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Research paper

Societal Wellbeing Disclosure, Corporate Governance, and Financial Reporting Quality: Evidence from Malaysia

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Abstract

This study examines the relationship between societal well-being disclosure, governance mechanisms, and financial reporting quality (FRQ) among Malaysian listed firms. Using 500 firm-year observations from 2018 to 2022, FRQ is measured using a modified Dechow and Dichev's accrual quality model. Regression analysis shows that female board representation is the only governance variable significantly associated with improved FRQ. Other governance structures, including board size, independence, audit committee characteristics, leadership separation, and meeting frequency, are not significant. Societal well-being disclosure also does not significantly influence FRQ, suggesting that sustainability reporting remains largely symbolic in Malaysia. These findings extend agency and signaling theory by demonstrating that gender diversity strengthened monitoring and reporting integrity, while also highlighting a gap in legitimacy and stakeholder theory, where societal well-being has yet to influence financial reporting. Practically, the results imply that regulators should strengthen gender diversity initiatives and improve substantive governance practices beyond structural compliance.

Keywords: *Societal Wellbeing; Financial Reporting; Disclosures.*

1. Introduction

High-quality financial reporting is fundamental to the functioning of capital markets, ensuring transparency, accountability, and trust among stakeholders. High-quality reporting reduces information asymmetry, limits managerial opportunism, and supports informed decision-making by stakeholders. Conversely, poor reporting quality erodes trust, facilitates earnings manipulation, and undermines market integrity. Globally, regulators and investors recognize financial reporting quality (FRQ) as a cornerstone of sustainable corporate governance and value creation (CFA Institute, 2022).

In Malaysia, concerns about reporting credibility have been amplified by several high-profile corporate scandals, enforcement cases, and restatements, which expose weaknesses in governance and oversight. Despite the mandatory adoption of IFRS and alignment with international standards, earnings management practices and compliance-driven governance persist (Wan Ismail et al, 2009). These issues raise doubts about whether current reforms have translated into substantive improvements in FRQ. To strengthen transparency, Malaysia has introduced several regulatory initiatives, including successive revisions of the Malaysian Code of Corporate Governance (MCCG 2012, 2017, 2021), which emphasize board independence, gender diversity, and audit committee effectiveness. Bursa Malaysia also mandates sustainability reporting, requiring listed companies to disclose environmental, social, and governance (ESG) practices. However, whether such disclosures contribute to improving financial reporting remains unclear.

Malaysia's economic achievements, including an average real GDP growth of 5.5 per cent over two decades and nearly six percent growth in real income per capita (Lagarde, 2019), reflect the importance of maintaining transparency and investor confidence through high-quality financial reporting. Reliable financial reports are also critical for government agencies to carry out their mandates effectively, as their performance depends on accurate and timely corporate disclosures (Balushi et al., 2019). At the policy level, the 12th Malaysia plan (2021-2025) highlights integrity, transparency, and governance as national priorities, linking them to investors' confidence and economic resilience. The Securities Commission Malaysia has enhanced monitoring through initiatives such as the Corporate Governance Monitor, while enforcement mechanisms have been strengthened to address lapses in reporting. Nevertheless, gaps remain in empirical evidence on the extent to which governance reforms and societal well-being disclosures affect FRQ in Malaysia.

Although prior research has explored corporate governance and CSR disclosures, most studies have examined them in isolation. Evidence on how governance mechanisms and societal well-being disclosure jointly influence FRQ remains scarce in emerging markets, particularly in Malaysia, where governance structures often comply with formal requirements but may lack substantive impact (Almaqtari et al., 2018; Bhuiyan et al., 2020). Existing studies are also mixed; some studies report a positive association between governance mechanisms and reporting quality, while others show little or no effect. Similarly, while CSR disclosure is often argued to improve transparency, several studies suggest disclosures may be symbolic rather than substantive (Chiang et al., 2015; Kim & Lee, 2019; Lin et al., 2020).

