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The Impact of Corporate Governance on the Quality of Financial Reports Moderated by Profitability (Case Study of Indonesia and Türkiye)

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ABSTRACT

Purpose: This study investigates the impact of board independence, board competence, board diversity, and profitability on financial reporting quality (FRQ) in manufacturing companies listed on the Indonesia Stock Exchange (IDX) and the Istanbul Stock Exchange (BIST). By comparing two developing countries with different institutional environments, this study seeks to identify contextual elements that determine the efficiency of corporate governance.

Method: This research employs a quantitative method, making use of secondary data from listed industrial companies' annual reports for fiscal years 2023 and 2024 (128 firm-year observations). Panel data regression analysis with a random effects model (REM) is used to evaluate FRQ, measured as discretionary accruals derived from the Jones model. The Seemingly Unrelated Estimation Test (SUEST) is used as a post-estimation tool to statistically compare regression coefficients across country samples.

Findings: In the Indonesian sample, board independence and board expertise do not significantly affect FRQ, while board diversity and profitability do. Profitability positively moderates each governance variable's correlation with FRQ in the Indonesian sample. In the Turkish sample, no governance or profitability variables yield significant results. The SUEST coefficient comparison test indicates that the differences in the effects of governance variables between the two countries are not statistically significant at conventional levels.

Implications: The findings indicate that the national institutional framework has a significant impact on how successful corporate governance mechanisms are. Market-based incentives appear to be more dominant in Indonesia, while regulatory compliance drives reporting quality in Turkey. These findings have significant ramifications for governance professionals and regulators in developing nations.

Novelty/Value: This study adds cross-national evidence to the field on comparative governance from two institutionally distinct emerging markets. It also integrates institutional theory and signalling theory to explain how national context shapes governance effectiveness. The SUEST post-estimation procedure is applied to formally test whether cross-country coefficient differences are statistically significant.

Keywords: Financial Reporting Quality, Governance, Profitability, Indonesia, Türkiye.

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INTRODUCTION

Transparency, accountability, and credibility are fundamental criteria for evaluating the calibre of a business's financial statements. Superior quality financial reporting provides stakeholders with the reliable information needed for sound economic decision-making. A financial report is considered high quality when it accurately represents the company's true economic condition, is free from material misstatement, and is not manipulated for the benefit of specific parties (Dechow et al., 2010). In several developing countries, including Indonesia and Türkiye, weaknesses in corporate governance mechanisms continuing to compromise financial reportings quality. In Indonesia, deficiencies in financial reporting quality remain a significant concern (Octaviani & Harymawan, 2022; Prihastiwi et al., 2025). Cases of financial statement manipulation at businesses that were listed on the Indonesia Stock Exchange (IDX) in 2019 and 2020 serve as examples of how inadequate corporate governance is. mechanisms and internal oversight. These cases raise an important empirical question: to what extent do internal organizational factors affect the quality of financial reports.

Türkiye presents a distinct governance context. Through the oversight of the Capital Markets Board of Türkiye (CMB/SPK), the country has adopted an OECD standards-based governance framework, including the BIST Corporate Governance Index, which comprehensively evaluates governance quality. Studies in Türkiye indicate that governance quality is more closely associated with corporate performance and transparency (Ararat & Yurtoglu, 2021; Gurarda et al., 2016). However, some studies also suggest that gender diversity, board independence, and board expertise have not consistently impacted financial reporting quality, particularly in companies with concentrated ownership structures.

Profitability as determined by Return on Assets (ROA), is a key variable that may influence financial reporting quality. According to signalling theory (Spence, 1973), business with strong financial results are more likely to signal their quality through transparent financial disclosures. High-performing companies have greater incentives to maintain their reputations by providing accurate and credible reports. Empirical support for this argument has been provided by Chen et al (2010) and Ngoc Hung et al. (2023a), who found that profitability is positively associated with financial reporting quality.

Corporate governance variables, including board independence, board expertise, and board diversity, have also been shown to affect financial reporting quality (Wang & Liang, 2025). Under agency theory by Jensen and Meckling (1976), effective board oversight should reduce the divergence of interests between shareholders and managers, thereby improving reporting quality. In practice, however, the formalistic nature of governance structures in emerging markets often limits the effectiveness of these mechanisms (Aifuwa & Embele, 2019; Siallagan & Machfoedz, 2006).

