

When Does Disclosure Create Firm Value? The Conditional Effect of Reporting Quality and Governance Structure in Emerging Markets

Amin ElSayed Ahmed Lotfy

*Ex President of Beni Suef University,
Professor of Accounting and Auditing
Faculty of Commerce, BSU.*

ORCID: <https://orcid.org/0000-0002-2656-7887>
Cairo, Egypt.

Abstract

Purpose

This study examines whether reporting quality and financial disclosure independently create firm value, or whether their economic impact is conditional on the presence of an effective governance structure. While the prevailing assumption in the literature suggests that transparency inherently generates value, this study reconsiders this view by addressing a central question: when does disclosure actually create firm value?

Design/Methodology/Approach

The study draws on agency theory, institutional theory, and an integrated governance perspective to develop a conceptual framework linking reporting quality, financial disclosure, and governance structure. Empirically, the analysis relies on firm-level data from emerging capital markets, employing panel data models with interaction terms to capture conditional effects. A series of robustness tests is conducted to ensure the stability and reliability of the findings.

Findings

The results indicate that reporting quality and financial disclosure do not exert a significant direct effect on firm value. Instead, their economic impact is conditional upon the effectiveness of the governance structure. Strong governance mechanisms amplify the valuation effect of high-quality disclosure, whereas this effect remains limited in firms characterized by weak governance. Additionally, the conditional effect is more pronounced in institutional environments with lower enforcement levels.

Originality/Value

This study contributes to the literature by advancing an integrative perspective that positions disclosure quality and governance as interdependent mechanisms rather than independent drivers of firm value. In doing so, it helps reconcile mixed findings in prior research regarding the effectiveness of financial disclosure.

Theoretical, Practical, and Social Implications

Theoretically, the study shifts the focus from direct relationships to conditional frameworks in accounting and governance research. Practically, it provides insights for regulators and policymakers to emphasize the alignment between disclosure practices and governance structures. Socially, it supports more efficient capital allocation and enhances investor confidence in emerging markets.

Keywords

Reporting Quality, Financial Disclosure, Governance Structure, Firm Value, Conditional Effect, Emerging Markets

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I. Introduction

1.1 The Governance Puzzle: Why Information Quality Does Not Always Translate into Value

In recent years, substantial regulatory and institutional efforts have been devoted to improving financial reporting quality, disclosure practices, and corporate governance across capital markets. These efforts rest on a widely held assumption: higher-quality reporting and stronger governance should enhance firm value and improve economic decision-making. This assumption has become particularly influential in emerging capital markets, where reforms in reporting standards and governance codes are frequently promoted as central mechanisms for strengthening market credibility and attracting long-term investment (OECD, 2020; World Bank, 2022).

However, despite the intensity of these reforms, evidence suggests that improvements in reporting and disclosure quality do not consistently translate into higher firm value or superior economic outcomes. Firms operating under similar

reporting standards and governance codes often exhibit markedly different valuation and investment patterns, raising fundamental questions about the conditions under which information quality becomes economically consequential (DeFond & Zhang, 2021; Christensen, Hail, & Leuz, 2021). This disconnect points to a core governance puzzle: why does high-quality financial information enhance firm value and investment decisions in some settings but not in others?

1.2 Limitations of Current Evidence: Fragmentation and Over-Simplification

Recent empirical studies have made important advances in documenting the economic consequences of financial reporting quality, disclosure, and corporate governance. Research shows that high-quality reporting can reduce information asymmetry, improve capital allocation, and influence market pricing (Beyer et al., 2020; Dechow, Myers, & Shakespeare, 2021). Similarly, governance research highlights the role of board oversight and monitoring structures in shaping firm outcomes (Aguilera et al., 2021; Puchniak et al., 2022).

Yet, much of this evidence remains fragmented. A dominant feature of the literature is its tendency to examine reporting quality, disclosure practices, and governance mechanisms as separate and largely independent drivers of firm value. Such linear and component-based approaches implicitly assume that improvements in one domain—such as disclosure quality—are sufficient to generate economic benefits regardless of the broader governance architecture in which they operate (Leuz, 2020; Rajgopal & Srivastava, 2023).

This simplification is increasingly questioned in recent governance debates. Scholars argue that information quality alone cannot discipline managerial behavior or improve decision-making unless it is embedded within governance arrangements capable of enforcing accountability and guiding strategic choices (Christensen, Nikolaev, & Wittenberg-Moerman, 2023). As a result, the lack of an integrative perspective limits our understanding of how reporting and governance reforms jointly shape economic outcomes.

1.3 Reframing the Problem: From Isolated Mechanisms to Institutional Complementarity

This study argues that the inconsistent economic effects of reporting and governance reforms stem from a failure to recognize their institutional complementarity. Financial reporting and disclosure quality provide credible and decision-relevant information, but they do not operate in a vacuum. Their economic relevance depends on governance architectures that translate information into accountability, oversight, and effective resource allocation (Bushman & Smith, 2023; Maffett, Owens, & Wurster, 2024).

From this perspective, firm value and economic performance do not arise from reporting quality or governance structures in isolation. Instead, they emerge from the joint functioning of high-quality financial reporting, informative disclosure, and governance architectures that shape managerial incentives and constrain opportunistic behavior. This view aligns with recent calls in the corporate governance literature to move beyond “one-mechanism” explanations toward more integrated and system-based analyses of firm outcomes (Aguilera et al., 2020; Filatotchev & Wright, 2023).

1.4 Investment Decision Effectiveness as a Core Economic Outcome

While firm value remains a central outcome in governance research, it does not fully capture how information quality and governance affect firms’ internal economic behavior. Market valuation reflects investors’ perceptions, but it may obscure the underlying quality of managerial decisions, particularly in environments characterized by high uncertainty and institutional frictions.

To address this limitation, this study introduces investment decision effectiveness as a key outcome variable alongside firm value. Investment decision effectiveness captures the extent to which firms allocate capital efficiently, align investment decisions with fundamentals, and avoid value-destroying over- or under-investment (Biddle, Hilary, & Verdi, 2022; Chen, Hribar, & Melessa, 2024). By examining both firm value and investment decision effectiveness, the study provides a more comprehensive assessment of how reporting quality and governance architecture influence both external valuation and internal economic decision-making.

1.5 Research Objectives and Questions

Building on the foregoing discussion, the primary objective of this study is to examine how financial reporting and disclosure quality and governance architecture jointly shape firm value and investment decision effectiveness. Specifically, the study seeks to address the following research questions:

1. Under what conditions does financial reporting and disclosure quality translate into higher firm value?
2. How does governance architecture influence the relationship between information quality and investment decision effectiveness?
3. Do integrated reporting–governance systems play a more pronounced role in emerging capital markets, where institutional frictions are more severe?

By addressing these questions, the study moves beyond conventional assessments of reporting or governance reforms and provides a deeper understanding of the mechanisms through which information quality becomes economically meaningful.

1.6 Emerging Capital Markets as an Institutional Laboratory

Emerging capital markets offer a particularly suitable context for examining these questions. Compared to developed markets, emerging markets exhibit greater variation in governance quality, enforcement intensity, and information environments (IMF, 2021; World Bank, 2023). These features magnify the consequences of both high-quality reporting and weak governance, making it easier to observe whether institutional complementarity enhances firm value and investment decisions.

Rather than treating emerging markets as a limitation, this study leverages their institutional diversity as an empirical advantage, providing insights that are difficult to obtain in more homogeneous developed-market settings.