The inclusion of societal well-being (SWB) disclosure is relevant for at least three reasons. First, SWB disclosure represents how firms communicate their accountability to the broader

stakeholders, not only shareholders but also employees, communities, and society at large. Disclosures typically cover issues such as employment practices, workplace safety, human rights, product responsibility, diversity, and community contributions (Berman et al., 1999; Ting et al., 2020). These dimensions influence perception of ethical responsibility and corporate legitimacy. If companies disclose credible SWB information, stakeholders may perceive that firms are also committed to producing reliable financial reports. Conversely, weak or symbolic SWB disclosure could indicate broader weaknesses in governance and create doubts about financial reporting credibility (Souza et al., 2020; Hoang et al., 2019). Second, for Malaysia, the emphasis on SWB disclosure is particularly timely. Bursa Malaysia has mandated sustainability statements, requiring disclosure on social, environmental, and governance matters. The 12th Malaysia Plan emphasized social well-being and governance as pillars of economic resilience (Economic Planning Unit, 2021). However, empirical evidence on whether these mandated disclosures are substantive or compliance-driven remains limited. Prior research indicates that while digital technology adoption (IR4.0) and high-quality reporting improve social disclosures (Wan Ismail et al., 2023a; Lode et al., 2023), it is unclear whether the reverse holds. Thus, testing this relationship fills an important policy and academic gap. Third, this study of SWB and FRQ is connected to theoretical debates. Stakeholders' theory suggests that transparent disclosure across financial and non-financial dimensions aligns firm behavior with expectations of multiple stakeholders (Freeman, 1984; Hörisch et al., 2014). Legitimacy theory predicts that companies disclose social information to gain approval from society and regulators, yet such disclosures may be symbolic if not accompanied by substantive changes (Hill & Lee, 2012). By linking SWB disclosures to FRQ, we can assess whether social reporting functions as a substantive governance mechanism that improves financial transparency, or whether it primarily serves symbolic legitimacy purposes in Malaysia's compliance-driven environment.

Therefore, examining societal well-being disclosure alongside corporate governance variables provides an integrated perspective on the determinants of FRQ in Malaysia. This study evaluates whether sustainability reporting requirements and MCCG reforms are effective in strengthening financial reporting credibility, or whether further regulatory and enforcement measures are needed.

This study contributes by examining how societal well-being disclosure and corporate governance mechanisms influence FRQ among Malaysian listed companies. The analysis focuses on testing whether SWB disclosure is associated with FRQ and evaluating the effect of corporate governance mechanisms on FRQ. In doing so, this study also provides evidence on whether Malaysia's recent governance reforms and sustainability disclosure requirements have led to substantive improvements in financial reporting practices. It extends agency and signaling theory by demonstrating how board diversity, particularly female directors, influences FRQ; adds evidence to legitimacy and stakeholder theory debates on whether SWB disclosure is symbolic or substantive; and offers policy insights on the effectiveness of MCCG reforms and Bursa Malaysia's sustainability requirements in improving reporting quality.

The remainder of this paper is structured as follows. Section 2 presents the literature review and hypotheses, Section 3 explains the research methodology, Section 4 reports the results and discussions, and Section 5 concludes with contributions, implications, limitations, and future research.

2. Literature Review and Hypothesis Development

2.1. Underpinning theory

Several theoretical perspectives explain how SWB disclosure and corporate governance mechanisms may influence FRQ. Signaling theory, introduced by Spence (1973), explains how organizations use disclosures to reduce information asymmetry between managers and stakeholders. The timeliness and credibility of financial reporting serve as important signals. Delayed or incomplete disclosures are often interpreted as negative signals, suggesting that managers may be withholding bad news (Connelly et al., 2011). Conversely, high-quality and timely reports act as a credible signal of integrity and competence, reducing uncertainty for investors and stakeholders (Bergh et al., 2019).