The divergence of findings across prior studies suggests a significant research gap, particularly in comparative cross-country contexts. This study addresses this gap by examining the effect on FRQ in Indonesia and Turkey of board independence, experience, diversity, and profitability, two developing economies with distinct institutional environments. The comparative design enables a deeper understanding of how differences in regulatory frameworks and governance traditions shape the effectiveness of internal governance mechanisms. Additionally, profitability is examined as a moderating variable to assess whether it strengthens or weakens the relationship between governance and FRQ.

LITERATURE REVIEW

Signalling Theory

Spence (1973) explains how signalling theory works. The company provides signal positive to the market through information available within report financial. Companies that perform well Good will try convey report quality finance as signal reliability to stakeholders such as investors and creditors. With thus level profitability high- ranking companies expected in line with improvement quality reporting finance Because management want to maintain market trust and good name company.

Agency Theory

Agency theory, proposed by Jensen and Meckling (1976), explains the relationship between principals (owners) and agents (managers). The separation of ownership and control creates an agency conflict, because managers could prioritize their own interests over those of shareholders. When information asymmetry exists, managers are more prone to act in an opportunistic manner., including earnings manipulation, which adversely affects financial reporting quality. Principals rely on governance tools like independent boards, audit committees, and outside scrutiny to ensure that financial statements are created clearly and accurately reflect the company's financial situation in order to lessen this conflict.

Financial Reporting Quality

Financial reporting is considered poor quality. If reports are capable, they describe the performance of real and unreal companies that are manipulated for personal interest management (Dechow et al., 2010). A quality report in finance shows to what extent the report can accurately, relevantly, reliably, and be free from manipulation represent the condition of an economic company. A quality report with sound finances can increase investor confidence. Not only that, capital costs can be lowered and companies' reputations strengthened in the capital market. On the other hand, the quality report's limited finances may result in a loss of stakeholder interests and decision-makers' confidence.

Hypothesis Development

Board independence is favorably correlated with the quality of financial reporting, according to Wang and Liang (2025), arguing that boards composed of a higher proportion of external members are more likely to produce reliable financial reports. Independent boards serve as a critical oversight mechanism in the financial reporting process (Call et al., 2016; Zheng et al., 2024). This is consistent with agency theory, wherein principals use independent boards to monitor managerial behavior. The following theory is put out in light of this theoretical and empirical basis:

H_1: Board independence affects the quality of the financial report.

According to agency theory, independent boards with specialized expertise in finance or accounting can more effectively identify and constrain opportunistic management behavior (Jensen & Meckling, 1976). Resource dependence theory further suggests that board expertise constitutes a strategic resource that enables boards to provide critical technical input to management (Hillman et al., 2009). Wang and Liang (2025) empirically demonstrate that independent boards with financial expertise strengthen the positive relationship between board independence and financial reporting quality. Although Asad et al. (2024) found that effectiveness may vary with board tenure, overall the literature supports that expertise enhances oversight capacity. The following theory is put out in light of this theoretical and empirical basis:

H_2: The expertise of independent boards influences the quality of financial reports.

The percentage of female board members is a measure of board diversity is a governance mechanism associated with stricter and more cautious oversight of financial reporting. Research by Orazalin (2019) and Aleqab and Ighnaim (2021) shows that the presence of women on boards can reduce earnings management and improve financial reporting transparency. From the perspective of agency theory, female board members are less tolerant of opportunistic managerial behavior, thus strengthening oversight mechanisms. The following theory is put out in light of this theoretical and empirical basis:

H_3: Board diversification affects the quality of financial reports.

Companies with high profitability are motivated to present high-quality financial reports to signal their performance reliability to the market (Spence, 1973). Empirically, Chen et al (2010), Iskandar and Wafa (2024), Ngoc Hung et al. (2023b), and Jennifer et al. (2024) found that profitability positively influences financial reporting quality, as high-performing companies have stronger reputational incentives to reduce earnings management practices. The following theory is put out in light of this theoretical and empirical basis:

H_4: Profitability affects the quality of the financial report.

