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Contemporary Review of Financial Reporting Quality Studies in Emerging Countries

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Abstract: This study reviews research on the quality of financial reports. It highlights the influencing factors of financial reporting quality, provides more information for measuring and improving financial reporting quality, and offers suggestions for future research. By the method proposed by Tranfield et al. (2003), this paper conducted a literature review on the quality of financial reports and their related terms, influencing factors and measurement methods. When conducting the literature search, Scopus and Google Scholar search engines were used to screen top-ranked journals, such as Science Direct and Emerald, to find high-quality papers. The selected online publishing materials cover the period from 2020 to 2023. This review found that previous research discussed the quality of financial reporting using different metrics and various theories. In addition, this study also revealed the factors that influence the improvement of financial reporting quality in emerging countries. This article contends that due to the lack of empirical research on the quality of financial reports from the perspective of other stakeholders, future research needs to focus on the impact of corporate stakeholders on financial report quality, especially in emerging countries.

Keywords: *Financial Reporting Quality, Emerging Countries, Systematic Literature Review*

1. Introduction

Financial statements are a means for enterprises to transmit information about their business activities to the stakeholders and are also an important basis for information users to conduct business management and decision-making (Ogaluzor & Ohaka, 2019). Since the beginning of the 21st century, with accounting fraud and fraud scandals exposing listed companies in various countries, regulatory authorities have begun to attach importance to internal governance mechanisms and improve corporate governance structures to protect the interests of investors and avoid fraudulent financial reporting (Mardessi, 2022). The quality of financial reporting was first defined in the ISO standards as the sum of characteristics that satisfy clear and implicit capabilities in financial reporting. According to the conceptual frameworks of FASB and IASB, as well as previous research by scholars, financial reporting quality is defined as accurate and fair financial statements that reflect an entity's basic financial condition and operating performance.

In the literature, the more fields and methods an entity engages in earnings management, the lower the quality of its financial reporting (Herath et al., 2017). Furthermore, evaluating the quality of financial reports has always been a focal point of debate in the accounting theory, practice, and even the capital market. Thus, the issue of improving and measuring the quality of financial reporting has always been a hot topic in the accounting field. In addition, in recent years, an increasing amount of literature has begun to focus on the quality of financial reporting in emerging markets. Concerning the literature review of Herath et al. (2017) on financial reporting quality from 2009 to 2015 and the review of Rajpurohit & Rijwani (2022) on the influence of corporate governance on financial reporting quality in emerging countries from 2002 to 2018, this study provides a systematic review of the literature on financial reporting quality in emerging markets from 2020 to 2023. This study adopts a systematic literature review (SLR) with emphasis on the variables that influence financial reporting quality in emerging markets, as well as on how to assess financial reporting quality.

The research findings of this study can provide a reference for company managers, capital investors, regulatory agencies, and policymakers to conduct in-depth research on existing practices for improving the quality of financial reporting, as well as inspire other researchers to conduct additional research on this subject.

The interrelated research questions were formulated as follows:

- How is financial reporting quality in emerging countries defined in the literature?
- How is financial reporting quality measured in emerging countries?
- What effects have been studied in the literature on the financial reporting quality in emerging countries?

The remainder of this study is organized as follows. Section 2 discusses the internal and external elements that influence financial reporting quality, as well as the metrics for measuring financial reporting quality. Section 3 focuses on the procedures utilized to obtain relevant literature, while Section 4 refers to the analysis of the findings. Section 5 presents a discussion of the findings. Section 6 summarizes the conclusions and suggestions for further investigation into the quality of financial reporting.

2. Literature Review

The IASB Financial Reporting Conceptual Framework states that the main objectives of financial reporting include two aspects: one is decision usefulness, which helps financial report users make better decisions, and the other is entrusted responsibility, which reflects the execution status of management. In addition, Watts & Zimmerman's (1986) positive accounting theory also proposes two dimensions of financial reporting: market signals and supervisory management behavior. In the context of emerging markets, more and more scholars are conducting research on the quality of financial reports based on these two main objectives. For example, Houcine (2017) studied the impact of financial report quality on corporate investment decisions and resource utilization effectiveness in emerging markets based on positive accounting theory in the Tunisian market environment. Similarly, Lu et al. (2023) Compared Chinese companies with American companies and found significant differences in executive motivation for earnings management and incentives for financial report disclosure quality.