Agency theory emphasizes the conflict of interest between managers and shareholders, where managers may act opportunistically in the pursuit of personal benefits. Effective governance mechanisms, such as board independence and strong audit committees, reduce agency costs by constraining opportunism and enhancing reporting quality (Jensen & Meckling, 1976). Under this view, FRQ improves when monitoring systems are strong enough to discipline managerial behavior.

Stakeholder theory (Freeman, 1984) broadens the accountability of firms to include not only shareholders but also employees, customers, communities, and regulators. Transparency in both financial and non-financial reporting strengthened legitimacy and trust among these groups (Hörisch et al., 2014). Disclosures relating to societal well-being demonstrate a company's commitment to ethical responsibility, which may also reflect positively on the credibility of financial reporting.

Legitimacy theory highlights that organizations disclose sustainability and societal information to align with societal expectations and secure approval from stakeholders. While some firms provide substantive disclosures to demonstrate accountability, others may use symbolic reporting as a legitimacy tool without substantive impact (Suchman, 1995; Hill & Lee, 2012). The distinction between symbolic and substantive disclosure is particularly important in emerging markets such as Malaysia, where compliance with governance and sustainability regulations does not always guarantee improvements in reporting quality. Together, these theories provide the foundation for examining whether SWB disclosure and governance mechanisms function as substantive governance tools that improve FRQ, or whether they are primarily symbolic strategies for legitimacy.

2.2. Financial reporting quality and societal well-being disclosure

FRQ reflects the extent to which financial statements are reliable, transparent, and faithfully represent the economic reality of a business (CFA Institute, 2022). High-quality reporting reduces information asymmetry and enables stakeholders to make accurate decisions, whereas earnings management undermines transparency and lowers predictive value (Hunton et al., 2006; Tariverdi et al., 2012). Thus, FRQ is often studied in relation to earnings quality, as both concepts are closely interrelated.

SWB refers to the state in which individuals and communities enjoy positive physical, social, and mental conditions, supported by financial security, safe environments, and social equity (Bakar et al., 2015). In Malaysia, corporate responsibility has evolved from traditional CSR to a broader sustainability focus guided by Bursa Malaysia's Sustainability Reporting Guidelines. These guidelines emphasize social dimensions such as human rights, workplace dignity, and freedom of expression, aligning with global frameworks including the United Nations' social sustainability indicators (Downes & Koekemoer, 2011). Bursa Malaysia strengthened this agenda in 2015 by amending its listing requirements to mandate Sustainability Statements, requiring firms to disclose their management of Economic, Environmental, and

Social (EES) risks and opportunities (Loh and Thomas, 2018). The 2017 MCCG reinforced this by encouraging boards to integrate EES considerations into governance practices.
Sustainability and SWB disclosures are intended to enhance accountability by presenting the company's long-term value creation and commitment to ethical responsibility. Prior research finds that CSR disclosure can improve reporting credibility and mitigate earnings management. Chiang et al. (2015) demonstrated that CSR enhances FRQ by reducing opportunistic practices, consistent with stewardship and agency theory. Similarly, Kim & Venkatachalam (2011), Kim et al. (2012), and Wang et al (2018) reported positive associations, with Wang et al. (2018) showing that mandatory CSR disclosure in China improved transparency and reduced information asymmetry.
However, not all evidence is consistent. Studies in Korea have found mixed or insignificant effects. Kim and Lee (2019) reported weak links between socially responsible activity and FRQ in the retail sector, while Lin et al (2020) documented both positive and negative associations depending on the period studied, reflecting shifts in assessment and reporting environments. Some scholars also caution that CSR and social disclosures can be strategically employed by managers for self-serving purposes, such as reputation building, rather than substantive accountability (McWilliams and Siegel, 2000).
Overall, the evidence indicates that while SWB disclosure has the potential to improve FRQ by signaling ethical responsibility and reducing opportunism, outcomes depend on whether disclosures are substantive or symbolic. In Malaysia, where sustainability reporting is mandated but enforcement challenges persist, this relationship warrants empirical testing. Therefore, we propose the following:
H_1: Societal well-being disclosure is positively associated with financial reporting quality.

