong *et al.* (2019)
Firm age	Number of operating years for the firm	Lee and Lin (2010)
Profitability	Net income/total assets	Maditinos *et al.* (2011)
Financial leverage	Total liabilities/total assets	Xu and Liu (2016)

Source(s): Table by authors'

Table 2. Study variables

$$FRI_{i,t} = \beta_0 + \beta_1 BHO_{i,t} + \beta_2 IOS_{i,t} + \beta_3 Fsize_{i,t} + \beta_4 ROE_{i,t} + \beta_5 Lev_{i,t} + \beta_6 FAG_{i,t} + \varepsilon_{i,t} \quad (1)$$

To test the hypothesis (H2) the below regression model is formed:

$$FRI_{i,t} = \beta_0 + \beta_1 BHO_{i,t} * AQ_{i,t} + \beta_2 IOS_{i,t} * EQ_{i,t} + \beta_3 Fsize_{i,t} + \beta_4 ROE_{i,t} + \beta_5 Lev_{i,t} + \beta_6 FAG_{i,t} + \varepsilon_{i,t} \quad (2)$$

Where:

$FRI_{i,t}$ = Financial Reporting Integrity

β_0 = Model constant

$BHO_{i,t}$ = Block-holders' ownership for the firm (i) within the time period (t)

$IOS_{i,t}$ = Institutional ownership of the firm (i) within the time period (t)

$EQ_{i,t}$ = Earnings quality of the firm (i) within the time period (t)

$Gov_{i,t}$ = Governance disclosure of the firm (i) within the time period (t)

$FSize_{i,t}$ = Firm size of the firm (i) within the time period (t)

$ROE_{i,t}$ = Return on equity of the firm (i) within the time period (t)

$LEV_{i,t}$ = Amount of debt of the firm (i) within the time period (t)

$FAG_{i,t}$ = Firm Age of the firm (i) within the time period (t)

$BHO_{i,t} * AQ_{i,t}$ = The moderating effect between Block-holders' ownership and Earnings quality of the firm (i) within the time period (t)

$IOS_{i,t} * EQ_{i,t}$ = The moderating effect between Institutional ownership and Earnings quality of the firm (i) within the time period (t)

6. Data analysis and discussion of results

6.1 Descriptive analysis

The descriptive statistics shown in Table 3 offer valuable insights into the features of the sample data utilized in this study on the correlation between OS, EQ, and FRI in the Egyptian context. Based on the results in Table 3, the average of blockholder ownership is 0.306 in the sample under study, indicating a modest degree of ownership concentration among big blockholders. The mean of institutional ownership is 0.353, suggesting that institutional investors generally have significant stakes. The blockholder and institutional ownership exhibit variation among firms, as evidenced by their respective standard deviations of 0.315 and 0.205. This finding aligns with prior study on dispersed ownership arrangements conducted by Sarhan and Al-Najjar in 2023 (Sarhan and Al-Najjar, 2023).

The EQ measure shows a mean value of 1.043 and a very high standard deviation of 66.265. This indicates substantial variability in EQ across the sampled firms, ranging from −1418.654 to 76.601. Prior studies have similarly found high variability in accruals-based EQ measures (Dombeu and Nomlala, 2023; Benkraiem *et al.*, 2021; Elzahaby, 2021). "Firm size" as measured by "log total assets" shows a mean of 21.222 and a low standard deviation of 1.345, indicating firms are clustered around a large size on average, though the minimum of 16.954 and maximum of 24.863 point to some differences. Leverage has a mean of 0.482 and a standard deviation of 0.196, suggesting reasonable variation in capital structure across observations (Djashan, 2019). Firm age demonstrates a wide range, with a mean of 35.356 years and a standard deviation of 20.019 years. The minimum firm age is 1.849 years, while the maximum is 104 years. This suggests that both young and mature firms are well-represented. FRI has a mean of 12.514 and a standard deviation of 12.762. This points to diversity in integrity scores, though the wide range from 0.433 to 49.781 suggests potential outliers. Overall, the descriptive statistics provide useful insights into the sample characteristics as a starting point for hypothesis testing.