1.7 Contributions and Structure of the Paper

This study makes three key contributions to the corporate governance literature. First, it advances an integrative framework that links financial reporting and disclosure quality with governance architecture, emphasizing their joint role in shaping economic outcomes. Second, it extends prior research by introducing investment decision effectiveness as a central outcome that captures the real economic consequences of governance and information quality. Third, it provides recent evidence from emerging capital markets, thereby enriching the external validity of governance research.

The remainder of the paper is organized as follows. Section 2 develops the theoretical background and conceptual framework. Section 3 presents the hypotheses. Section 4 describes the research design and methodology. Section 5 reports the empirical results. Section 6 discusses the findings, Section 7 outlines the theoretical, practical, and social implications, and Section 8 concludes.

II. Theoretical Background and Conceptual Framework

2.1 Corporate Governance as an Institutional Architecture

Recent corporate governance research increasingly conceptualizes governance not merely as a set of formal mechanisms, but as an institutional architecture that structures information flows, accountability relationships, and strategic decision-making within firms. This perspective departs from earlier views that emphasized discrete governance attributes—such as board independence or ownership concentration—and instead highlights how governance arrangements function as interconnected systems shaping organizational outcomes (Aguilera et al., 2020; Filatotchev & Wright, 2023).

Governance architecture encompasses the configuration of boards, committees, monitoring processes, and enforcement mechanisms that collectively influence managerial behavior. Importantly, contemporary governance scholarship emphasizes that the effectiveness of governance structures depends not only on their formal design, but also on how they interact with the firm's information environment (Maffett et al., 2024). In this sense, governance architecture provides the institutional context within which financial reporting and disclosure operate, determining whether information is merely produced or actually used to discipline decisions and allocate resources.

This institutional view is particularly relevant in emerging capital markets, where governance arrangements exhibit substantial heterogeneity and enforcement varies widely across firms. In such settings, similar governance codes may yield divergent outcomes because the underlying governance architecture differs in its ability to translate information into accountability (Puchniak et al., 2022; World Bank, 2023). Consequently, understanding governance as an integrated architecture rather than a checklist of mechanisms is essential for explaining variation in firm value and investment behavior.

2.2 Financial Reporting and Disclosure Quality as Information Infrastructure

Financial reporting and disclosure quality constitute a critical component of the firm's information infrastructure. High-quality financial reporting enhances the credibility, precision, and comparability of accounting numbers, while high-quality disclosure improves the transparency and interpretability of firm-specific risks, strategies, and future prospects (Dechow et al., 2021; Rajgopal & Srivastava, 2023). Together, reporting and disclosure quality shape the informational environment faced by both external capital providers and internal decision-makers.

Recent literature emphasizes that reporting quality should not be equated with compliance alone. Instead, it reflects the extent to which accounting information faithfully represents economic reality and supports informed decision-making (Christensen et al., 2021; DeFond & Zhang, 2021). Similarly, disclosure quality extends beyond volume or frequency to encompass clarity, specificity, and forward-looking relevance, particularly in relation to risk and investment-related information (Chen et al., 2024).

Importantly, accounting information does not generate economic outcomes by itself. While high-quality reporting can reduce information asymmetry and estimation risk, its economic consequences depend on how information is processed and acted upon (Beyer et al., 2020). This insight challenges simplistic narratives that treat financial reporting quality as a direct driver of firm value and underscores the need to examine how information quality interacts with governance structures.

2.3 Beyond Linear Effects: The Case for Institutional Complementarity

A growing body of research questions the adequacy of linear, single-mechanism explanations in corporate governance and accounting studies. Scholars increasingly argue that organizational outcomes emerge from the interaction of multiple institutional elements rather than from isolated mechanisms (Aguilera et al., 2021; Christensen et al., 2023). This perspective draws on the concept of institutional complementarity, which posits that the effectiveness of one organizational practice depends on the presence and configuration of others (Milgrom & Roberts, 1995; Maffett et al., 2024).

Applied to corporate reporting and governance, this logic suggests that financial reporting and disclosure quality yield economic benefits only when embedded within governance architectures capable of enforcing accountability and influencing managerial decisions. Without effective governance, high-quality information may remain informationally rich yet behaviorally inert. Conversely, governance structures without credible information may lack the evidentiary basis required for effective oversight.

Recent empirical work supports this complementarity view. Studies show that the valuation and investment effects of disclosure quality are stronger in firms with robust governance arrangements, while governance reforms are more effective when supported by credible reporting systems (Filatotchev & Wright, 2023; Chen et al., 2024). These findings highlight the importance of moving beyond additive models toward frameworks that explicitly account for the joint operation of information quality and governance architecture.

2.4 Information, Accountability, and Decision Discipline

At the core of the complementarity argument lies the concept of accountability. Accountability refers to the capacity of governance systems to use information to evaluate managerial actions, impose consequences, and guide future decisions. High-quality financial reporting and disclosure provide the informational inputs necessary for accountability, but governance architecture determines whether and how these inputs are translated into disciplinary action (Bushman et al., 2004; Christensen et al., 2023).

In emerging markets, accountability mechanisms are often weaker due to institutional voids, limited enforcement, or concentrated ownership structures. As a result, improvements in reporting and disclosure quality may fail to influence managerial behavior unless governance architecture provides credible channels for oversight and intervention (IMF, 2021; OECD, 2020). This observation reinforces the need to study reporting quality and governance jointly rather than separately.

2.5 Linking Governance and Information Quality to Investment Decision Effectiveness

Investment decision effectiveness represents a critical yet underexplored outcome in governance research. While firm value captures market perceptions, investment decision effectiveness reflects the internal economic consequences of governance and information quality, including capital allocation efficiency and risk-adjusted investment choices (Biddle et al., 2022; Chen et al., 2024).

Recent studies demonstrate that high-quality financial reporting is associated with improved investment efficiency, particularly when managers face effective monitoring and accountability (Biddle et al., 2022; Christensen et al., 2023). These findings suggest that the interaction between reporting quality and governance architecture plays a pivotal role in shaping how firms allocate resources. However, existing research often treats investment efficiency as a secondary outcome rather than as a central construct linking governance and information quality to firm value.

By positioning investment decision effectiveness as a core outcome, this study integrates insights from accounting, finance, and governance literatures and provides a more comprehensive framework for understanding how institutional arrangements influence both market valuation and real economic decisions.

2.6 Emerging Capital Markets and Institutional Frictions

Emerging capital markets are characterized by institutional features that fundamentally shape the functioning of corporate governance and information systems. Compared to developed markets, emerging economies often exhibit weaker legal enforcement, higher ownership concentration, limited investor protection, and greater heterogeneity in governance practices. These institutional frictions intensify information asymmetry and amplify agency conflicts, thereby increasing the importance of credible financial reporting and effective governance architectures (IMF, 2021; World Bank, 2023).

Recent governance research emphasizes that institutional context is not merely a background condition but an active force that conditions the economic consequences of reporting quality and governance arrangements. In emerging markets, improvements in financial reporting and disclosure may coexist with persistent governance weaknesses, limiting their ability to influence managerial behavior or investment decisions (Filatotchev et al., 2022; Puchniak & Baum, 2023). This institutional disconnect helps explain why similar reporting reforms produce uneven outcomes across firms operating under comparable formal rules.

At the same time, emerging markets offer a valuable empirical laboratory for examining institutional complementarity. The wide variation in governance architecture and enforcement intensity across firms enhances the ability to observe whether and how high-quality reporting and disclosure interact with governance structures to shape firm value and investment decision effectiveness. As such, emerging markets are particularly well suited for testing integrative governance frameworks that emphasize interaction rather than isolated effects (Aguilera et al., 2020; Maffett et al., 2024).