The crucial question is whether the financial statements that best convey information are also the most effective in mitigating agency conflicts between shareholders and management (Mahdi Sahi et al., 2022). Hence, the quality of financial reports has become a prevalent topic worldwide in both developed and developing countries. So far, a large amount of literature has conducted in-depth discussions on the influencing factors of financial report quality. Some studies have explored the factors that affect the quality of financial reporting from a country-specific perspective (Yu et al., 2021; Alkebsee & Habib, 2021; Can, 2021; Saji, 2022; Zhang & Zhao, 2023), while others have approached it from a corporate perspective (Orazalin, 2020; Kontesa et al., 2020). Compared to developed countries, the ownership structure of companies in emerging countries is significantly different. Therefore, the goal of financial reporting is to reduce the type I agency problem between shareholders and management, as well as to consider relevant stakeholders (Wong, 2020, Jiang & Kim, 2020, Lu et al., 2023). However, as studies on financial reporting quality from the stakeholder aspect are scarce, this study categorizes the influencing factors of financial report quality from three levels: macro environment, firm-level and corporate governance, and stakeholder factors.

Furthermore, the choice of methods and standards for measuring financial reporting quality is a major focus of numerous studies. The measurement of financial report quality can be divided into categories, such as earnings quality, financial report quality characteristics, and information disclosure quality (Rajpurohit & Rijwani, 2022). Hence, a systematic review of financial reporting quality in emerging countries can be instrumental in improving the objectivity and effectiveness of financial reporting as well as in measuring financial reporting quality effectively and efficiently.

3. Methodology

In conducting a literature review on the quality of financial reporting in emerging markets, this article adopts the SLR introduced by Tranfield et al. (2003). To provide deeper insights by integrating the findings of different studies and forming a comprehensive framework that combines theoretical foundations with practical applications (Snyder, 2019; Tranfield et al., 2003). SLR is divided into the following three steps: 1. Planning the review; 2. Selecting studies: 3. Synthesis of results.

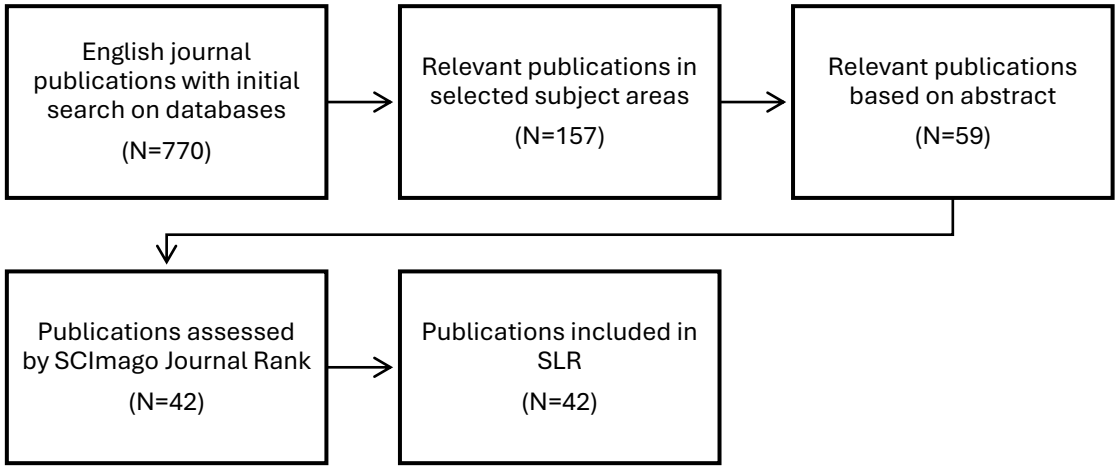
Planning the review

The main focus of this article is to identify the factors that affect the quality of financial reporting in emerging countries. In doing so, it highlights previous research on financial reporting quality as well as the methods for measuring the quality of financial reporting in emerging countries.