2.3. Financial reporting quality and corporate governance

Corporate governance is widely recognized as a cornerstone of credible financial reporting. Effective governance enhances transparency, strengthens credibility, and ensures that firms operate ethically in increasingly complex environments (Brooks and Dunn, 2018; Lee and Lee, 2019). Firms that establish a culture of integrity not only comply with regulations but also earn the trust of investors and stakeholders, supporting the long-term sustainability.
In Malaysia, the Malaysian Code of Corporate Governance (MCCG) has long served as the benchmark for governance practices. Its 2021 revision introduced a new intended outcome for listed companies to integrate sustainability into the governance structure in a strategic and holistic manner (Securities Commission Malaysia, 2021d). Listed companies are required to disclose their adoption of MCCG practices in the Corporate Governance Report issued alongside annual reports. Although adoption is mandatory for listed firms, other entities, such as SMEs and state-owned enterprises, are also encouraged to comply, given the expected benefit of improved accountability and transparency.
A large body of research has examined how governance mechanisms influence financial reporting quality (FRQ). Many studies were motivated by global financial crises and unexpected corporate failures, which highlighted weaknesses in board oversight. Ayoola-Akinjobi & Olayinka (2023) investigated Nigerian listed firms and found that board independence, gender diversity, and board size significantly improved FRQ by reducing discretionary accruals. Agustinus, Salukh & Soewarno (2022) reported that higher governance quality, measured by a governance index, was associated with stronger reporting outcomes.
In the Malaysian context, Wan Ismail et al. (2009) analyzed over 1,600 companies between 2003 and 2007 and found that board size and audit committee size were positively associated with earnings quality, which is closely related to FRQ. Other studies, however, report mixed findings. Almaqtari et al. (2018) in India documented a negative relationship between governance mechanisms and FRQ, while Kaawaase et al. (2021) and Al-Khonain & Al-Adeem (2020) showed that board expertise, internal audit quality, and board role performance enhance FRQ. Risheh & Al-Sa'eed (2012) provided evidence that transparency, audit committee independence, and board independence significantly improve reporting outcomes.
Board gender diversity has been especially debated. Bhuiyan et al. (2020) found that the presence of female directors was associated with higher real earnings management, implying lower FRQ. In contrast, Arun et al. (2015) and Kyaw et al. (2015) reported that female directors constrain earnings management, improve monitoring, and contribute positively to reporting quality. Al-Shaer & Zaman (2016) also highlighted the role of gender-diverse boards in improving both reporting quality and corporate responsibility. Other evidence suggests no significant relationship between female directors and FRQ (Kalantonis et al., 2021).
Overall, research suggests that governance mechanisms can strengthen FRQ, though their effectiveness varies across institutional contexts and firm characteristics. Building on agency and signaling theories, as well as MCCG reforms, this study develops the following hypotheses:
H_{2A}: Audit committee size is positively associated with financial reporting quality.
H_{2B}: Audit committee independence is positively associated with financial reporting quality.
H_{2C}: Board independence is positively associated with financial reporting quality.
H_{2D}: Board size is positively associated with financial reporting quality.
H_{2E}: Separation of the CEO and chairman roles is positively associated with financial reporting quality.
H_{2F}: Female directors are positively associated with financial reporting quality.
H_{2G}: Board meeting frequency is positively associated with financial reporting quality.