Overall, descriptive statistics provide a useful starting point for understanding the characteristics of the sample and set the stage for hypothesis testing and regression analysis. The diverse nature of OS, EQ, and FRI scores within the Egyptian corporate landscape highlights the importance of further investigating the relationships between these variables, as proposed in the primary objective of this study.

6.2 Correlation between variables

The examination of the correlation matrix furnishes preliminary insights into the interrelations amongst research variables. Notably from Table 4, there exists a substantial positive correlation between "blockholder ownership" and "institutional ownership" ($r = 0.162$, $p < 0.01$). This finding suggests that an increase in blockholder stakes is associated with expanded institutional ownership, where such an association underscores

	Valid	Mean	Std. deviation	Minimum	Maximum
Blockholder ownership	472	0.306	0.315	0.000	0.935
Institutional ownership	472	0.353	0.205	0.000	0.898
Earnings quality	472	1.043	66.265	−1418.654	76.601
Firm size	472	21.222	1.345	16.954	24.863
Leverage	472	0.482	0.196	0.101	0.904
Firm age	472	35.356	20.019	1.849	104.000
Financial reporting integrity	472	12.514	12.762	0.433	49.781

Source(s): Table by authors'

Table 3.
Descriptive statistics

	Blockholder Ownership	Institutional Ownership	Financial reporting integrity	Earnings Quality	Firm Size	Leverage	Firm age
Blockholder ownership	1						
Institutional ownership	0.162**	1					
Financial reporting integrity	0.144**	0.189**	1				
Earnings quality	0.042	−0.004	0.098*	1			
Firm Size	0.106*	−0.070	−0.105*	0.020	1		
Leverage	−0.020	0.053	0.069	−0.064	0.188**	1	
Firm age	−0.152**	−0.066	−0.003	0.002	0.161**	−0.143**	1

Note(s): **Correlation is significant at the 0.01 level (2-tailed). *Correlation is significant at the 0.05 level (2-tailed)
Source(s): Table by authors'

Table 4. Correlations results of research variables

the synergy between different OS, possibly reflecting complementary governance roles (Dewayanto *et al.*, 2020).

The presence of a positive correlation between blockholder ownership and honest financial reporting (r = 0.144, $p < 0.01$) supports the idea that structures with a lot of owners encourage a culture of honesty, which is in line with agency theory (Yuan *et al.*, 2023) thinking. However, the magnitude of this correlation, although significant, is modest, suggesting that while blockholder ownership is a pertinent factor, it is not the sole determinant of reporting integrity. In a similar vein, institutional ownership shows a positive relationship with FRI (r = 0.189, $p < 0.01$), bolstering theories advocating the monitoring prowess of institutional investors (Abbas *et al.*, 2021a). This finding implicates the instrumental role institutions play in upholding high standards of CG and ethical reporting practices. The association between EQ and FRI, while statistically significant, is relatively tenuous (r = 0.098, $p < 0.05$). This outcome implies that superior EQ is somewhat indicative of heightened reporting integrity, aligning with the conceptualization of EQ as a facet of overall corporate integrity (Iriyadi, 2019).

Regarding the "control variables", the "firm size" and "leverage" manifest significant correlations with certain key variables, underscoring their indispensability as control factors in the study. Conversely, firm age appears to be less impactful, as evidenced by its lack of significant correlations, which may prompt a re-evaluation of its relevance as a control variable in this context (Budiharjo and Irawan, 2020; Oktaviana and Paramitha, 2021).

As a whole, these correlation analyses provide the first real-world evidence for how OS, EQ, and the accuracy of financial reporting are thought to affect each other. These findings lay the groundwork for subsequent regression analyses aimed at more rigorously interrogating the dynamics among these constructs. While it is pivotal to acknowledge that correlation does not equate to causation, these preliminary associations provide a foundation for understanding the complex relationships between CG mechanisms and FRI.

6.3 Regression analysis

The regression analysis findings are presented in Table 5, offering empirical support for the first hypothesis (H1), which proposes a favorable correlation between OS and FRI integrity in Egyptian firms. The correlation between ownership and control variables accounts for 10.2%

of the variability in FRI, as indicated by the model's R-square value of 0.102. The degree of explained variance, albeit not substantial, holds significance within the complex framework of CG.