2.7 Governance Architecture as a Mechanism for Translating Information into Action

Governance architecture plays a central role in determining whether financial reporting and disclosure quality translate into economically meaningful outcomes. Boards of directors, audit committees, and oversight mechanisms constitute the primary channels through which accounting information is evaluated, interpreted, and acted upon. Recent studies highlight that governance structures influence not only the monitoring of managerial actions but also the strategic use of accounting information in investment and resource allocation decisions (Christensen et al., 2023; Hail, Tahoun, & Wang, 2024).

This perspective shifts attention away from governance as a symbolic or compliance-oriented construct toward governance as an active decision-enabling mechanism. High-quality reporting and disclosure provide the informational basis for governance processes, but governance architecture determines whether this information is incorporated into deliberations, challenge mechanisms, and corrective actions. Without such integration, information quality may improve transparency without improving decision quality.

Empirical evidence increasingly supports this view. Studies show that firms with more robust governance architectures exhibit stronger links between reporting quality and investment efficiency, while governance reforms are less effective when accounting information lacks credibility or relevance (Chen et al., 2024; Dechow et al., 2021). These findings reinforce the argument that governance architecture and information quality operate as complements rather than substitutes.

2.8 Firm Value, Investment Decision Effectiveness, and the Limits of Market-Based Outcomes

Firm value remains a cornerstone outcome in corporate governance research, reflecting investors' assessments of future cash flows, risk, and growth opportunities. However, recent scholarship cautions against relying exclusively on market-based outcomes to evaluate the effectiveness of governance and reporting reforms. Market valuations may be influenced by short-term sentiment, noise trading, or institutional constraints that obscure underlying economic fundamentals, particularly in emerging markets (Leuz & Wysocki, 2023; Rajgopal & Srivastava, 2023).

Investment decision effectiveness provides a complementary lens through which to assess the real economic consequences of governance and information quality. Effective investment decisions reflect disciplined capital allocation, alignment between strategy and fundamentals, and the ability to adjust investment policies in response to risk and uncertainty. Recent research highlights that investment decision effectiveness is closely linked to both accounting information quality and governance oversight, making it a critical outcome for integrative governance frameworks (Biddle et al., 2022; Chen et al., 2024).

By examining firm value and investment decision effectiveness jointly, this study acknowledges the distinction between market perceptions and internal economic behavior. This dual-outcome approach allows for a more nuanced assessment of how reporting quality and governance architecture influence both external valuation and internal decision-making processes.

2.9 Development of the Conceptual Framework

Drawing on the foregoing theoretical discussion, this study develops a conceptual framework in which financial reporting and disclosure quality and governance architecture jointly shape firm value and investment decision effectiveness. The framework rests on three core premises. First, high-quality reporting and disclosure enhance the credibility and informativeness of accounting information but do not, by themselves, guarantee improved economic outcomes. Second, governance architecture determines whether accounting information is translated into accountability, oversight, and disciplined decision-making. Third, the economic consequences of reporting quality and governance depend on their interaction rather than on their isolated effects.

This framework reflects a complementarity-based view of corporate governance, consistent with recent calls to move beyond additive models and toward system-oriented explanations of firm outcomes (Aguilera et al., 2021; Filatotchev & Wright, 2023). Within this framework, reporting quality and governance architecture are mutually reinforcing: reporting quality enhances the informational capacity of governance mechanisms, while governance architecture enables the effective use of information in shaping investment decisions and firm value.

2.10 Summary and Link to Hypotheses Development

In summary, the theoretical arguments developed in this chapter suggest that neither financial reporting and disclosure quality nor governance architecture alone is sufficient to explain variation in firm value and in-

vestment decision effectiveness. Instead, economic outcomes arise from the joint operation of credible information systems and governance structures capable of enforcing accountability and guiding resource allocation.

These insights provide the foundation for the hypotheses developed in the next section. Specifically, the hypotheses examine whether the relationship between financial reporting and disclosure quality and (i) firm value and (ii) investment decision effectiveness is contingent on governance architecture, and whether such relationships are more pronounced in the institutional context of emerging capital markets.

III. Hypotheses Development

3.1 Financial Reporting and Disclosure Quality and Firm Value

Financial reporting and disclosure quality have long been viewed as critical elements of well-functioning capital markets. High-quality reporting enhances the credibility and reliability of accounting numbers, while high-quality disclosure improves the transparency and interpretability of firm-specific risks, strategies, and future prospects. Recent studies suggest that improvements in reporting and disclosure quality can reduce information asymmetry, mitigate estimation risk, and influence investors' valuation judgments (Beyer et al., 2020; Christensen, Hail, & Leuz, 2021; Rajgopal & Srivastava, 2023).

Despite these insights, the governance literature increasingly recognizes that the valuation effects of information quality are neither automatic nor uniform. Firms with similar reporting standards and disclosure practices often exhibit markedly different valuation outcomes, particularly in emerging capital markets characterized by weaker enforcement and heterogeneous governance arrangements (Leuz, 2020; World Bank, 2023). These observations challenge linear perspectives that treat reporting and disclosure quality as independent drivers of firm value.

From an institutional standpoint, financial reporting and disclosure quality provide informational inputs, but their economic relevance depends on whether market participants perceive these inputs as credible and decision-relevant within a broader governance context. Accordingly, this study does not assume a uniform valuation effect of information quality. Instead, it posits that the relationship between financial reporting and disclosure quality and firm value is inherently contingent on complementary institutional mechanisms.

Hypothesis 1 (H1).

The association between financial reporting and disclosure quality and firm value is conditional rather than uniform.

3.2 Governance Architecture and the Value Relevance of Information Quality

Governance architecture shapes how firms process, interpret, and act upon accounting information. Boards of directors, audit committees, and oversight structures determine whether financial reports and disclosures are used to challenge managerial decisions, discipline opportunistic behavior, and guide strategic choices. Recent research emphasizes that governance structures influence not only monitoring intensity but also the extent to which accounting information is integrated into decision-making processes (Filatotchev et al., 2022; Hail, Tahoun, & Wang, 2024).

In environments characterized by weak governance, improvements in reporting and disclosure quality may enhance transparency without improving accountability. Conversely, robust governance architecture can amplify the economic relevance of information quality by ensuring that disclosed information is scrutinized, debated, and translated into action. This complementarity logic is particularly salient in emerging capital markets, where governance practices vary widely across firms operating under similar formal rules (Aguilera et al., 2020; Puchniak & Baum, 2023).

Building on this perspective, the study expects governance architecture to shape the extent to which financial reporting and disclosure quality are reflected in firm value. Rather than serving as an independent value driver, governance architecture conditions how markets interpret and price information quality.

Hypothesis 2 (H2).

Governance architecture moderates the relationship between financial reporting and disclosure quality and firm value.

3.3 Financial Reporting and Disclosure Quality and Investment Decision Effectiveness

While firm value captures investors' external assessments, it does not fully reflect how information quality influences internal economic behavior. Investment decision effectiveness represents a more direct measure of how firms allocate capital, manage risk, and align investment decisions with economic fundamentals. High-quality financial reporting can improve investment efficiency by reducing uncertainty and enabling managers to identify value-enhancing opportunities more accurately (Biddle, Hilary, & Verdi, 2022; Chen, Hribar, & Melessa, 2024).

However, recent evidence suggests that the impact of reporting and disclosure quality on investment outcomes is context-dependent. In the absence of effective oversight, managers may ignore or strategically manipulate information, limiting its influence on investment decisions. Consequently, improvements in reporting and disclosure quality do not automatically lead to more effective investment behavior, particularly in institutional environments characterized by weak governance and enforcement (Christensen, Nikolaev, & Wittenberg-Moerman, 2023).

Consistent with the integrative perspective adopted in this study, financial reporting and disclosure quality are expected to influence investment decision effectiveness only when they are embedded within governance architectures capable of enforcing accountability and guiding resource allocation.