3. Research Methodology

3.1. Sample and data collection

The sample comprises the 100 largest non-financial companies listed on Bursa Malaysia, observed over the five years from 2018 to 2022, resulting in 500 firm-year observations. Firms were selected based on consistent listing across the period to ensure comparability. This timeframe was selected for two reasons. First, it captures both normal operating conditions and the disruptions of the COVID-19 pandemic, which placed new pressures on governance structures and stakeholder engagement. Second, it begins after the 2017 revision of the Malaysian Code of Corporate Governance (MCCG) and extends through the early stages of post-pandemic recovery in 2022.
Data on financial reporting quality, corporate governance mechanisms, and control variables were collected from firms' annual reports, sustainability reports, and databases including Refinitiv Eikon, Datastream, and Bloomberg. Societal well-being (SWB) disclosure was measured using the Global Reporting Initiative (GRI) 400 standards, which encompass indicators related to employment, occupational health and safety, diversity, human rights, and community engagement (Bursa Malaysia, 2018). Content analysis was employed to construct a disclosure index based on 90 indicators from the GRI 401–419 series. Each disclosed item was coded as one and non-disclosure as zero,

with the disclosure score calculated as the ratio of disclosed items to the total possible indicators. This approach has been widely applied in prior disclosure studies as it provides a systematic and replicable measure of transparency (Budianto & Suyono, 2020).

3.2. Empirical model

The study investigates the relationship between SWB disclosure, corporate governance mechanisms, and FRQ using panel regression analysis. The baseline model is specified as follows:

$$FRQ_{i,t} = \beta_0 + \beta_1 SWB_{i,t} + \beta_2 ACSZ_{i,t} + \beta_3 ACIND_{i,t} + \beta_4 BIND_{i,t} + \beta_5 BSIZE_{i,t} + \beta_6 SEPCC_{i,t} + \beta_7 FEMDIR_{i,t} + \beta_8 BMEET_{i,t} + \beta_{9\text{-}12} CONTROLS_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where FRQ_{it} represents financial reporting quality for firm i in year t, measured using accrual quality. SWB is the societal well-being disclosure index. Corporate governance variables include audit committee size (ACSZ), audit committee independence (ACI), board independence (BIND), board size (BSIZE), CEO duality (SEPCC), female directors (FEMDIR), and board meeting frequency (BMEET). Firm-specific control variables are incorporated to account for heterogeneity.

FRQ was estimated using the modified Dechow and Dichev (2002) model, where residual variation is interpreted as the level of discretionary accruals. Higher residual variation reflects lower reporting quality. This approach has been widely validated in the literature on earnings quality and FRQ (McNichols, 2002; Habib & Jiang, 2015; Wan Ismail et al., 2015).

3.3. Measurements of variables

The dependent variable, FRQ, was measured using accrual quality. Following Dechow and Dichev (2002), total current accruals were regressed on past, present, and future cash flows from operations, as well as changes in revenue and property, plant, and equipment. The standard deviation of the residuals from this regression was used as the proxy for FRQ, with larger residuals indicating lower reporting quality.

The main independent variable, SWB disclosure, was measured using the GRI 400 standards. Ninety indicators covering employment, workplace safety, human rights, diversity, and community contributions (GRI 401–419) were assessed. Each disclosed item was coded as one, while non-disclosure was coded as zero. The disclosure index was calculated as the ratio of disclosed items to the total possible indicators, consistent with Bursa Malaysia's guidelines (2018) and prior studies such as Budianto and Suyono (2020).

Corporate governance mechanisms were captured through several attributes. Audit committee size (ACSZ) was measured as the number of directors serving on the audit committee, while audit committee independence (ACI) was defined as the proportion of non-executive directors. Board independence (BIND) was measured as the ratio of independent to total directors, and board size (BSIZE) was the total number of directors. CEO duality (SEPCC) was coded as one if the CEO also served as board chair and zero otherwise. Female directors (FEMDIR) represented the number of women on the board, while board meeting frequency (BMEET) referred to the number of board meetings held annually. These measures are consistent with prior Malaysian and international governance research (Ismail et al., 2009; Bhuiyan et al., 2020).