Notably, the coefficients for both blockholder ownership ($\beta = 5.910$, $p = 0.002$) and institutional ownership ($\beta = 9.663$, $p = 0.001$) are positive and exhibit statistical significance. This outcome is in line with foundational theories in CG, particularly those explaining the roles of blockholders and institutions in enhancing reporting integrity through effective oversight and monitoring, as theorized by PeiZhi and Ramzan (2020), El-Deeb *et al.* (2022), and Thakolwirjo and Sithipolvanichgul (2021). Such findings are critical because they augment the existing literature by contextualizing these relationships within Egypt's unique corporate environment, a landscape that is less explored in current scholarly discourse.

Regarding control variables, "firm size" emerges with a significant negative coefficient ($\beta = -1.316$, $p = 0.003$), suggesting an inverse relationship between "firm size" and reporting integrity. This could imply that larger firms, perhaps due to their complexity and diversified interests, face greater challenges in maintaining high integrity levels. Conversely, leverage displays a positive association with integrity ($\beta = 6.428$, $p = 0.034$), an intriguing result that may hint at the disciplining effect of debt on corporate behavior (ElHawary and Hassouna, 2021; El-Deeb *et al.*, 2022). The insignificance of firm age in this model may indicate that the maturity of a firm does not significantly influence its reporting integrity in the Egyptian context (Amr, 2016).

Based on the above analysis, these results strongly support (H1). They show how important ownership concentration is for protecting the accuracy of financial reporting, especially when it comes to blockholder and institutional ownership. This lends empirical weight to agency theory's postulations in the setting of Egyptian firms. However, the relatively low R-square value signals the presence of other determinants of reporting integrity, necessitating further exploration. It would be particularly insightful to probe the potential moderating effects of EQ on these relationships. Despite these considerations, the regression analysis provides initial, yet compelling, evidence supporting the positive association postulated in (H1).

The second regression model is employed to examine the second hypothesis (H2) of this study, which suggests that EQ has a moderating function in the association between OS and financial reporting honesty. The result presented in Table 6 provides strong evidence in favor of (H2). The R-square value (0.242), which is higher than that of the baseline model, indicates that incorporating the interaction between OS and EQ accounts for a greater proportion of the variability in the accuracy of financial reports. This discovery highlights the intricacies involved in the relationship between governance and integrity.

Table 5. Regression analysis of the impact of ownership structure on financial reporting integrity

Model		Unstandardized coefficients		Standardized coefficients		
		B	Std. error	Beta	t	Sig.
1	(Constant)	30.664	9.204		3.331	0.001
	Firm size	−1.316	0.446	−0.139	−2.949	0.003
	Leverage	6.428	3.023	0.099	2.126	0.034
	Firm age	0.042	0.030	0.065	1.396	0.163
	Blockholder ownership	5.910	1.880	0.146	3.143	0.002
	Institutional ownership	9.663	2.836	0.155	3.407	0.001

Note(s): Adjusted R Square = 10.2%. a. Dependent Variable: Financial Reporting Integrity
Source(s): Table by authors'

Model		Unstandardized coefficients B	Std. error	Standardized coefficients Beta	T	Sig.
1	(Constant)	34.064	8.157		4.176	0.000
	Firm size	−1.224	0.397	−0.129	−3.080	0.002
	Leverage	4.378	2.731	0.067	1.603	0.110
	Firm age	0.013	0.026	0.021	0.507	0.613
	Blockholder ownership and earnings quality	1.540	0.135	0.464	11.390	0.000
	Institutional ownership and earnings quality	0.019	0.015	0.052	1.285	0.199

Note(s): Adjusted R Square = 24.4%. [a]Dependent Variable: Financial Reporting Integrity
Source(s): Table by authors'

Table 6. Regression analysis for the moderating role of earnings quality

The coefficient for the interaction term between blockholder ownership and EQ (Block_EQ) is significantly positive ($\beta = 1.540, p < 0.001$). This finding demonstrates that the positive influence of blockholder ownership on the integrity of financial reporting is not fixed, but instead enhanced when there is a high level of EQ. This discovery supports and expands upon the theoretical viewpoints of Samaha *et al.* (2012) and Hassan (2013), who emphasized the crucial importance of profits quality in improving CG processes. The findings indicate that in companies with strong EQ, blockholders have a crucial role in maintaining integrity, potentially because they possess superior knowledge and exercise more efficient supervision.