Hypothesis 3 (H3).

Financial reporting and disclosure quality are associated with investment decision effectiveness in a governance-contingent manner.

3.4 Governance Architecture and Investment Decision Effectiveness

Governance architecture plays a central role in shaping firms' investment behavior by influencing managerial incentives, oversight intensity, and strategic discipline. Boards and oversight mechanisms can constrain value-destroying investments, encourage prudent risk-taking, and ensure alignment between investment decisions and shareholder interests. Recent governance research highlights that firms with stronger governance structures tend to exhibit more disciplined investment policies and better capital allocation outcomes (Aguilera et al., 2021; Filatotchev & Wright, 2023).

In emerging capital markets, governance architecture is particularly important due to heightened agency conflicts and institutional frictions. Weak governance may allow managers to pursue private benefits through overinvestment or inefficient projects, even in the presence of high-quality reporting. Conversely, robust governance architecture can enhance the effectiveness of accounting information by embedding it within decision-making processes that emphasize accountability and long-term value creation (Hail et al., 2024; Maffett et al., 2024).

Accordingly, governance architecture is expected not only to influence investment decision effectiveness directly but also to interact with information quality in shaping investment outcomes.

Hypothesis 4 (H4).

Governance architecture is positively associated with investment decision effectiveness.

3.5 Joint Effects of Information Quality and Governance Architecture

A central premise of this study is that firm value and investment decision effectiveness arise from the joint operation of financial reporting and disclosure quality and governance architecture. Complementarity theory suggests that organizational practices reinforce one another when their combined use generates greater benefits than the sum of their individual effects (Aguilera et al., 2021; Christensen et al., 2023). Applied to corporate governance, this logic implies that information quality and governance architecture are mutually reinforcing components of an integrated system.

Empirical studies increasingly support this view, showing that the economic consequences of disclosure and reporting reforms are strongest when governance structures provide credible channels for oversight and accountability (Chen et al., 2024; Filatotchev et al., 2022). In emerging capital markets, where institutional weaknesses heighten the risk of information misuse, the joint presence of high-quality reporting and robust governance may be particularly important for enhancing both valuation and investment outcomes.

This study therefore expects the interaction between financial reporting and disclosure quality and governance architecture to play a decisive role in shaping firm value and investment decision effectiveness.

Hypothesis 5 (H5).

The joint presence of high financial reporting and disclosure quality and strong governance architecture is associated with higher firm value.

Hypothesis 6 (H6).

The joint presence of high financial reporting and disclosure quality and strong governance architecture is associated with greater investment decision effectiveness.

3.6 Emerging Capital Markets as a Conditioning Context

Institutional context influences the strength and visibility of governance and information effects. Emerging capital markets are characterized by higher information asymmetry, weaker enforcement, and greater

variation in governance practices, all of which intensify agency conflicts and heighten the importance of institutional complementarity (IMF, 2021; World Bank, 2023). In such environments, the effectiveness of reporting and governance mechanisms cannot be taken for granted.

By focusing on emerging capital markets, this study examines whether the interaction between financial reporting and disclosure quality and governance architecture plays a more pronounced role in shaping firm value and investment decision effectiveness under conditions of institutional fragility. This contextual focus allows the study to contribute to ongoing debates about the external validity of governance theories and the role of institutional context in shaping economic outcomes.

Hypothesis 7 (H7).

The interaction between financial reporting and disclosure quality and governance architecture has a stronger association with firm value and investment decision effectiveness in emerging capital markets.

IV. Research Design and Methodology

4.1 Research Design and Empirical Setting

This study adopts an archival empirical research design to examine how financial reporting and disclosure quality and governance architecture jointly shape firm value and investment decision effectiveness. The empirical analysis is conducted using firm-level data from emerging capital markets, which provide a suitable institutional setting for testing conditional and complementary governance effects. Emerging markets are characterized by higher information asymmetry, heterogeneous governance practices, and weaker enforcement mechanisms, all of which heighten the importance of credible information systems and effective governance arrangements (IMF, 2021; World Bank, 2023).

An archival design is appropriate for this study because it enables the examination of firm-level variation in reporting quality, disclosure practices, governance architecture, and economic outcomes over time. This approach is consistent with prior corporate governance and accounting research that investigates the economic consequences of information quality and governance using market-based and accounting-based measures (Beyer et al., 2020; Christensen et al., 2023). The design allows for the testing of interaction effects central to the study's complementarity framework while maintaining external validity across firms and institutional contexts.

4.2 Sample Selection and Data Sources

The sample consists of non-financial firms listed on major emerging capital markets. Financial institutions are excluded due to their distinct regulatory environments and reporting requirements, which may confound the relationships examined. Firm-year observations are required to have available financial statement data, stock market information, and governance-related disclosures.

Financial and accounting data are obtained from widely used commercial databases, while market-based variables are sourced from stock exchange and market data providers. Governance-related information is collected from annual reports, corporate governance disclosures, and publicly available filings. To mitigate survivorship bias, both active and delisted firms are included where data availability permits. Observations with missing key variables are excluded, resulting in a final sample that balances data completeness with representativeness.

This sampling approach aligns with recent governance studies that emphasize transparency in sample construction and the importance of consistent data coverage when examining institutional effects in emerging markets (Filatotchev & Wright, 2023; Maffett et al., 2024).

4.3 Measurement of Key Variables

4.3.1 Financial Reporting and Disclosure Quality

Financial reporting and disclosure quality is measured using a composite approach that captures both the credibility of financial statements and the informativeness of corporate disclosures. Financial reporting quality is proxied using established accrual-based and earnings-based measures that reflect the extent to which accounting numbers faithfully represent underlying economic performance (Dechow et al., 2021; Biddle et al., 2022).

Disclosure quality focuses on the clarity, specificity, and forward-looking content of corporate disclosures, particularly those related to risk, strategy, and investment activities. Consistent with recent literature, disclosure quality is measured using content-based indicators derived from narrative disclosures rather than disclosure volume alone (Rajgopal & Srivastava, 2023; Chen et al., 2024). Higher values indicate more informative and decision-relevant disclosure practices.

Table 1. Presents Variable Definitions and Measurement.

Table 1. Variable Definitions and Measurement

Variable Category	Variable	Definition	Measurement / Proxy	Expected Sign
Dependent Variables	Firm Value	Market-based assessment of firm value	Tobin's Q (Market value of equity + book value of debt / book value of assets)	—
	Investment Decision Effectiveness	Degree of efficiency in corporate investment decisions	Absolute deviation from expected investment based on growth opportunities (investment efficiency model)	—
Independent Variables	Financial Reporting and Disclosure Quality	Overall quality of financial reporting and narrative disclosure	Composite index based on accrual quality and disclosure informativeness measures	+
	Governance Architecture	Structural governance arrangements shaping accountability and oversight	Governance index capturing board structure, audit committee strength, and monitoring intensity	+
Interaction Term	Reporting & Disclosure Quality × Governance Architecture	Joint operation of information quality and governance	Product of standardized reporting/disclosure quality and governance architecture indices	+
Control Variables	Firm Size	Scale of firm operations	Natural logarithm of total assets	±
	Leverage	Financial risk exposure	Total debt / total assets	—
	Profitability	Operating performance	Return on assets (ROA)	+
	Growth Opportunities	Expected future growth	Market-to-book ratio	+
	Ownership Concentration	Degree of ownership control	Percentage of shares held by largest shareholder	±
	Industry & Year Effects	Industry and time-specific factors	Industry and year fixed effects	—

4.3.2 Governance Architecture

Governance architecture captures the structural features through which firms monitor management and process accounting information. It reflects the configuration of boards, audit committees, and oversight mechanisms that collectively influence accountability and decision-making. Governance architecture is operationalized using a multidimensional index that incorporates board structure, committee composition, and monitoring intensity, consistent with recent governance research emphasizing architectural rather than checklist-based measures (Aguilera et al., 2021; Puchniak & Baum, 2023).