Selection of studies

Due to the selection of multiple databases, ensuring the selection of a large number of different articles (Nguyen et al., 2020Relevant articles were gathered with specific inclusion and exclusion criteria and collected manually through UiTM e-resources databases, including Science Direct, Emerald Insight, and Scopus. The search was conducted using the terms "financial reporting quality" and "emerging countries" based on articles published in online databases. By the SLR method proposed by Tranfield et al. (2003) and Snyder (2019)The inclusion and exclusion processes selected in this paper are shown in Figure 1.

Figure 1: Inclusion and Exclusion Processes



Excluding non-English research, the initial search based on the above keyword criteria identified 770 potential articles from the database. These 770 articles were published between 2020 and 2023. The author's name, title, publication year, journal, and other information for each paper were manually organized in an Excel file. Next, based on the subject and abstract content, a total of 59 articles related to research on the quality of financial reporting in emerging countries were screened. Last, as suggested by Marzuki et al. (2022)Based on Scopus CiteScore journal rankings, this study selected 42 articles published in high-quality journals and ranked them in SCImago Journal Rank, as shown in Table 1.

Table 1: List of articles on FRQ in emerging countries listed in SCImago Journal Rank

CiteScore rank	H-index	Study
Q1	36-73	Orazalin (2020), Oradi & Izadi (2020), Sani et al. (2020), Yu et al. (2021), Gull et al. (2021), L. T. H. Tran (2022), Makhlouf (2024), Madawaki et al. (2022)
Q2	17-44	Can (2020), Alhadab et al. (2020), Rajeevan & Ajward (2020), Y. T. Tran et al. (2021), Kaawaase et al. (2021), Can (2021), Alhaddad et al. (2022), Klish et al. (2022), Saji (2022), AL-Duais et al. (2022), R. Alkebsee et al. (2022), Bhatti et al. (2022), Arianpoor & Sahoor (2023), Soroushyar (2023), Zhang & Zhao (2023), Musa et al. (2023), Al-Begali & Phua (2023), El-Dyasty & Elamer (2023), Baatwah et al. (2023), Harymawan et al. (2022), Al-Enzy et al. (2023), Sassi & Damak-Ayadi (2023)
Q3	14-44	Kontesa et al. (2020), Safari Gerayli et al. (2021), Golmohammadi Shuraki et al. (2020), R. H. Alkebsee & Habib (2021), Bansal & Garg (2021), Xie et al. (2022), Tarighi et al. (2022), Harymawan et al. (2022), Luo & Song (2022), Naz et al. (2023)

Synthesis of results

After reviewing and organizing 42 selected articles as samples, this review concluded with a comprehensive analysis of the research on financial reporting quality in emerging countries. The literature was independently and carefully read, and the topics were systematically categorized and synthesized to establish a research framework. Specifically, the framework encompasses four key aspects: determining factors, measurement methods, theoretical foundations, and consequences. Ultimately, through a comprehensive literature review, this review assesses the current state of financial reporting quality in emerging countries, identifies developmental challenges, and offers valuable insights for future research.

4. Results and Discussion

Based on general themes, Figure 2 illustrates a conceptual framework concerning the quality of financial reporting in emerging countries, including the determining factors, methods, and consequences of financial reporting quality.

Figure 2: Conceptual framework of financial reporting quality



Influences on Financial Reporting Quality

Table 2 presents the articles on the determinants of financial reporting quality assigned to these three research themes. Subsequently, these studies were reviewed and analyzed according to the outcomes discussed in this section.