Firm-specific control variables included firm size, firm value, leverage, and profitability. Firm size was proxied by market capitalization, as larger firms typically possess more resources to invest in compliance with the reporting requirement system and attract more attention and oversight from the regulators, analysts, and auditors. This makes the company have less potential to provide or report poor quality or manipulated reports to the public (Kengatharan, 2018). Next, firm value was measured using book value per share. This variable captures investors' perceptions of the level of the company's reporting transparency and credibility. Companies with higher value may not engage in earnings management, as they maintain good reporting integrity (Mehr-un-Nisa and Nishat, 2011). Further, leverage was defined as the ratio of long-term debt to total assets and it is included as one of controlled variable because companies with higher level of debt obligations facing more pressure to satisfy lenders and meet other contractual covenants which may encourage managers to make earnings manipulation to show a good financial report, thereby reducing level of financial reporting quality (Mabandla & Marozva, 2024). Lastly, profitability was measured using earnings per share. It is controlled as a more profitable company will have more substantial incentives to manage earnings to sustain their growth and good name while meeting the market benchmark (Enow & Brijlal, 2016). These controls are consistent with Francis et al. (2004), who documented systematic relationships between accrual quality and firm fundamentals.

4. Results and Discussions

4.1. Descriptive statistics

Table 1 presents the descriptive statistics for the study variables. The dependent variable, financial reporting quality (FRQ), measured by the absolute value of residuals from the Dechow and Dichev (2012) regression model, has a mean of 0.044 with values ranging from 0.000006 to 0.266. The distribution is positively skewed, which suggests that while most firms report relatively low discretionary accruals, a small number exhibit unusually high values.

Table 1: Descriptive Statistics of Key Variables (2018–2022, Malaysian Listed Firms)

Variables	N	Min	Median	Mean	Max	Std. Deviation	Skewness	Kurtosis
FRQ	490	0.000	0.034	0.044	0.2659	0.038	1.839	8.439
SWB	490	0.000	2.377	2.683	9.309	1.803	0.842	3.588
ACSZ	490	2.000	4.000	3.700	7.000	0.825	0.932	3.645
ACI	490	0.200	1.000	0.929	1.000	0.124	-1.614	5.446
BIND	490	0.231	0.500	0.499	0.777	0.116	-0.050	2.268
BSIZE	490	5.000	9.000	9.178	15.000	2.086	0.311	2.576
SEPCC	490	0.000	0.000	0.120	1.000	0.327	2.333	6.442
FEMDIR	490	0.000	2.000	2.087	9.000	1.249	1.029	5.483
BMEET	490	3.000	6.000	6.963	25.000	3.635	2.235	8.779
Ln_FSIZE	490	18.979	22.018	22.164	25.019	1.277	0.243	2.423
FVAL	490	-1.413	1.521	2.532	19.463	2.786	2.326	9.485
PROFIT	490	-1.622	0.117	0.306	5.966	0.666	4.279	27.945

Notes: SWB = Societal well-being index, ACSZ = Number of audit committees, ACI = Audit Committee Independence, BIND = Number of independent boards, BSIZE = Board size, SEPCC = Separation of CEO and chairman roles, FEMDIR = Number of female directors, BMEET = Number of board meetings, Ln_FSIZE = Firm size, FVAL = Firm value, PROFIT = Earnings per share.

The societal well-being disclosure index (SWB) records an average score of 2.68, slightly higher than the median of 2.38, with evidence of moderate right skewness. This indicates that most firms disclose relatively little information on social well-being, while a smaller subset provides considerably more extensive reporting. Audit committee size averages 3.7 members and board size averages 9.2 directors, both close to their medians, reflecting consistency in board structures across firms. Board independence averages 50 percent, and audit committee independence averages 93 percent, confirming widespread compliance with governance codes. In contrast, CEO duality is relatively common, with 12 percent of firms combining the CEO and chair roles.

Female board representation averages slightly above two directors per board, but the distribution is skewed, indicating that while some firms meet or exceed diversity guidelines, others appoint few or no women. Board meeting frequency also shows wide variation, with an average of seven meetings per year but a maximum of twenty-five, suggesting that certain boards are highly active while others adopt a more standard schedule.