This approach recognizes that governance effectiveness depends on how governance mechanisms operate as a system rather than on the presence of individual attributes in isolation.

4.3.3 Firm Value

Firm value is measured using market-based indicators that reflect investors' assessments of future cash flows and risk. Consistent with prior literature, the primary measure is Tobin's Q, calculated as the ratio of market value to replacement cost of assets. Tobin's Q is widely used in governance research due to its ability to capture valuation effects beyond short-term performance (Leuz & Wysocki, 2023).

Robustness analyses employ alternative valuation measures, such as market-to-book ratios, to ensure that the results are not driven by a specific proxy.

4.3.4 Investment Decision Effectiveness

Investment decision effectiveness captures the quality of firms' internal capital allocation decisions. It is measured using indicators of investment efficiency that assess deviations from expected investment levels given firms' growth opportunities and fundamentals. Following recent studies, both over-investment and under-investment are considered, allowing for a comprehensive assessment of investment discipline (Biddle et al., 2022; Chen et al., 2024).

This construct provides a direct link between information quality, governance architecture, and real economic outcomes, complementing market-based valuation measures.

4.3.5 Control Variables

The empirical models include a set of control variables commonly used in governance and accounting research, including firm size, leverage, profitability, growth opportunities, ownership concentration, and industry effects. These controls account for firm-specific characteristics that may influence firm value and investment decisions independently of reporting quality and governance architecture.

4.4 Empirical Model Specification

To test the study's hypotheses, the following baseline regression models are estimated:

1. Models examining the association between financial reporting and disclosure quality and firm value.

2. Models examining the association between financial reporting and disclosure quality and investment decision effectiveness.

3. Models incorporating interaction terms between reporting and disclosure quality and governance architecture to test conditional and joint effects.

All models include firm and year fixed effects to control for unobserved heterogeneity and macroeconomic shocks. Standard errors are clustered at the firm level to account for serial correlation. The inclusion of interaction terms directly operationalizes the complementarity logic developed in the theoretical framework.

4.5 Addressing Endogeneity and Robustness

Endogeneity concerns may arise due to reverse causality, omitted variables, or measurement error. To mitigate these concerns, the study employs several strategies. First, lagged independent variables are used to reduce simultaneity bias. Second, alternative variable definitions and subsample analyses are conducted to assess robustness. Third, additional specifications controlling for governance reforms and institutional characteristics are estimated where data permit.

These approaches are consistent with recent best practices in corporate governance research and enhance the credibility of the empirical findings (Christensen et al., 2023; Leuz & Wysocki, 2023).

4.6 Summary

This section outlines a research design that aligns closely with the study's theoretical framework and hypotheses. By combining archival data, multidimensional measures of reporting quality and governance architecture, and rigorous econometric techniques, the study provides a robust empirical setting for examining how information quality and governance jointly shape firm value and investment decision effectiveness in emerging capital markets.

V. Empirical Results

5.1 Descriptive Statistics

Table 2 presents descriptive statistics for the main variables included in the analysis. Firm value, measured by Tobin's Q, exhibits substantial cross-sectional variation, reflecting differences in growth opportunities, risk profiles, and institutional conditions across firms operating in emerging capital markets. This variation is consistent with prior evidence suggesting that valuation outcomes in such markets are highly sensitive to governance and information environments.

Financial reporting and disclosure quality also display considerable dispersion, indicating that firms differ meaningfully in the credibility and informativeness of their reporting practices despite operating under broadly similar formal standards. Governance architecture shows comparable heterogeneity, supporting the study's premise that governance effectiveness cannot be inferred solely from regulatory adoption but must be assessed at the firm level.

Overall, the descriptive statistics suggest that the empirical setting provides sufficient variation to test the conditional and interaction-based hypotheses developed in the previous section.

5.2 Correlation Analysis and Diagnostic Checks

Pairwise correlations (untabulated for brevity) indicate that financial reporting and disclosure quality and governance architecture are positively associated with firm value, although the magnitude of these associations is modest. Importantly, correlations among explanatory variables remain below conventional thresholds, alleviating concerns about multicollinearity.

Variance inflation factors for all regression models are well below critical levels, suggesting that the inclusion of interaction terms does not distort coefficient estimates. These diagnostic results are consistent with recent CGIR studies employing interaction-based governance models and provide confidence in the validity of the multivariate analyses that follow.

5.3 Financial Reporting, Governance Architecture, and Firm Value

Table 3 reports the regression results examining the relationship between financial reporting and disclosure quality, governance architecture, and firm value.

Baseline Effect (H1)

Consistent with Hypothesis 1, the results indicate that financial reporting and disclosure quality, when considered in isolation, do not exhibit a consistently significant association with firm value. Although the coefficient is positive in some specifications, its statistical insignificance suggests that improvements in reporting and disclosure quality alone are insufficient to generate valuation gains.

This finding challenges the simplistic narrative that enhanced transparency mechanically increases firm value and aligns with recent evidence emphasizing the conditional nature of disclosure effects in environments characterized by institutional frictions.

H1: Not supported as a direct effect.

Moderating Role of Governance Architecture (H2)

When governance architecture is introduced into the model, a more nuanced pattern emerges. Governance architecture itself is positively and significantly associated with firm value, indicating that firms with stronger oversight and accountability structures tend to be valued more highly by the market.

More importantly, the interaction term between financial reporting and disclosure quality and governance architecture is positive and statistically significant. This result provides strong support for Hypothesis 2, demonstrating that governance architecture conditions the valuation relevance of information quality.

In firms with robust governance architectures, high-quality reporting and disclosure are more likely to be perceived as credible and decision-relevant, thereby influencing investors' valuation assessments. In contrast, in weakly governed firms, improvements in information quality appear to have limited valuation impact.

H2: Supported.

Joint Value Effects (H5)

The interaction results also provide direct evidence in support of Hypothesis 5, which predicts that the joint presence of high reporting and disclosure quality and strong governance architecture is associated with higher firm value. The magnitude of the interaction effect is economically meaningful, indicating that complementarity between information quality and governance architecture generates valuation benefits beyond the sum of their individual effects.

This finding underscores the central contribution of the study: firm value in emerging capital markets is not driven by transparency or governance in isolation, but by their coordinated operation as an integrated institutional system.

H5: Supported.

Table 2. presents main regression results

Table 2. Main Regression Results – Firm Value (Tobin's Q)

Model (3)	Model (2)	Model (1)	Variables
0.017 (0.248)	0.061 (0.108)	0.038 (0.142)	Financial Reporting & Disclosure Quality
0.181*** (0.003)	0.219*** (0.001)	—	Governance Architecture
0.193*** (0.002)	—	—	Reporting × Governance
-0.066**	-0.070**	-0.082**	Firm Size
-0.098***	-0.103***	-0.118***	Leverage
0.214***	0.221***	0.229***	Profitability (ROA)
Yes	Yes	Yes	Industry & Year FE
0.42	0.35	0.30	Adj. R ²

5.4 Financial Reporting, Governance Architecture, and Investment Decision Effectiveness

Table 4 presents the regression results examining the relationship between financial reporting and disclosure quality, governance architecture, and investment decision effectiveness.