Profitability may moderate the relationship between corporate governance and financial reporting quality (Kapoor & Goel, 2017). Under conditions of high profitability, independent boards face less resource constraint and stronger reputational pressure to perform their oversight functions more effectively (Wang, 2024). Similarly, board expertise may become more impactful in high-profitability contexts where management has greater capacity to engage meaningfully with expert board members (Leng, 2022). Female board members may also contribute more effectively to financial reporting oversight when the company enjoys stable financial conditions, as economic resources and organizational empowerment reduce constraints on their governance roles (Attia et al., 2024). The following theory is put out in light of this theoretical and empirical basis:

H_5: The impact of board independence on the quality of financial reports is mitigated by profitability.
H_6: The impact of board experience on the quality of financial reporting is mitigated by profitability.
H_7: The impact of board diversification on the calibre of financial reporting is mitigated by profitability.

Conceptual Framework

A conceptual framework is a theoretical foundation or an integrated structure of interrelated concepts that serves as a fundamental reference for developing standards, resolving practical problems, and visualizing relationships between variables in scientific research (Caffrey, 2020).

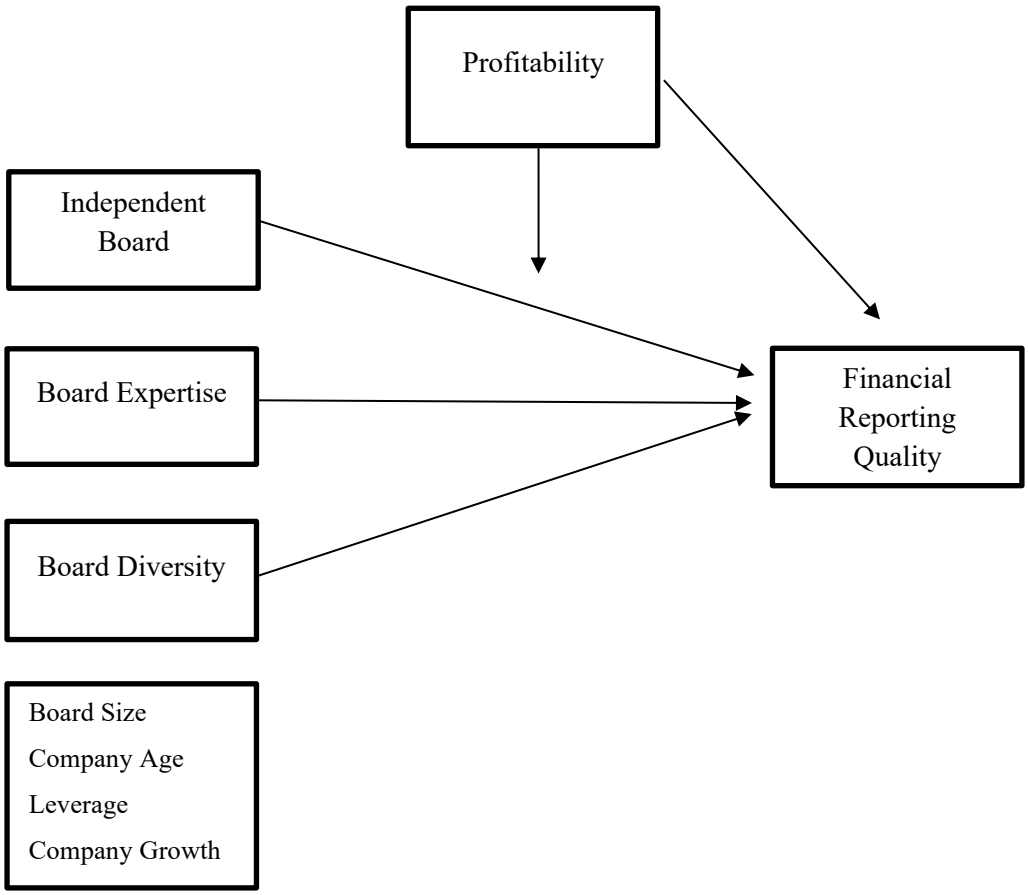


Figure 1. Conceptual Framework

Figure 1 presents the conceptual framework of this study. The main independent variables board independence, board expertise, and board diversity are hypothesized to affect FRQ directly (H1–H3). Profitability is a moderating variable that affects the association between each governance system and FRQ (H5–H7) as well as an independent variable (H4). To separate the effects of the primary factors, the regression models use control variables (board size, firm age, leverage, and revenue growth).

Although no separate hypotheses are developed for the control variables, they are included based on prior literature as variables known to be associated with FRQ.