Firm-specific characteristics show greater dispersion. The mean logged firm size is 22.16 and is approximately normally distributed. Firm value has a mean of 2.53, and profitability has a mean of 0.31, but both are strongly skewed with excess kurtosis. This indicates that while most firms record modest outcomes, a few generate disproportionately high performance. Taken together, the descriptive results show relatively standardized governance structures but greater variation in gender diversity, CEO duality, and firm performance, which provides a useful basis for examining how these attributes affect the quality of financial reporting.

4.2. Regression analysis

Table 2 presents the regression results examining the relationship between societal well-being disclosure, corporate governance mechanisms, and financial reporting quality (FRQ). The overall model is statistically significant ($F = 7.67$, $p < 0.001$), with an adjusted R^2 of 0.33, indicating that approximately one-third of the variation in FRQ is explained by the included variables.

Table 2: Regression Results on Financial Reporting Quality

Variables	Coefficient	T-Value	P-Value	Significant Level (%)
SWB	.0.012	0.59	0.554	-
ACSZ	-.0073	-1.64	0.103	-
ACI	-.0346	-1.32	0.188	-
BIND	.0257	0.86	0.388	-
BSIZE	.0026	1.37	0.172	-
SEPCC	.0039	0.37	0.708	-
FEMDIR	.0065	2.30	0.022	5
BMEET	-7.44e-06	-0.01	0.995	-
	Summary of Regression Results			
N	490			
F	7.67			
R-Squared	0.3788			
Adj R-Squared	0.3295			
Significant	0.0000			

The results reveal that the presence of female board, measured by the number of female directors, has a positive and significant association with FRQ ($\beta = 0.0065$, $p = 0.022$). This finding suggests that female directors contribute meaningfully to board oversight, likely through enhanced ethical sensitivity, stronger monitoring, and a broader stakeholder orientation. Prior studies similarly highlight that women tend to adopt a more vigilant approach to governance and are less tolerant of opportunistic earnings management, thereby improving reporting quality (Adams and Ferreira, 2009; García-Sánchez et al., 2019; Zalata et al., 2019). This also reflects the intent of the Malaysian Code on Corporate Governance (MCCG, 2021), which emphasizes gender diversity as a driver of board effectiveness.

By contrast, the coefficient for societal well-being disclosure (SWB) is positive but statistically insignificant. While theoretical perspectives such as stakeholder and legitimacy theories suggest that greater transparency in social reporting should enhance financial reporting credibility, the evidence here points to a gap between disclosure and substantive impact. This result indicates that SWB reporting in Malaysia may still be largely compliance-driven, meeting regulatory requirements without necessarily influencing the underlying quality of financial reports. Similar conclusions have been drawn in prior work from emerging markets, where sustainability disclosure is often symbolic rather than embedded into governance practices (Abdullah et al., 2018; Lin et al., 2020).

Other governance attributes, including audit committee size and independence, board size, board independence, CEO duality, and board meeting frequency, are statistically insignificant. Although these variables are central to agency theory and are often assumed to improve monitoring, their limited effect suggests that structural compliance alone may not guarantee improvements in reporting outcomes. This is consistent with studies showing that in environments with weaker enforcement or concentrated ownership, governance mechanisms may operate more as formal requirements than as effective checks on managerial discretion (Alves, 2014; Agustinus et al., 2022). The descriptive evidence, which showed little variation in audit committee independence and board independence, also suggests that these mechanisms may lack the heterogeneity needed to influence outcomes.

Overall, the regression results highlight two important insights. First, not all governance reforms translate into substantive improvements in reporting quality. While firms may comply with requirements on board size, independence, or audit committees, these structural features do not necessarily alter managerial behavior. Second, gender diversity appears to represent a substantive governance mechanism that strengthens board effectiveness, providing evidence that qualitative dimensions of governance may matter more than quantitative or structural attributes in shaping FRQ.