Table 2: Determinants of financial reporting quality

Themes	Determinants	References
Macro-environmental factor	Convergence of IFRS	Bansal & Garg (2021), Klish et al. (2022), Can (2021), Saji (2022), Luo & Song (2022), Al-Enzy et al. (2023), Sassi & Damak-Ayadi (2023)
	Sharia compliance	Can (2021)
	Stock market liberalization	Zhang & Zhao (2023)
Corporate governance factor	Board characteristics	Orazalin (2020), Kontesa et al. (2020), Rajeevan & Ajward (2020), Kaawaase et al. (2021), Naz et al. (2023)
	Audit committee characteristics	Oradi & Izadi (2020), Rajeevan & Ajward (2020), Safari Gerayli et al. (2021), Makhlouf (2024)
	Executives' attributes	Sani et al. (2020), Gull et al. (2021), R. Alkebsee et al. (2022), Bhatti et al. (2022), Harymawan et al. (2022), Musa et al. (2023), Al-Begali & Phua (2023), El-Dyasty & Elamer (2023)
	Leadership and accounting capacity	Y. T. Tran et al. (2021)
	Internal audit functions	Madawaki et al. (2022)
	Auditor tenure	Soroushyar (2023)
	Life cycle stage	Can (2020), Xie et al. (2022)
	Ownership structure	AL-Duais et al. (2022), Alhaddad et al. (2022), Tarighi et al.

		(2022)
	Culture	Yu et al. (2021), Baatwah et al. (2023)
	Related party transactions	Alhadab et al. (2020), Tarighi et al. (2022)
Stakeholder factor	Business strategy and annual reports' readability	Arianpoor & Sahoor (2023)
	Media coverage	Alkebsee & Habib (2021)

Macro-environmental factors

In recent years, with the gradual improvement of the economic strength and international influence of emerging countries, significant achievements have been made in adopting international financial reporting standards and the convergence with international financial reporting standards. For example, China, India, and other countries have adopted a strategy of convergence with international financial reporting standards in accounting standard construction, albeit there is still a certain gap in the degree of convergence among countries (Sassi & Damak-Ayadi, 2023). Financial reporting standards may have a comprehensive impact on the quality of financial reports, including preparation and disclosure (Bansal & Garg, 2021). Bansal & Garg (2021) They were the first to explore the effects of India's convergence of its accounting standards with IFRS on accounting quality and concluded that the adoption of international accounting standards notably diminished accounting quality. Subsequently, Saji (2022) examined the effects of mandatory convergence between Indian accounting standards and International Financial Reporting Standards (IFRS) on the quality of financial reporting. The study yielded empirical evidence that contradicted Bansal & Garg (2021) And indicated that mandatory convergence enhances the information quality of financial reporting for Indian listed companies. Similarly, Klish et al. (2022) studied Middle Eastern and North African (MENA) countries and found that adopting IFRS helps reduce earnings management and improve the quality of financial reporting compared to adopting local accounting standards. Furthermore, Sassi & Damak-Ayadi (2023) studied the impact of the mandatory adoption of international accounting standards on the quality of financial reporting for small and medium-sized enterprises in emerging countries and concluded that it can improve the transparency and quality of financial information for small and medium-sized enterprises, thereby contributing to the improvement of corporate governance.

In addition, Can (2021) emphasized the role of the IFRS in improving the quality of financial reporting in Muslim majority countries while highlighting the positive impact of Sharia compliance on financial reporting quality in the study. Zhang & Zhao (2023) used China's capital market as an example to study the effect of stock market liberalization on improving the quality of financial reporting and provided a new perspective for other emerging countries to study the impact of corporate financial reporting quality behavior.

Corporate governance factors

Based on agency theory, corporate governance as a mechanism for coordinating interests between owners and agents has been widely studied by scholars, especially in improving corporate performance (Rajeevan & Ajward, 2020; Wan Mohammad & Wasiuzzaman, 2019). Combining upper echelon theories, prior research explored the influence of corporate internal governance features on financial reporting quality, including board attributes (Orazalin, 2020; Kontesa et al., 2020; Rajeevan & Ajward, 2020; Kaawaase et al., 2021; Naz et al., 2023), audit committee attributes (Oradi & Izadi, 2020; Rajeevan & Ajward, 2020; Safari Gerayli et al., 2021; Makhlouf, 2024), internal audits (Madawaki et al., 2022), and executive characteristics (Sani et al., 2020; Gull et al., 2021; Alkebsee et al., 2022; Bhatti et al., 2022; Harymawan et al., 2022; Musa et al., 2023; Al-Begali & Phua, 2023; El-Dyasty & Elamer, 2023). Besides, external auditing, as a part of the corporate governance structure, helps to identify potential issues in financial reports, improve the accuracy and reliability of financial reports, and plays a crucial role in ensuring the quality of financial reports and information disclosure. Soroushyar (2023) examined the impact of external auditing characteristics on financial reporting quality and underscored the significance of auditors' industry specialization and tenure in advancing the quality of financial statements.