RESEARCH METHOD

Data Source

This study makes use of secondary data from manufacturing businesses' annual reports for the fiscal years 2023 and 2024 that are listed on the Istanbul Stock Exchange (BIST) and the Indonesia Stock Exchange (IDX). Manufacturing companies were selected due to the availability of comparable accounting data and their economic significance in both countries. The IDX website, the Public Disclosure Platform (KAP) of Turkey, and the corresponding company websites were the sources of the data.

The sample consists of 64 firm-year observations per country (32 companies × 2 years), for a total of 128 observations. Purposive sampling was used to choose businesses based on the following standards: (1) listed as manufacturing companies during the observation period; (2) published complete annual reports for both 2023 and 2024; and (3) had sufficient data to calculate all required variables. The authors acknowledge that the two-year observation period represents a limitation of this study, as the Jones Model for estimating discretionary accruals generally requires longer time-series data per firm to improve estimation reliability. This limitation is discussed further in the conclusion section.

Table 1. Definitions of Variables and Measurement Techniques

Type of Variable	Definition	Indicator	Source
Dependent			
Financial Reporting Quality (FRQ)	Assesses the degree to which financial reports are free from manipulation and accurately depict the company's actual economic circumstances.	Assessed utilizing the Jones Model to identify discretionary accruals (DA). A diminished absolute value of DA signifies superior financial reporting quality. $DA = TA - NDANDA = a(1/Asset) + b(\Delta Sales - \Delta AR) + cPPE$	Trinh et al. (2022)
Independent			
Board Independence	Percentage of independent boards to total board members.	IND = Independent Boards / Total Boards	Wang & Liang (2025);
Independent Board Expertise	Expertise in finance or accounting possessed by independent boards	EID = Expertise of Independent Boards / Quantity of Independent Boards	Aifuwa & Embele (2019)
Board Diversity	Proportion of female representation on boards	BDI = Proportion of Female Boards to Total Boards	Aifuwa & Embele (2019)
Independent & Moderating			
Profitability	Assessing the firm's capacity to derive income from its assets.	ROA = Net Profit / Total Assets	Palas et al. (2023)
Control			
Board Size	Quantity of board of commissioners' members within the company.	SIZE = Total number of boards	Wang & Liang (2025)
Company Age	Duration of the company's establishment until the year of observation.	AGE = Year of observation – Year of establishment	Wang & Liang (2025)
Leverage	The extent of debt utilization within the company's capital framework.	LEV = Total Liabilities / Total Assets	Wang & Liang (2025)
Revenue Growth	Total revenue growth is a proxy for company growth.	GROWTH = (Revenue from the previous year - Revenue from the current year) / Revenue from the previous year	Wang & Liang (2025)

Source: As stated in the Table

Variable Definition and Indicator

Table 1 presents the operational definitions and measurement techniques of the variables employed in this study, encompassing dependent, independent, moderating, and control constructs. The dependent variable, Financial Reporting Quality, is measured using the Jones Model to capture discretionary accruals, thereby reflecting the extent to which financial statements faithfully represent the firm's economic reality (Trinh et al., 2022). Independent variables include Board Independence, Board Expertise, and Board Diversity, which are widely recognized in prior literature as governance mechanisms influencing reporting quality and corporate accountability (Wang & Liang, 2025; Aifuwa & Embele, 2019). Profitability, proxied by Return on Assets, serves both as an independent and moderating variable, highlighting the firm's ability to generate returns from its resources (Palas et al., 2023). To ensure robustness, several control variables are incorporated, namely Board Size, Company Age, Leverage, and Revenue Growth, which have been consistently employed in governance and accounting studies to mitigate omitted variable bias (Wang & Liang, 2025). Collectively, these variables provide a comprehensive framework to examine the interplay between corporate governance structures, firm characteristics, and the quality of financial reporting.

Research Model

Model selection was conducted using the Chow test and Hausman test to determine the appropriate estimation approach between Fixed Effects Model (FEM) and Random Effects Model (REM). Results of both tests supported the use of the Random Effects Model (REM). Robust standard errors were applied to address potential heteroscedasticity in the data. To formally compare regression coefficients across the two country samples, this study employs the Seemingly Unrelated Estimation Test (SUEST) as a post-estimation procedure in Stata. SUEST allows for simultaneous estimation of separate regression equations and enables Wald tests of cross-equation coefficient equality. This procedure is used to test whether the effects of governance variables on FRQ differ significantly between Indonesia and Türkiye. Moderation was tested by introducing interaction terms between each governance variable and profitability (e.g., IND × ROA, EID × ROA, BDI × ROA). Given that profitability was not significant in the Turkish sample, moderation testing was conducted only for the Indonesian sample. The authors acknowledge that this sequential decision process may introduce some degree of post-hoc analytical bias, which represents a limitation of the current study design.