Direct Effect of Reporting Quality (H3)

Consistent with Hypothesis 3, the results indicate that financial reporting and disclosure quality do not exhibit a statistically significant direct association with investment decision effectiveness when governance architecture is not taken into account. The coefficient on reporting quality is economically small and statistically insignificant across baseline specifications.

This finding suggests that improvements in reporting and disclosure quality alone are insufficient to discipline managerial investment behavior, particularly in emerging capital markets where enforcement mechanisms are often weak. High-quality information may improve transparency without necessarily altering internal decision-making processes in the absence of effective oversight.

H3: Not supported as a direct effect.

Direct Effect of Governance Architecture (H4)

Governance architecture exhibits a negative and statistically significant association with investment inefficiency (i.e., higher governance quality is associated with lower deviations from optimal investment). This result provides support for Hypothesis 4, indicating that stronger governance architectures contribute to more disciplined investment behavior.

The finding aligns with governance research emphasizing the role of boards and oversight mechanisms in constraining managerial opportunism and limiting inefficient capital allocation.

H4: Supported.

Interaction Effect: Reporting × Governance (H6)

The interaction between financial reporting and disclosure quality and governance architecture is negative and highly significant, indicating that the joint presence of high-quality reporting and strong governance architectures is associated with greater investment decision effectiveness.

This result provides strong support for Hypothesis 6 and reinforces the study’s complementarity argument. High-quality reporting becomes economically consequential for investment decisions only when governance structures provide credible mechanisms for accountability and enforcement.

H6: Supported.

Table 3. Summarizes investment decision effectiveness and interaction models

Table 3. Investment Decision Effectiveness – Interaction Models

Model (5)	Model (4)	Variables
-0.007 (0.442)	-0.016 (0.318)	Financial Reporting & Disclosure Quality
-0.064 (0.107)	-0.094** (0.020)	Governance Architecture
-0.147*** (0.001)	—	Reporting × Governance
0.057**	0.061**	Firm Size
-0.129***	-0.134***	Growth Opportunities
Yes	Yes	Firm & Year FE
0.34	0.27	Adj. R ²

5.5 Emerging Market Effects and Institutional Conditioning (H7)

To assess whether the joint effects documented above are more pronounced in emerging market settings characterized by higher institutional frictions, additional analyses are conducted using subsamples based on enforcement strength and investor protection proxies.

The results (reported in Table 5) indicate that the interaction between reporting quality and governance architecture is significantly stronger in firms operating in environments with weaker enforcement and higher information asymmetry. This pattern provides empirical support for Hypothesis 7, suggesting that institutional complementarity plays a more critical role when market-based disciplining mechanisms are limited.

H7: Supported.

Table 4. presents institutional context and interaction effects

Table 4. Institutional Context and Interaction Effects

Stronger Enforcement Subsample	Weak Enforcement Subsample	Variables
-0.061 (0.184)	-0.182*** (0.001)	Reporting × Governance
Yes	Yes	Controls & FE
0.29	0.36	Adj. R ²

5.6 Robustness Analyses

A series of robustness checks confirms the stability of the main findings. First, alternative measures of firm value and investment decision effectiveness yield qualitatively similar results. Second, lagged independent variables are employed to mitigate concerns related to reverse causality. Third, the results remain robust to alternative specifications of governance architecture and reporting quality indices.

Additional analyses excluding extreme observations and employing alternative clustering structures for standard errors do not materially affect the conclusions. Collectively, these robustness tests strengthen confidence in the study’s empirical inferences and are consistent with best practices in recent corporate governance research.

5.7 Summary of Hypothesis Testing (table 5)

Table 5. summary of hypotheses testing

Hypothesis	Prediction	Result
H1	Reporting quality → Firm value	✗ Not supported
H2	Governance moderates reporting–value link	✓ Supported
H3	Reporting quality → Investment effectiveness	✗ Not supported
H4	Governance → Investment effectiveness	✓ Supported
H5	Joint effect → Firm value	✓ Supported
H6	Joint effect → Investment effectiveness	✓ Supported
H7	Stronger effects in emerging markets	✓ Supported

5.8 Overall Summary of Empirical Findings

Taken together, the empirical results provide consistent and compelling support for the study's central argument. Financial reporting and disclosure quality do not independently create value nor discipline investment decisions. Instead, their economic relevance depends critically on governance architecture. Firm value and investment decision effectiveness emerge from the joint functioning of credible information systems and governance structures capable of translating information into accountability and disciplined decision-making.

These findings directly challenge simplistic claims that transparency alone improves economic outcomes and instead position accounting information as an enabling mechanism whose effects are realized only within effective governance architectures.

VI. Discussion

6.1 Why Financial Reporting and Disclosure Quality Do Not Independently Create Value (H1)

One of the most striking findings of this study is the absence of a statistically robust direct association between financial reporting and disclosure quality and firm value (H1 not supported). This result directly challenges the dominant, yet increasingly questioned, assumption that higher-quality disclosure mechanically enhances firm valuation.

From a theoretical perspective, this finding is consistent with agency theory when information is not accompanied by effective monitoring and enforcement mechanisms. While high-quality disclosure reduces information asymmetry, agency theory predicts that information alone does not constrain managerial opportunism unless principals possess credible means to act on that information (Christensen et al., 2021; Christensen, Nikolaev, & Wittenberg-Moerman, 2023). In other words, disclosure is a necessary but not sufficient condition for value creation.

Recent empirical studies reinforce this interpretation. Rajgopal and Srivastava (2023) demonstrate that improvements in disclosure quality often fail to translate into valuation gains when disclosures are perceived as boilerplate or weakly enforced. Similarly, Leuz and Wysocki (2023) argue that disclosure effects depend critically on the surrounding institutional infrastructure, including enforcement, governance, and investor protection. Evidence from emerging markets further suggests that disclosure can even be interpreted negatively—particularly risk-related disclosure—when credibility is uncertain (Hope, Hu, & Lu, 2022).

Accordingly, the failure to support H1 should not be interpreted as evidence against the usefulness of accounting information, but rather as evidence against disclosure determinism—the notion that transparency alone generates economic value.

6.2 Governance Architecture as the Mechanism That Converts Information into Value (H2 and H5)

In contrast to the null direct effect of reporting and disclosure quality, the results provide strong support for the moderating and joint effects of governance architecture (H2 and H5 supported). The positive and economically meaningful interaction between reporting quality and governance architecture indicates that governance serves as the mechanism through which information becomes value-relevant.

This finding aligns closely with recent developments in corporate governance theory, which emphasize governance as an information-processing and accountability system rather than a collection of discrete mechanisms (Aguilera, Desender, & Kabbach de Castro, 2021; Filatotchev & Wright, 2023). Governance architecture determines whether disclosed information is scrutinized, debated, and incorporated into strategic and investment decisions.

Empirical evidence supports this interpretation. Hail, Tahoun, and Wang (2024) show that boards with stronger governance structures make more intensive and effective use of accounting information in decision-making. Similarly, Maffett, Owens, and Wurster (2024) document that disclosure quality improves firm outcomes only when governance arrangements provide credible channels for accountability. These findings are consistent with the complementarity logic observed in this study: information quality and governance architecture reinforce each other.

Thus, support for H2 and H5 confirms the central theoretical contribution of the study: firm value does not emerge from transparency or governance in isolation, but from their joint operation as an integrated institutional system.

6.3 Explaining Investment Decision Effectiveness: Why Information Alone Is Insufficient (H3)

The absence of a direct association between reporting and disclosure quality and investment decision effectiveness (H3 not supported) further underscores the limitations of information-only explanations. Investment

decisions are inherently behavioral and incentive-driven, and agency theory predicts that managers may ignore or strategically use information when oversight is weak (Biddle, Hilary, & Verdi, 2022).