Furthermore, some scholars have conducted research on the overall characteristics of a company, such as its lifecycle stage (Can, 2020; Xie et al., 2022), ownership structure (AL-Duais et al., 2022), corporate culture (Yu et al., 2021; Baatwah et al., 2023), and related party transactions (Alhadab et al., 2020; Tarighi et al., 2022). Can (2020) and Xie et al. (2022) explored two different emerging markets. Their research conclusions emphasized

that due to the adoption of different earnings management strategies by companies at different stages of their development, lifecycle stages have an impact on FRQ, with the introduction and decline stages hurting FRQ. Numerous studies have been conducted on how ownership structures affect financial reporting quality in developed countries. However, research into the influence of ownership on earnings management in emerging countries remains limited, particularly in terms of comparative analysis across various ownership structures. Hence, AL-Duais et al. (2022) focused on the emerging market of Malaysia, and examined and compared the effects of family, institutional, foreign, and management ownership on actual earnings management. They concluded that ownership structure positively influences the quality of financial reporting.

Different cultures possess distinct values and behavioral norms, which influence the actions of individuals and organizations, including the processes of financial statement preparation and auditing (Kutan et al., 2021). In the exploration of emerging markets, both Yu et al. (2021) and Baatwah et al. (2023) highlighted the significance of cultural factors in financial reporting and earnings management, and noted that cultural backgrounds significantly influence corporate behavior and decision-making. However, they arrived at contrasting conclusions. Yu et al. (2021) discovered that Confucian culture, one of China's most influential traditions, significantly curtailed earnings management, whereas Baatwah et al. (2023), focusing on the Omani capital market, found that tribal culture undermines the internal monitoring mechanisms in enterprises, thereby delaying and diminishing the quality of information disclosure and adversely affecting financial reporting quality.

The issue of utilizing related party transactions for earnings management to meet profit targets has been extensively debated in developed countries. Given the generally weak corporate governance and the limited quality and disclosure of financial reports in emerging markets, the impact of related party transactions on financial reporting quality deserves significant attention within emerging markets (Alhadab et al., 2020). Alhadab et al. (2020) and Tarighi et al. (2022) conducted research on the manipulation of earnings management by related party transactions in the emerging markets of Iran and Jordan, respectively. A comparison of the findings from the two studies revealed that, depending on the market conditions, the impact of related party transactions on accrual earnings management can be both positive and negative.

Stakeholder factors

The quality of financial statements and disclosures is vital for both businesses and stakeholders, as it acts as the main channel for management to engage with external investors and market participants (Mahdi Sahi et al., 2022). Besides investors, other stakeholders, including employees, governments, and the broader society, are also beneficiaries of information transparency (Zamil et al., 2023).

The readability of a company's annual report pertains to the ease with which the annual financial report and related documents can be understood (Habib & Hasan, 2020). Therefore, from the perspective of stakeholders, the readability of reports may increase their risk of opacity, thereby affecting their understanding and judgment of the disclosed information (Dalwai et al., 2023). Arianpoor & Sahoor (2023) conducted a study on Iranian companies and empirically found that the readability of annual reports has a positive impact on the quality of financial reports. They also examined the interaction between different types of business strategies and found that cost leadership and differentiation strategies are more effective in improving information transparency.