RESULTS AND DISCUSSION

Results

Statistics Descriptive

Table 2 shows the results of a two-sample t-test indicate a significant difference in Financial Reporting Quality (FRQ) between companies in Indonesia and Türkiye. The average FRQ of companies in Indonesia was 0.0495, while in Türkiye it was 0.1373. A t-test assuming unequal variances yielded a t-value of -4.336 with a p-value of 0.000 ($p < 0.01$). This indicates that companies in Türkiye have significantly higher financial reporting quality than companies in Indonesia.

Table 2. Descriptive Statistics

		INDONESIA		TÜRKIYE	
Variable	**N**	**Mean**	**Std. Dev.**	**Mean**	**Std. Dev.**
FRQ	64	0.0495	0.0511	0.1373	0.1537
IND	64	0.1895	0.0603	0.3207	0.1237
EID	64	0.7115	0.3525	0.6857	0.4147
BDI	64	0.0942	0.1019	0.2218	0.1807
ROA	64	0.0927	0.0688	0.0452	0.0919

Source: Data processed (2025)

These results align with Agency Theory, which states that financial reporting quality is important for reducing information asymmetry between management and stakeholders. The high FRQ in Turkish companies may be driven by strict regulations regarding board independence and accounting standards that emphasize transparency and accuracy of financial reports. Conversely, although Indonesia has regulations regarding board independence, corporate governance practices and financial reporting disclosures still vary, impacting the quality of FRQ (Setiawan, 2020). Thus, these significant differences indicate that the regulatory context and corporate governance practices in each country influence the quality of financial reporting.

A t-test analysis showed that the proportion of independent board members differed significantly between companies in Indonesia and Turkey. The average proportion of independent board members in Indonesia was 0.1895, while in Turkey it was 0.3207. A two-sample t-test, assuming unequal variances, yielded a $t = -7.630$ with a p-value of 0.000, indicating a statistically significant difference. The nonparametric Mann–Whitney test also showed consistent results ($z = -7.321$; $p < 0.01$), confirming that this difference was independent of the normality assumption.

These findings indicate that Turkish companies have more independent boards than Indonesian companies. This is consistent with Agency Theory, which emphasizes the importance of board independence in overseeing management and mitigating conflicts of interest between owners and managers. Regulations in Turkey, including the requirement for a minimum number of independent commissioners for public companies, encourage companies to appoint more independent board members. Conversely, although the Financial Services Authority in Indonesia mandates a minimum of one independent commissioner for public companies, implementation varies, resulting in a lower proportion of independent board members.

The results of the difference-in-means test indicate that board expertise levels are relatively similar between companies in Indonesia and Turkey. The average board expertise in Indonesia is 0.7115, while in Turkey it is 0.6857. The results of a two-sample t-test with unequal variances showed $t = 0.379$ and a p-value of 0.7054. The non-parametric Mann–Whitney test also supported this finding ($z = 0.452$; $p = 0.6512$), indicating no significant difference between the two countries.

This finding indicates that both countries employ board members with relevant expertise, aligning with Resource Dependence Theory, which emphasizes the importance of board competency in supporting corporate strategy and decision-making. The absence of significant differences also suggests that, despite differences in corporate governance practices, companies in Indonesia and Turkey strive equally to have competent board members with technical and managerial expertise.

A difference-of-means test analysis revealed a significant difference in board diversity levels between companies in Indonesia and Turkey. The average board diversity in Indonesia was 0.0942, while in Turkey it was higher at 0.2218. A two-sample t-test with unequal variances yielded $t = -4.929$ and $p = 0.000$, indicating a statistically significant difference. The non-parametric Mann–Whitney test also showed consistent results ($z = -4.578$; $p = 0.000$), confirming that the distribution of board diversity differs significantly between the two countries.

These findings indicate that companies in Turkey place a greater emphasis on board diversity than companies in Indonesia. This aligns with Resource Dependence Theory, which states that board diversity can improve decision-making quality, enrich strategic perspectives, and help companies navigate the complexities of the external environment. Corporate governance regulations and practices may also influence this difference: Turkey implements regulations that encourage the representation of diverse skills, experiences, and backgrounds among board members, while in Indonesia, board diversity remains relatively limited due to organizational culture factors and the implementation of good corporate governance.