Conversely, the correlation between "institutional ownership" and EQ, as demonstrated by the interaction term (Institutional_EQ), is positive but does not have enough statistical evidence to be considered significant. This finding indicates that it is challenging to establish the impact of profit quality on the connection between "institutional ownership" and integrity. This suggests that while institutional owners may enhance financial integrity, the influence of profit quality on this connection is uncertain, necessitating further inquiry. The variability in investor protection and monitoring incentives across various nations is reflected in the ambiguous influence of profit quality on institutional ownership and financial reporting outcomes (La Porta *et al.*, 2000). Under specific circumstances, institutions may play a less significant role in governance in comparison to specialized blockholders.

Regarding control variables, firm size maintains its significant negative influence, reaffirming the complexity of larger firms in maintaining integrity. Leverage and firm age, however, continue to have no significant impact, reinforcing the need to scrutinize other potential factors that might influence the corporate integrity landscape (Krishnan and Visvanathan, 2008; Sundgren and Svanström, 2022).

The continued significance of size, but not leverage or age, underscores the need for deeper analysis into complex firm-level traits influencing integrity, including corporate culture, governance dynamics, and norms. The diversity of findings highlights avenues for richer theoretical development.

To sum up, these findings provide partial but noteworthy empirical support for H2. The results illuminate the vital role of EQ in enhancing the positive influence of blockholder ownership on FRI. However, the dynamics between institutional ownership and EQ, in relation to integrity, remain an area ripe for future investigation, given the non-significant findings in the current study. This nuanced understanding offers a deeper insight into the multifaceted interrelationships among OS, EQ, and FRI, particularly in the context of emerging markets like Egypt.

6.4 Robustness test

An additional analysis is used to demonstrate the robustness of our findings using an alternative measure for the dependent variable, FRI. Specifically, we employed the Beneish M-Score as an alternative measure of the Market-to-Book ratio originally used in this study. The Beneish M-Score is a mathematical model that utilizes some financial ratios to identify the likelihood of earnings manipulation in a firm's financial statements. This measure provides a different perspective on FRI, focusing on the probability of earnings manipulation rather than market perception (Miharsi *et al.*, 2024).

Furthermore, we use the 2SLS analysis to validate the original regression findings following Sandwidi and Cellier (2019). 2SLS helps in addressing the potential endogeneity issues that may arise with explanatory variables like OS and EQ. As shown in Table 7, the results align closely with the initial regression estimates used in the previous section; where the "Blockholder ownership" ($\beta = 5.757, p = 0.002$) and "institutional ownership" ($\beta = 9.693$, $p = 0.001$) continue to demonstrate significant positive effects on FRI. This reinforces the paper's hypothesis H1 that concentrated ownership plays a vital role in promoting transparency and integrity in financial disclosures.

The positive and significant coefficient on EQ ($\beta = 0.020$, $p = 0.022$) also mirrors the regression outcome. This supports the paper's hypothesis H2 that EQ strengthens the impact of blockholder ownership on reporting integrity.

The consistency between regression and 2SLS models lends greater credibility to the paper's conclusion. The core findings on the importance of OSs and EQ in shaping FRI hold even after addressing endogeneity concerns through 2SLS, where it is an appropriate robustness check because endogeneity is a common issue when modeling governance relationships. OS could influence EQ but also might be influenced by it, necessitating instrumentation. Likewise, unobserved firm-level factors may drive the results. By using instruments for the potentially endogenous regressors, 2SLS isolates their exogenous effects on the dependent variable.

The 2SLS analysis produces an adjusted R^2 of 0.175, indicating that 17.5% of the variation in FRI is explained by ownership, EQ, and control variables. This is relatively consistent with the baseline regression model's adjusted R^2.