Based on the theory of information asymmetry, previous researchers have found that the media plays an important intermediary role in providing valuable information, especially to external stakeholders (Graf-Vlachy et al., 2020; Tsileponis et al., 2020). Therefore, considering that media coverage can affect the judgment of corporate stakeholders on the company, whether the company will improve the quality of financial report disclosure due to media coverage has attracted the attention of scholars. Alkebsee & Habib (2021) noted that in emerging markets, the media's role in financial reporting quality has not been given adequate emphasis. Therefore, focusing on the Chinese market, the study revealed that media attention is inversely related to the likelihood of a company's financial restatement. In conclusion, the media's pivotal role in overseeing the financial reporting governance of Chinese listed companies and safeguarding stakeholders was underscored.

Measurements of Financial Reporting Quality

Currently, academia lacks a unified substitute indicator for financial report quality. A review of past literature reveals that measures based on earnings quality, characteristics of financial report quality, and comprehensive financial report quality evaluation indices are extensively employed by scholars. This section explains the various methods for measuring the quality of financial reports; the list of methods is shown in Table 3.

Table 3: Measurements of financial reporting quality

Measurements	References
Discretionary Accrual	Orazalin (2020), Kontesa et al. (2020), Can (2020), Alhadab et al. (2020), Safari Gerayli et al. (2021), Golmohammadi Shuraki et al. (2020), Yu et al. (2021), Can (2021), Safari Gerayli et al. (2021), Xie et al. (2022), Saji (2022), Tarighi et al. (2022), Bhatti et al. (2022), L. T. H. Tran (2022), Harymawan et al. (2022), Soroushyar (2023), Al-Begali & Phua (2023), El-Dyasty & Elamer (2023), Baatwah et al. (2023), Naz et al. (2023), Al-Enzy et al. (2023), Alsultan & Hussainey (2023)
Real earnings management	Sani et al. (2020), Alhadab et al. (2020), Rajeevan & Ajward (2020), Yu et al. (2021), Alhaddad et al. (2022), AL-Duais et al. (2022), R. Alkebsee et al. (2022), Musa et al. (2023), Al-Begali & Phua (2023), Baatwah et al. (2023), Naz et al. (2023)
Earnings attributes	Safari Gerayli et al. (2021), Rezaei Pitenoei et al. (2020)
Financial restatements	Oradi & Izadi (2020), Alkebsee & Habib (2021), Luo & Song (2022)
Audit Aggressiveness	Can (2020), Can (2021)
Financial reporting attributes	Rashid (2020), Kaawaase et al. (2021), Y. T. Tran et al. (2021), Madawaki et al. (2022)
Composite Index	Klish et al. (2022), Arianpoor & Sahoor (2023), Zhang & Zhao (2023), Sassi & Damak-Ayadi (2023)

In prior research, numerous scholars selected earnings quality as a proxy variable for financial reporting quality. Discretionary Accruals are among the most frequently studied aspects in empirical research on financial reporting quality. In assessing the quality of financial reporting in emerging markets, most studies employed the discretionary accruals model developed by Patricia et al. (1995) (Orazalin, 2020; Kontesa et al., 2020; Alhadab et al., 2020; Yu et al., 2021), and Kothari et al. (2005) (Kontesa et al., 2020; Can, 2020; Golmohammadi Shuraki et al., 2020; Naz et al., 2023; Alsultan & Hussainey, 2023). Harymawan et al. (2022) employed a combination of the Jones (1991) model, the Patricia et al. (1995) model, and the Larcker & Richardson (2004) Model to estimate earnings management. Another prevalent approach is to undertake pertinent research focusing on real earnings management (REM) as a proxy for financial report quality (Sani et al., 2020; Rajeevan & Ajward, 2020; Xie et al., 2022; AL-Duais et al., 2022; Alkebsee et al., 2022; Musa et al., 2023). Unlike accrued profits, REM involves a company's management manipulating actual business activities to influence reported earnings. Previous articles frequently employed similar proxy variables to gauge REM, including an analysis of unusual cash flows, production costs, sales management, and expense management. Additionally, several studies took into account both accrual and real earnings management as measures of financial reporting quality (Alhadab et al., 2020; Yu et al., 2021; Zhang & Zhao, 2023; Baatwah et al., 2023). Safari Gerayli et al. (2021) and Rezaei Pitenoei et al. (2020) assessed earnings quality by examining profitability characteristics, which primarily encompass earnings sustainability, earnings predictability, earnings value relevance, earnings timeliness, and earnings conservatism.