The results of the difference-in-means test indicate a significant difference in corporate profitability, as measured by Return on Assets (ROA), between Indonesia and Turkey. The average ROA of Indonesian companies is 0.0927, while in Turkey it is only 0.0452. A two-sample t-test assuming unequal variances yielded a $t = 3.306$ with a p-value of 0.0013 (two-tailed), indicating a statistically significant difference. The nonparametric Mann–Whitney test also supported this finding ($z = 3.083$; $p = 0.002$), indicating that the difference in ROA is independent of the normality assumption.

These findings indicate that, on average, Indonesian companies have higher financial performance than Turkish companies. Differences in strategic operations, industry structure, and corporate governance practices can explain this. Although Turkey has a more independent and diverse

board, these results suggest that a stronger board structure does not necessarily directly influence short-term financial performance but may instead impact the quality of financial reporting and oversight.

Table 3. Baseline Regression

Variable	INDONESIA		TÜRKIYE	
	(1)	(2)	(3)	(4)
	FRQ	FRQ	FRQ	FRQ
IND	0.693	0.861	0.147	0.795
	(0.0340)	(0.0190)	(-0.0222)	(-0.0052)
EID	0.662	0.729	0.620	0.222
	(-0.0090)	(-0.0077)	(-0.0201)	(-0.0526)
BDI	0.084*	0.075*	0.825	0.543
	(-0.1147)	(-0.1338)	(0.0231)	(0.0656)
ROA	0.005***	0.020**	0.554	0.743
	(0.3156)	(0.3308)	(-0.1153)	(-0.0794)
SIZE		0.811		0.165
		(-0.0003)		(-0.0150)
AGE		0.434		0.912
		(-0.0004)		(-0.0001)
LEV		0.339		0.202
		(0.0065)		(0.1540)
GROWTH		0.744		0.759
		(0.0015)		(0.0059)
Obs.	64	64	64	64
Adj. R^2	0.1877	0.2298	0.0638	0.1864
Cons	0.0310	0.0416	0.1974	0.2126

Source: Data processed (2025)

Based on Table 3, the regression test results without including control variables (column 1) are relatively consistent with those including control variables (column 2). The variable "Board Independence" remains insignificant on financial reporting quality (FRQ), with a small positive coefficient of 0.0340 and a p-value of 0.693. This confirms that board independence is not a determining factor in reporting quality in this study sample, whether tested with or without control variables. Therefore, Hypothesis 1 is not supported. Furthermore, the variable "Board Expertise" shows a small negative coefficient of -0.0090 (p-value = 0.662), consistent with the findings using control variables, indicating that board expertise has no significant impact on FRQ. Therefore, Hypothesis 2 is not supported.

The variable "Board Diversification," measured by the proportion of women on the board, shows a relatively large negative coefficient of -0.1147, significant at the 10% level (p = 0.084). This finding aligns with the model when the control variables are included, where the second test also showed a negative coefficient (–0.1274) and a nearly identical significance value (p 0.060). This consistency indicates that when the control variables are removed, the direction of the relationship and its significance level do not change substantially. Thus, the role of board diversification remains negative on FRQ, suggesting a potentially more complex relationship between gender diversity and financial reporting practices. Therefore, these results support Hypothesis 3, which states that board diversification influences financial reporting quality.

The profitability variable, or ROA, showed consistent results across the two test models. Without control variables, ROA had a positive coefficient of 0.3156 and was significant at p 0.005, very similar to the results with control variables (coefficient 0.3308; p 0.020). This consistency indicates that profitability is a primary determinant of financial reporting quality, and its effect is unaffected by the presence of control variables. This means that more profitable companies still exhibit better reporting quality, both in the simple model and the model with control variables. Thus, Hypothesis 4 is supported; profitability has an effect on the quality of financial reporting.

The results of the regression test without control variables (column 3) are relatively consistent with those of the regression test that includes control variables (column 4). The variables board

independence, board expertise, board diversification, and profitability were examined in a sample of Turkish companies. This confirms that board independence, board expertise, board diversification, and profitability are not determinants of reporting quality in this study sample, whether tested with or without control variables. Therefore, none of the hypotheses for the sample of companies in Türkiye is supported.