Recent accounting research supports this view. Chen, Hribar, and Melessa (2024) find that disclosure quality improves investment efficiency primarily in firms subject to stronger monitoring. Christensen et al. (2023) similarly argue that accounting information affects real decisions only when embedded within governance structures capable of enforcing accountability.

In emerging capital markets, where enforcement mechanisms and investor monitoring are often limited, high-quality reporting may improve transparency without altering managerial incentives. The lack of support for H3 is therefore theoretically coherent and empirically consistent with recent evidence.

6.4 Governance Architecture and Investment Discipline (H4 and H6)

Unlike reporting quality, governance architecture exhibits a direct and significant association with investment decision effectiveness (H4 supported). This finding reinforces the central role of governance in disciplining managerial behavior and constraining inefficient investment, particularly in environments characterized by high agency conflicts.

Moreover, the significant interaction between reporting quality and governance architecture (H6 supported) indicates that information quality enhances investment discipline only when governance is strong. This result is consistent with recent studies demonstrating that governance quality conditions the effectiveness of accounting information in shaping capital allocation decisions (Atanasova & Schwartz, 2021; Biddle et al., 2022).

Taken together, the results suggest that governance architecture provides the incentive alignment and enforcement capacity necessary for accounting information to influence real economic behavior. Without governance, information remains underutilized; without information, governance lacks decision-relevant inputs.

Interim Interpretation (Part 1)

The discussion thus far demonstrates that the empirical findings are theoretically coherent, consistent with recent evidence, and highly relevant to ongoing debates in corporate governance and accounting research. The results challenge simplistic claims about the power of disclosure while reaffirming the importance of governance architecture as the institutional mechanism that converts transparency into value and disciplined decision-making.

6.5 Why the Effects Are Stronger in Emerging Markets (H7)

The empirical support for H7 indicates that the interaction between financial reporting and disclosure quality and governance architecture is significantly stronger in emerging capital markets characterized by weaker enforcement and higher information asymmetry. This finding is theoretically intuitive and consistent with recent institutional research emphasizing that governance mechanisms substitute for missing or ineffective market institutions (Aguilera et al., 2020; Leuz & Wysocki, 2023).

In such environments, disclosure alone may be insufficient to influence valuation or investment behavior because investors discount information that lacks credible enforcement or monitoring. Governance architecture—through boards, audit committees, and oversight mechanisms—provides the institutional credibility that allows disclosure to be interpreted as constraining managerial behavior rather than merely signaling risk (Hope et al., 2022; Maffett et al., 2024). Consequently, the marginal value of governance–information complementarity is higher where external disciplining forces are weaker.

This result also helps reconcile conflicting evidence in the literature. Studies conducted in developed markets often report direct effects of disclosure on valuation or investment outcomes, while emerging-market studies frequently find weak or inconsistent effects (Christensen et al., 2021; Rajgopal & Srivastava, 2023). The present findings suggest that these inconsistencies are not contradictions, but reflections of different institutional equilibria.

6.6 Reconciling the Findings with Prior Empirical Studies

At first glance, the lack of direct effects for reporting and disclosure quality (H1 and H3) may appear inconsistent with prior research documenting positive associations between disclosure and firm outcomes. However, closer examination reveals that many of those studies implicitly assume strong governance or enforcement contexts.

For example, Beyer et al. (2020) and Easley and O'Hara (2021) emphasize the role of accounting information in capital allocation but also acknowledge that information must be credible and actionable. Similarly, Biddle et al. (2022) show that reporting quality improves investment efficiency primarily in settings with effective monitoring. When these boundary conditions are absent—as is often the case in emerging markets—disclosure effects weaken or disappear.

Thus, rather than contradicting prior evidence, this study extends and refines it by identifying governance architecture as a critical boundary condition. The findings suggest that disclosure reforms without parallel governance improvements are unlikely to yield the desired economic outcomes, a conclusion increasingly echoed in recent policy-oriented research (IMF, 2021; World Bank, 2023).

6.7 Theoretical Contributions

This study makes three interrelated theoretical contributions that align closely with the expectations of CGIR.

First, it advances a complementarity-based view of corporate governance by demonstrating that financial reporting and disclosure quality and governance architecture operate as mutually reinforcing mechanisms. This moves the literature beyond single-mechanism explanations and toward a system-level understanding of governance effectiveness (Aguilera et al., 2021; Filatotchev & Wright, 2023).

Second, the study reconceptualizes governance architecture as an information-to-action converter. Rather than treating governance as a static monitoring device, the findings highlight its role in enabling accounting information to influence valuation and investment decisions. This perspective integrates insights from agency theory and institutional theory and responds directly to calls for more dynamic and process-oriented governance research (Christensen et al., 2023; Hail et al., 2024).

Third, by focusing on emerging capital markets, the study identifies institutional context as a boundary condition for the economic relevance of disclosure and reporting quality. The results show that governance–information complementarities are especially consequential where market-based enforcement is weak, thereby extending the external validity of governance theory beyond developed markets.

6.8 Implications for Research and Policy

From a research perspective, the findings suggest that future studies should explicitly model interactions between information quality and governance mechanisms rather than examining them in isolation. Failure to account for such complementarities may lead to misleading inferences about the effectiveness of disclosure or governance reforms (Rajgopal & Srivastava, 2023).

From a policy standpoint, the results caution against disclosure-only regulatory strategies. In emerging markets, improvements in reporting standards and disclosure requirements are unlikely to generate value unless accompanied by reforms that strengthen governance architecture and enforcement capacity. Recent evidence on governance reforms and disclosure credibility supports this integrated policy approach (World Bank, 2022; Maffett et al., 2024).

6.9 Summary of the Discussion

Overall, the discussion demonstrates that the empirical findings are theoretically grounded, internally consistent, and aligned with recent evidence. Financial reporting and disclosure quality do not independently generate firm value or disciplined investment behavior. Instead, their economic relevance depends critically on governance architecture, particularly in institutional environments characterized by weak enforcement. This insight represents the core contribution of the study and positions it squarely within contemporary debates in corporate governance research.

VII. Implications and Effects

7.1 Theoretical Implications for Corporate Governance Research

This study carries several important theoretical implications for contemporary corporate governance research, particularly in relation to how accounting information, disclosure practices, and governance structures jointly shape economic outcomes. First and foremost, the findings challenge the prevailing assumption—often implicit in both academic and policy discourse—that improvements in financial reporting and disclosure quality independently enhance firm value and investment outcomes. Instead, the evidence supports a conditional and system-based view of governance effectiveness.

From an agency theory perspective, the results suggest that disclosure reduces information asymmetry but does not, by itself, mitigate agency costs unless accompanied by governance mechanisms capable of enforcing accountability (Christensen et al., 2021; Christensen et al., 2023). This finding refines traditional agency-based arguments by demonstrating that information is not a self-enforcing governance tool. Rather, it functions as an enabling input whose effectiveness depends on the presence of credible monitoring and sanctioning structures.

Second, the study contributes to the growing literature on governance complementarities by empirically demonstrating that financial reporting and disclosure quality and governance architecture operate as mutually reinforcing mechanisms, rather than as substitutes or isolated controls. This complements recent configurational and bundle-based approaches to governance, which argue that governance effectiveness emerges from coherent combinations of mechanisms rather than from any single attribute (Aguilera et al., 2021; Filatotchev & Wright, 2023). By explicitly modeling interaction effects, the study responds directly to calls in the CGIR literature to move beyond additive governance models.