Overall, the 2SLS analysis enhances the rigor of the study and provides reassurance that the main conclusions are robust to endogeneity biases. The corroborating results from 2SLS strengthen the paper's theoretical hypotheses and empirical findings on the key determinants of FRI within Egyptian firms. The results obtained from this additional analysis were largely

		Coefficients				
		Unstandardized coefficients		Beta	t	Sig
		B	Std. Error			
Equation (1)	(Constant)	31.064	9.164		3.390	0.001
	Blockholder ownership	5.757	1.873	0.142	3.074	0.002
	Institutional ownership	9.693	2.823	0.156	3.434	0.001
	Earnings quality	0.020	0.009	0.102	2.299	0.022
	Firm size	−1.346	0.445	−0.142	−3.028	0.003
	Leverage	6.891	3.016	0.106	2.285	0.023
	Firm age	0.042	0.030	0.066	1.420	0.156
					Adj R^2 = 0.175	

Note(s): *Dependent Variable: Financial Reporting Integrity; measured using the Beneish M-Score
Source(s): Table by authors'

Table 7.
2SLS analysis

consistent with our original findings, supporting the robustness of our conclusions regarding the relationships between OS, EQ, and FRI in the Egyptian context. This consistency across different measures of FRI strengthens the reliability and the validity of the results and the insights they provide into CG dynamics in emerging markets.

6.5 Discussion of results

The findings on the links between OS, FRI, and EQ in the Egyptian market present some interesting results that support, as well as challenge, existing theories and empirical evidence. The positive association between BHO and FRI aligns with the agency theory; where it opens new avenues for the understanding of how large shareholders in Egyptian firms actually monitor management. It, however, contrasts with Gayatri and Saputra's findings in 2013, which had a negative impact from concentrated ownership on the integrity of financial reporting. This underlines how complicated the relationships are across different markets.

The results regarding the IO set an interesting point of departure from some existing literature. The non-significant effect of IO in this study is in line with the findings of Ulfa and Challen (2020), but contrary to the positive associations found by Salem *et al.*, (2019), Tambunan *et al.* (2022). This might be a function of the distinct features of the Egyptian market, which further corroborates the argument that corporate governance mechanisms may be helpful to various degrees within different institutional environments.

The moderating effect of EQ on the OS in their relation to FRI increases our awareness; where the findings of this paper support the information asymmetry theory and are consistent with the arguments by Dechow *et al.* (2010) regarding the role of EQ in financial reporting. Specifically, this result is consistent with the finding of Klein (2002) regarding the positive association between accruals quality and independent board members, suggesting that better governance practices, such as higher EQ, strengthen the OS in ensuring the integrity of financial reporting.

Furthermore, the results suggest that EQ is complex in nature, as Francis *et al.* (2004) noted. The interactions of such a complex relationship between OS, EQ, and FRI call for nuance in exploring these linkages. Also, the results contribute to the debate on how effective the different mechanisms of CG are in the context of emerging markets. Although supportive of block-holder ownership, our result raises a query on the assumed universality of institutional investors' positive impact suggested by Oktaviana and Paramitha (2021). This requires context-specific studies on CG and cautions against the universal "cut-and-paste" approach in emerging markets.

The findings have broad implications for theory development, empirical research, and policy formulation within the sphere of CG, with special focus on emerging market environments in Egypt. They reveal how vital it is to consider local institutional factors when applying CG mechanisms and designing regulatory frameworks and open up new paths of inquiry on the complex interplay between OS, EQ, and the integrity of financial reports.

7. Conclusion, limitations and suggestions for future research

This study sheds light on the drivers of integrity in financial reporting in the Egyptian context, it only inaugurates the road for future research. Such future research efforts would base themselves on the limitations of this study and the suggested avenues to further deepen our understanding of the complex interplay between OS, EQ, and the integrity of financial reporting in diverse market contexts.

This study adds to the existing body of knowledge on the relationship between OS, EQ, and FRI. The results of our study support the idea that both "blockholder and institutional ownership" have a favorable impact on FRI. This conclusion is consistent with the concepts

of “agency theory” as proposed by Jensen and Meckling (1976) and Shleifer and Vishny (1986). This study emphasizes the crucial importance of concentrated owners in overseeing reporting techniques and mitigating management opportunism, therefore enhancing the openness and reliability of financial disclosures.