The results of the Chow test based on suest indicate that the influence of board characteristics and profitability on FRQ is relatively similar between Indonesia and Türkiye. The coefficient comparison test using suest shows that the difference in the influence of Independent Board, Board Expertise, Board Diversification, and ROA between the two countries is not statistically significant. This finding indicates that, despite differences in regulations and institutional contexts, the influence of the board of directors and financial performance on FRQ is consistent across the two countries.

Table 4. Moderation Testing

Variable	(3)	(5)	(6)
	FRQ	FRQ	FRQ
IND	0.336		
	(-0.0958)		
IND x ROA	0.035**		
	(1.0796)		
EID		0.076*	
		(-0.0412)	
EID x ROA		0.026**	
		(0.2923)	
BDI			0.001***
			(-0.2510)
BDI x ROA			0.002***
			(1.4050)
Obs.	64	64	64
Adj. R^2	0.1056	0.1017	0.1325
Cons	.0477	.0591	.0573

Source: Data processed (2025)

Moderation testing (Table 4) was only conducted on a sample of companies in Indonesia. This was done because profitability in the Turkish sample did not show significant results. Testing the interaction between independent boards and profitability (IND x ROA) reveals an interesting change in the relationship pattern. This interaction variable has a positive coefficient of 1.0796 and is significant at the 5% level (p 0.035). This indicates that profitability strengthens independent boards' influence on the quality of financial reporting. It can be concluded that companies with higher profits have an impact on the performance of independent boards. Independent boards can perform a more effective oversight function, thereby improving the quality of financial reporting. Thus, Hypothesis 5 is supported.

The relationship between profitability and board expertise, as tested through the moderating variable (EID x ROA), shows a positive and significant result, with a coefficient of 0.2923 and a p-value of 0.026. This indicates that profitability strengthens the influence of board expertise on the quality of financial reports. It can be concluded that companies with higher profits influence the expertise of independent boards. Independent boards become more effective in improving the quality of financial reporting. High profitability provides the company with additional resources and greater reputational pressure, making the optimal utilization of board expertise in monitoring and reviewing financial reports more likely. These results support Hypothesis 6.

Testing the effect of board diversification (BDI) on FRQ yields interesting results when including the profitability variable, indicating an interaction between BDI and profitability (BDI x ROA). The moderating variable shows a positive and significant effect, with a coefficient of 1.4050 and a p-value of 0.002. These findings indicate that profitability plays a substantial role in strengthening the relationship between board diversification and financial reporting quality. It can be concluded that companies with higher profits and the presence of women on their boards of boards can contribute more effectively to improving financial reporting quality. High profitability provides economic stability, reduces reputational pressure, and provides more adequate resources, thus providing greater space for

female boards to carry out oversight functions and demand higher transparency. Hence, Hypothesis 7 is supported.

Discussion

The finding that board independence does not significantly affect FRQ in either country challenges the central prediction of agency theory, which holds that independent boards should constrain opportunistic managerial behavior and improve reporting quality. A plausible explanation is the formalistic nature of board independence in emerging markets: in the Indonesian sample, independent boards represent only approximately 20% of total board membership on average, suggesting that their governance role is often nominal rather than substantive. This finding is consistent with Aifuwa & Embele (2019), Ararat et al. (2017), and Duchin et al. (2010), who found that board independence does not always translate into effective oversight, particularly when independent directors lack informational access or organizational authority.

The non-significant effect of board expertise on FRQ, absent moderation, suggests that expertise alone is insufficient to improve reporting quality. This result aligns with Xie et al. (2003) and Linck et al. (2007), who found that board expertise functions optimally only when boards are actively engaged in company operations and when organizational culture is receptive to board intervention. However, the significant moderation effects (H5, H6, H7) indicate that profitability is a key enabling condition that activates the governance benefits of board independence, expertise, and diversity. This finding contributes to the governance literature by demonstrating that the effectiveness of governance mechanisms is not unconditional but contingent on firm-level financial performance.

The negative and marginally significant effect of board diversity on FRQ in Indonesia, which reverses to positive and significant when profitability is included as a moderator, reflects the complexity of gender diversity effects on governance. Adams & Ferreira (2009) also found that the governance effects of female board members are highly context-dependent. The reversal in the interaction model suggests that the positive potential of diverse boards is realized only under favorable financial conditions, where female board members have greater organizational leverage to demand transparency. In Türkiye, the non-significant effect of board diversity may reflect its institutionalization: as Ararat & Yurtoglu (2021) showed, the presence of women on boards in Türkiye has become a regulatory norm whose marginal impact on reporting quality has diminished as governance standards have matured.