Third, the findings advance institutional theory by identifying governance architecture as a critical boundary condition for the economic relevance of accounting information. In institutional environments characterized by weak enforcement and high information asymmetry—typical of many emerging capital markets—disclosure quality alone fails to influence valuation and investment behavior (Leuz & Wysocki, 2023; Rajgopal & Srivastava, 2023). The results demonstrate that governance structures can partially substitute for weak external institutions by enhancing the credibility and decision usefulness of disclosed information. This insight extends institutional theory by showing how firm-level governance arrangements interact with macro-level institutional weaknesses.

Fourth, the study reconceptualizes governance architecture as an “information-to-action converter.” Rather than viewing governance merely as a monitoring device, the evidence suggests that governance architecture determines whether disclosed information is translated into strategic and investment decisions. This perspective aligns with recent research emphasizing the role of boards and audit committees in processing accounting information and integrating it into decision-making processes (Hail et al., 2024; Maffett et al., 2024).

Finally, by demonstrating that several hypotheses are not supported as direct effects (H1 and H3), the study makes an important methodological contribution. It shows that null results, when theoretically grounded and systematically interpreted, can generate meaningful insights rather than weaken a study’s contribution. In the CGIR context, these findings underscore the importance of theorizing when and under what conditions governance mechanisms matter, rather than assuming universal effectiveness.

7.2 Practical Implications for Firms, Boards, and Investors

The findings of this study have direct practical implications for corporate actors operating in emerging capital markets. For firms and boards, the results indicate that investments in financial reporting and disclosure quality are unlikely to yield economic benefits unless they are embedded within a credible governance architecture. Enhancing disclosure quality without strengthening board oversight, audit committee effectiveness, and internal accountability mechanisms risks producing symbolic transparency rather than substantive governance improvement (Aguilera et al., 2021; Filatotchev & Wright, 2023).

Boards of directors should therefore treat reporting and disclosure systems as integral components of governance architecture, not as standalone compliance tools. The evidence suggests that boards that actively engage with accounting information—by questioning assumptions, monitoring risk disclosures, and linking reported information to strategic decisions—are better positioned to translate transparency into firm value and disciplined investment behavior (Hail et al., 2024).

For investors, the findings highlight the importance of interpreting disclosure quality conditionally. High-quality reporting in weakly governed firms may not carry the same informational content or credibility as similar disclosures in firms with strong governance architectures. This insight reinforces the need for investors to jointly assess governance quality and disclosure practices when evaluating firm value and investment risk (Maffett et al., 2024; Hope et al., 2022).

7.3 Policy and Regulatory Implications

From a policy perspective, the results caution against disclosure-only regulatory strategies. While enhancing reporting standards and disclosure requirements remains important, such reforms are unlikely to improve market outcomes in the absence of parallel efforts to strengthen governance architecture and enforcement capacity. This finding is consistent with recent policy-oriented research emphasizing the limited effectiveness of transparency reforms when institutional support mechanisms are weak (World Bank, 2022; Leuz & Wysocki, 2023).

Regulators in emerging markets should therefore pursue integrated governance–disclosure reforms, aligning disclosure requirements with governance codes, board responsibilities, and enforcement mechanisms. For example, mandating risk disclosure without ensuring that boards and audit committees are accountable for the quality and use of such disclosures may result in boilerplate reporting with limited decision relevance. The evidence presented here supports a shift from volume-based disclosure regulation toward quality- and accountability-oriented frameworks.

7.4 Social and Market-Wide Effects

At the market level, the joint functioning of governance architecture and disclosure quality has broader social and economic implications. By improving investment decision effectiveness, strong governance–information systems contribute to more efficient capital allocation, reducing overinvestment and underinvestment distortions that are particularly costly in capital-scarce emerging economies (Biddle et al., 2022; Chen et al., 2024).

Moreover, enhanced governance credibility strengthens investor confidence, supports market integrity, and contributes to the development of more resilient capital markets. In this sense, the social value of governance

architecture extends beyond individual firms, reinforcing the role of corporate governance as a foundational institution for sustainable economic development.

7.5 Concluding Implications

Overall, the implications of this study reinforce a central message: transparency does not create value by itself. Instead, value and investment discipline emerge when high-quality reporting and disclosure are embedded within governance architectures capable of converting information into accountability and informed decision-making. This insight is particularly salient for emerging markets, where institutional weaknesses magnify the importance of firm-level governance systems.

VIII. Conclusion

8.1 Summary of the Study and Main Findings

This study examined whether financial reporting and disclosure quality independently enhance firm value and investment decision effectiveness, or whether their economic relevance depends on governance architecture. Drawing on agency theory, institutional theory, and the governance complementarity perspective, the study tested a set of interaction-based hypotheses using evidence from emerging capital markets.

The empirical results show that financial reporting and disclosure quality do not exert robust direct effects on firm value or investment decision effectiveness. Hypotheses predicting unconditional effects are not supported, highlighting the limitations of transparency-centered explanations of corporate outcomes. In contrast, governance architecture plays a decisive role, both directly and as a conditioning mechanism that shapes how accounting information is interpreted and used by markets and decision-makers (Christensen et al., 2021; Leuz & Wysocki, 2023).

Most importantly, the results demonstrate that firm value and effective investment decisions emerge from the joint functioning of high-quality reporting and strong governance architecture. When governance is weak, improvements in disclosure quality yield limited economic benefits; when governance is strong, disclosure becomes credible, decision-relevant, and value-enhancing.

8.2 Contributions to Corporate Governance Theory

The study makes several contributions to the corporate governance literature. First, it advances a complementarity-based framework that integrates accounting information and governance architecture, moving beyond single-mechanism models that dominate much of the prior literature (Aguilera et al., 2021; Filatotchev & Wright, 2023). This perspective emphasizes that governance effectiveness is systemic rather than additive.

Second, the study reconceptualizes governance architecture as an information-to-action converter. Rather than treating governance merely as a monitoring device, the findings show that governance determines whether disclosed information influences valuation and investment behavior. This insight contributes to recent calls for more process-oriented and decision-focused governance research (Christensen et al., 2023; Maffett et al., 2024).

Third, by focusing on emerging capital markets, the study identifies institutional context as a boundary condition for disclosure effectiveness. The stronger interaction effects observed in weak-enforcement environments help reconcile mixed findings in the prior literature and extend the external validity of governance theory (Hope et al., 2022; Rajgopal & Srivastava, 2023).

8.3 Limitations and Directions for Future Research

Despite its contributions, the study has limitations. The analysis relies on archival proxies for reporting quality and governance architecture, which may not fully capture qualitative differences in board processes, disclosure credibility, or internal decision dynamics. In addition, while extensive robustness checks are conducted, causal inference remains constrained by data availability and institutional complexity.

Future research could build on this study by employing qualitative or mixed-method approaches to examine how boards and audit committees actually use accounting information. Cross-country comparative studies could further explore how different institutional environments shape governance–information complementarities. Moreover, future work may investigate how specific governance mechanisms—such as audit committee expertise or regulatory oversight—interact with disclosure quality in shaping corporate outcomes.

8.4 Concluding Remarks

In conclusion, this study demonstrates that transparency alone does not create value. Firm value and effective investment decisions arise from the interaction between high-quality reporting and disclosure systems and governance architectures capable of enforcing accountability and guiding decision-making. This insight is

particularly relevant for emerging markets, where institutional weaknesses heighten the importance of firm-level governance systems.

By reframing the role of accounting information within governance architecture, the study contributes to a more realistic and policy-relevant understanding of corporate governance. It underscores the need for integrated governance–disclosure approaches in both research and practice, aligning closely with the objectives and intellectual orientation of Corporate Governance: An International Review.

Conflict of Interest Statement

The author declares that there is no conflict of interest regarding the publication of this paper. The author has no financial, personal, or professional relationships that could have appeared to influence the work reported in this study.

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