Moreover, the analysis uncovers a fascinating parallel impact: the quality of earnings significantly strengthens the connection between blockholder ownership and the FRI. These findings indicate that owners can promote openness and discourage unethical actions by focusing on generating high-quality earnings, which aligns with the monitoring hypotheses proposed by Warfield *et al.* (1995). Nevertheless, the impact of profit quality on reducing the correlation between institutional ownership and integrity is not as clear-cut. This discovery aligns with the varied outcomes of other studies in this field (Singh and Schmidgall, 2002; Koh, 2003), emphasizing the intricate and situation-specific nature of these connections.

Our investigation illuminates the complex and diverse nature of the “integrity of financial reporting”. This statement highlights the significance of ownership arrangements in terms of monitoring and oversight, as well as the equal importance of comprehensive accounting processes in providing a solid basis for dependable financial reporting. Both the concentration of control and the reliability of profit measurements are crucial for a comprehensive comprehension of FRI.

Our findings have implications on several fronts. Policymakers and regulators in Egypt and other similar emerging economies, where the results suggest that increasing concentrated ownership, especially blockholder ownership, may be effective in enhancing the integrity of financial reporting. Moreover, the complex relationship between institutional ownership and reporting integrity suggests that policies aimed at attracting institutional investors may need supplementation with effective institutional measures about their engagements in corporate governance.

Furthermore, the results imply that firms with high blockholder ownership in the Egyptian market may provide more reliable financial information, particularly in conjunction with high earnings quality; this could inform investment strategies and risk assessments in emerging markets. We also add to the ongoing stream of literature on CG debate within emerging markets with our empirical evidence that not only supports but also contests these theories. This, in particular, indicates that studies specific to context are required and a one-size-fits-all approach toward corporate governance across different institutional environments might not work at all times.

It is crucial to acknowledge that this study is specifically focused on Egypt, and so its applicability to other markets, particularly those with more advanced governance systems, may be restricted. Emerging economies, like Egypt, typically have less robust investor protections and governance structures (La Porta *et al.*, 2000), which can affect ownership dynamics and integrity in a distinct manner compared to markets with better legal frameworks and transparency rules. Furthermore, the dependence on secondary data sources may fail to encompass the full complexity of notions such as integrity. Integrating internal corporate papers and conducting qualitative investigations would enhance future research and provide a more comprehensive understanding of these processes. Furthermore, this study depends on some firm-level control factors; whereas, there might be country-level control factors that should be considered.

Notwithstanding these limitations, this study represents a crucial advancement in comprehending the factors that influence the honesty and accuracy of financial reporting. By incorporating viewpoints on ownership, accounting quality, and governance, it provides a thorough elucidation of the elements that impact the integrity of financial reporting. Subsequent research endeavors could build on these discoveries by investigating additional markets, utilizing a variety of methodological strategies, and considering alternative

theoretical frameworks. This study would provide more insights into the complex interplay of factors that influence the integrity of financial reporting, thereby enhancing our comprehensive and nuanced understanding of this crucial element of CG. These limitations open up several avenues for future research; where it can extend the current investigation to other emerging markets or conduct comparative analysis across the different institutional environments. Qualitative research methods, supplemented by corporate insiders' interviews, can give an in-depth understanding of the motivation behind the reporting practices and the effectiveness of different ownership structures.

Further research may also focus on finer details of ownership structure, such as family ownership versus founder-CEO versus professional CEO characteristics that influence the integrity of reporting. Such ownership characteristics, juxtaposed with board independence dynamics, may offer newer insights into corporate governance dynamics. It would also be interesting to look for alternative proxies for integrity in financial reporting and earnings quality, probably textual analysis of corporate disclosures, in order to establish whether more subtle effects could be identified. Longitudinal studies on changes in ownership structure or, conversely, earnings quality over time and the resultant changes in reporting integrity would be extremely enlightening in this respect. Furthermore, country-level control factors would be considered in examining the relationship between OS, EQ and FRI.

Analyzing investor protection regimes could elucidate differences in how ownership and EQ interact across countries. Exploring alternative proxies for integrity and quality, including textual analysis of disclosures, could uncover subtler effects. Lastly, qualitative methods examining managerial incentives and ethical orientations could enrich our understanding of antecedents to integrity. In summary, this paper serves as a starting point for advanced research on the multidimensional drivers of FRI, blending ownership, accounting quality, and CG dynamics.

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Further reading

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