The positive and significant effect of profitability on FRQ in Indonesia is consistent with signalling theory (Spence, 1973), confirming that high-performing companies have stronger incentives to present credible and transparent financial reports. The absence of a significant profitability effect in Türkiye, by contrast, suggests that reporting quality in that country is driven primarily by regulatory compliance rather than market-based signalling. This distinction aligns with the institutional argument that the dominance of regulatory frameworks in Türkiye reduces the marginal incentive for market-based signalling (Ararat et al., 2017). The country-level difference in the role of profitability thus reflects a fundamental distinction in the governance regimes of the two countries: a compliance-driven regime in Türkiye versus a market-incentive-driven regime in Indonesia.

CONCLUSION

Summary of Findings

This study examines the impact of board independence, board expertise, board diversity, and profitability on financial reporting quality (FRQ) in manufacturing companies listed in Indonesia and Türkiye, and tests profitability as a moderating variable. The key findings can be summarized as follows. In the Indonesian sample, board independence and board expertise do not significantly affect FRQ, while board diversity ($p < 0.10$) and profitability ($p < 0.01$) do. Profitability positively moderates the relationship between each governance mechanism and FRQ in Indonesia. In the Turkish sample, none of the governance or profitability variables are statistically significant, suggesting that FRQ is driven more by macro-institutional and regulatory factors. The SUEST coefficient comparison test

indicates that the cross-country differences in governance coefficients are not statistically significant, qualifying but not negating the observed country-level differences.

Theoretical Contributions

This study makes three contributions to the corporate governance literature. First, it challenges the universal applicability of agency theory by demonstrating that the governance effectiveness of independent boards depends heavily on institutional context, particularly the regulatory environment and ownership structure. Second, it integrates signalling theory and institutional theory to provide a more comprehensive explanation of how national context shapes the relationships among governance, financial performance, and reporting quality. Third, it enriches comparative governance research by providing cross-country evidence from two institutionally distinct developing economies a pairing that is underrepresented in the existing literature.

Practical Implications

For business practitioners in Indonesia, these findings suggest that improving FRQ requires strengthening substantive board oversight, particularly by ensuring that independent board members have genuine authority and access to information beyond a formal minimum presence. Expanding meaningful board diversity with structural support for female board members may also improve reporting quality, particularly in high-profitability contexts. For Indonesian policymakers, these findings highlight the need to move beyond formal regulatory requirements toward effective enforcement mechanisms that ensure substantive governance. In Türkiye, the findings suggest that maintaining FRQ is primarily dependent on consistent regulatory implementation and institutional integrity, as internal governance mechanisms appear to add limited incremental value in an already well-regulated environment.

Limitations and Future Research

This study has several limitations. First, the sample is restricted to 64 firm-year observations per country (32 companies, two years), which limits the statistical power of the analysis and the reliability of the Jones Model estimation, which ideally requires longer time-series data per firm. Future research should expand the sample to include longer observation periods at least five to ten years to improve the precision of discretionary accrual estimates and support stronger causal inferences. Second, the moderation analysis was conducted post-hoc only for the Indonesian sample, which may introduce analytical bias. Future studies should prespecify moderation testing for both country samples. Third, this study relies on relatively simple governance proxies based on observable board characteristics. Future research is encouraged to develop more nuanced governance indicators, including ownership concentration, audit committee characteristics, and regulatory quality indices, to capture the multidimensional nature of corporate governance. Finally, future cross-country studies should consider including more countries from the Southeast Asian and Euro-Asian regions to enhance the generalizability of findings.

List of Abbreviations

FRQ – Financial Reporting Quality
IDX – Indonesia Stock Exchange
BIST – Istanbul Stock Exchange
REM – Random Effects Model
SUEST - Seemingly Unrelated Estimation Test
CMB/SPK – Capital Markets Board of Türkiye
OECD – Organisation for Economic Co-operation and Development
ROA – Return on Assets
FEM – Fixed Effects Model

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Authors' Contribution

DK conducted data collection, processing the data and interpretation of the results. SHM wrote the introduction, literature review, and methodology. AA wrote the discussion, conclusions, and finalization.

Conflict of Interest

The authors declare no competing interests

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Availability of Data and Materials

Data and materials are accessible for reproduction and reuse from IDX.

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