From the professional perspective of auditors, numerous empirical studies have demonstrated that effective auditing enhances the quality of financial reports. Consequently, certain prior research has employed audit-related indicators, including audit opinions and audit aggressiveness (Can, 2020; Can, 2021) as proxy variables for assessing the quality of financial reports.

The second category encompasses the measurement methods for the qualitative characteristics of financial reporting. The conceptual frameworks for financial reporting of both the FASB and IASB specify that high-quality reporting necessitates qualitative features of financial statements, including verifiability, timeliness, comparability, understandability, relevance, and faithful representation (IASB, 2010). Nevertheless, some

characteristics cannot be directly quantified, and although some qualitative attributes are not quantifiable, they can be assessed through alternative proxies. Drawing upon the qualitative attributes of financial reporting quality outlined in the IASB framework, Rashid (2020) developed and employed an index encompassing 28 items that included both financial and non-financial indicators to assess the quality of financial reporting. By employing a five-point Likert scale to ensure that respondents could unambiguously express their level of agreement or disagreement with the items presented, Tran et al. (2021) assessed the eight fundamental qualitative attributes and five enhancing qualitative attributes of financial report quality via a survey questionnaire. Similarly, Kaawaase et al. (2021) assessed the six qualitative attributes of financial reporting quality outlined in the IASB conceptual framework using a six-point Likert scale questionnaire by targeting Chief Financial Officers, Senior Accountants, and Internal Audit Managers.

To more effectively align the measures of financial report quality with practical applications, certain studies have developed a holistic evaluation framework. Such frameworks categorize the quality of financial reports into various dimensions using a multi-tiered structure that assesses report quality by identifying specific proxy variables. When comparing the impact of IFRS and local accounting policies in the MENA region on financial reporting quality, Klish et al. (2022) selected five econometric models to measure the quality of financial reporting according to three aspects: earnings smoothing, target-oriented earnings management, and timely loss recognition. Subsequently, Arianpoor & Sahoor (2023) selected two accounting indicators (accrual quality and earnings smoothness) and two market attribute indicators (accounting conservatism and earnings value relevance) to construct a comprehensive financial reporting quality index, thereby reducing the effects of potential measurement errors in individual accounting earnings. Later, Sassi & Damak-Ayadi (2023) quantitatively assessed the quality of financial reporting for small and medium-sized enterprises by focusing on three key indicators: timeliness, process, and audit, which respectively represent transparency, reliability, and standardization of financial reports. Nevertheless, most existing studies are still at an exploratory phase and only offer an assessment framework for financial report quality.

Consequences of financial reporting quality

Numerous studies have consistently affirmed that high-quality financial reports not only protect investor interests but also foster the healthy growth of capital markets. In recent years, scholars have increasingly focused on the influence of financial report quality on stakeholders, particularly in emerging markets (Wong, 2020; Lu et al., 2023). This section examines prior research on the consequences of financial reporting quality, as shown in Table 4.

Table 4: Consequences of financial reporting quality

Consequences	References
Type of audit opinion	Golmohammadi Shuraki et al. (2020)
Dividend policy	Alsultan & Hussainey (2023)
The firm's information environment	Rezaei Pitenoei et al. (2020)

Audit opinions, serving as a professional information channel, constitute one of the crucial pieces of information that stakeholders, including potential investors, existing shareholders, creditors, employees, and regulatory bodies, consider when making decisions. Golmohammadi Shuraki et al. (2020) examined the Iranian capital market, an emerging economy, and discovered that enhancing financial reporting quality can mitigate audit risk and elevate the probability of auditors expressing unqualified opinions.

Dividend policies reflect a company's profitability and financial health, exert a substantial influence on the company's value, and serve as critical factors in shaping other internal decisions. Prudent dividend payments bolster investor confidence and aid in attracting and retaining investors. Measures typically include the dividend payout ratio, stability, dividend coverage, and the transparency of the dividend policy. Alsultan & Hussainey (2023) examined emerging economies in Saudi Arabia and discovered a significant positive correlation between financial reporting quality and dividend policies. They underscored that enhancing the quality of financial reporting can mitigate agency problems, thereby encouraging companies to more readily pay dividends.

A positive information environment mitigates information asymmetry by supplying transparent information, thereby reducing risks for investors and bolstering stakeholder trust in the company. Rezaei Pitenoei et al. (2020) discovered that enhancing the quality of financial reporting in the Iranian capital market enhances the company's information environment and pioneered a comprehensive method for measuring the information environment. The article also expanded on the significance of the impact of financial reporting quality from the perspectives of other stakeholders.

5. Conclusion

The quality of financial reports is a crucial indicator of a company's transparency and accountability, and exerts a profound influence on the company itself, its stakeholders, and the overall health of the market. Existing studies have primarily focused on the intrinsic attributes of financial reports, the governance mechanisms influencing reporting practices, and the interplay between financial reporting and a company's other decision-making and market activities. This paper investigates the quality of financial reporting by integrating the stakeholders' perspective. Enhancing the quality of financial reporting constitutes a significant academic inquiry; hence, there is a need for a comprehensive review of the quality of financial reporting in emerging markets.

This paper systematically reviews the literature on financial reporting quality in emerging countries. In this review, articles were selected based on specified inclusion and exclusion criteria. In response to RQ1, a conceptual framework for financial reporting quality has emerged. Regarding RQ2, various methods exist for measuring financial reporting quality, with earnings quality being the most commonly used among scholars. Additionally, scholars are beginning to focus on comprehensive evaluation system indicators. To address RQ3, the review categorizes the factors affecting financial reporting quality into macroeconomic, corporate-level, and stakeholder factors. Furthermore, this review paper discusses the impact of financial reporting quality on stakeholders, focusing on accounting, auditing, and the overall information environment efficiency within companies. Therefore, companies in emerging markets need to enhance transparency, achieve financial reporting objectives, and improve the quality of financial reporting by implementing appropriate financial reporting standards, using sustainable corporate governance models, integrating advanced technology, and considering the needs of stakeholders.

Research on financial reporting quality in emerging countries must balance the universal principles of international accounting standards with the distinct socio-economic and cultural contexts of these regions. Future studies should further explore the role of digital technologies in enhancing financial transparency. Additionally, the evolving role of Environmental, Social, and Governance (ESG) disclosures in redefining financial reporting quality metrics and stakeholder expectations warrants rigorous examination, particularly in emerging countries where regulatory frameworks are still underdeveloped.

Nonetheless, this review paper has several limitations. Firstly, it only encompasses literature from a specific period, and due to limitations in sample size, the findings may be biased in their generalizability. Therefore, additional empirical research is necessary to better understand the quality of financial reporting in emerging markets. Secondly, emerging markets exhibit differences in geography, culture, laws, and economic systems, and research may not have fully accounted for how these differences affect the quality of financial reporting. Thirdly, the paper may not have adequately explored how research findings can be translated into practical policy recommendations or improvements in practice. Fourthly, the paper notes that measures of financial report quality are not consistent across the literature, particularly as comprehensive evaluation system indicators are still in the exploratory phase.

Despite its limitations, this study enhances the knowledge base in the area of financial reporting quality in emerging nations. As research on financial reporting quality in emerging countries continues to evolve, this study aids in pinpointing unexplored research gaps related to financial reporting quality in emerging countries. Firstly, future studies may explore factors at the level of other stakeholders, such as the perspective of regulatory bodies in emerging countries, which can be suitably applied to formulate systems aimed at enhancing the quality of financial reporting. Secondly, given the diverse corporate structures, legal systems, and cultural differences in emerging or developing countries, there are notable variations in research outcomes

across different nations and regions. Consequently, future research endeavors could draw samples from various developing countries to undertake international comparative analyses of financial reporting quality.

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