4.3. Robustness test

Several robustness checks were conducted to confirm the stability of the results. Variance inflation factor (VIF) tests showed all values below 10, indicating that multicollinearity is not an issue. The analysis was repeated using discretionary accruals from the modified Jones

(1991) model as an alternative proxy for FRQ, and the results were consistent: female director representation remained significant, while societal well-being and other governance variables were insignificant.

Additional specifications incorporating firm fixed effects yielded similar findings, confirming that the results are not driven by unobserved firm-specific characteristics. Sensitivity checks, including winsorizing continuous variables at the 1st and 99th percentiles and excluding the largest firms by market capitalization, produced no material differences in results. Together, these tests reinforce confidence that board gender diversity plays a robust role in enhancing FRQ, while the insignificance of other governance variables and societal well-being disclosure is consistent across alternative measures and model specifications.

4.4. Additional discussion

The insignificance of societal well-being disclosure in explaining FRQ is noteworthy. Stakeholder and legitimacy theories suggest that social and sustainability reporting should enhance transparency, yet in Malaysia, such disclosures remain largely compliance-driven. While Bursa Malaysia mandates sustainability statements, their quality and depth vary widely, and many firms provide minimal disclosures that serve symbolic rather than substantive purposes (Lin et al., 2020). The descriptive results support this interpretation, as disclosure levels are clustered at the lower end of the index, with only a few firms reporting extensively.

This pattern mirrors findings in other emerging economies, where CSR and sustainability reporting often have limited influence on financial reporting quality unless backed by strong enforcement and investor demand (Abdullah et al., 2018; Alves, 2014). In contrast, the significant role of female directors indicates that diversity represents a substantive governance mechanism with real influence on board monitoring and ethical conduct. These results illustrate the distinction between symbolic compliance and effective governance in shaping financial reporting outcomes.

For societal well-being disclosure to meaningfully affect FRQ, regulators may need to strengthen enforcement and encourage firms to integrate social and sustainability considerations into governance culture, rather than treating disclosure as a box-ticking exercise. Although Bursa Malaysia mandates sustainability statements from publicly listed companies in Malaysia, in reality, the enforcement mechanisms remain relatively weak. It allows firms to treat sustainability disclosure as part of a compliance exercise rather than a substantive practice. Further, with limited investor activism and public pressure demanding detailed societal well-being reporting, it fosters the box-ticking culture (Agustinus & Soewarno, 2022; Lode et al., 2023). Besides, it further suggests that when internal controls and governance are weak, the societal well-being disclosure may remain symbolic as it emphasizes form over substance in reporting rather than providing more meaningful information about the societal well-being's real situation (Wan Ismail et al., 2023a).

5. Conclusions

This study provides evidence that board composition, particularly the number of female directors, plays an important role in enhancing financial reporting quality (FRQ) among Malaysian listed firms. The significant effect of female board representation supports signaling theory by showing that the presence of women on boards serves as a credible signal of ethical governance, transparency, and stakeholder orientation. It also aligns with agency theory, demonstrating that more diverse boards can mitigate conflicts of interest between managers and shareholders through stronger monitoring and oversight.

By contrast, the insignificant influence of traditional governance mechanisms highlights the limitations of structural compliance in ensuring high-quality reporting. These findings suggest that governance reforms in Malaysia need to go beyond formal requirements and focus on substantive board engagement and active monitoring. The results also reveal that societal well-being disclosure has yet to meaningfully influence FRQ. This points to a gap in the application of stakeholder and legitimacy theory in the Malaysian setting, where sustainability and corporate responsibility practices remain largely symbolic and insufficiently embedded in financial reporting. Stronger institutional and regulatory reinforcement may be required to ensure that disclosures translate into genuine improvements in reporting quality.

From a practical perspective, the results highlight the importance of strengthening policies on gender diversity, encouraging boards to move beyond symbolic governance, and aligning sustainability initiatives with financial reporting processes. For investors, the number of female directors provides a more reliable indicator of reporting integrity than conventional governance structures that operate mainly at a compliance level.

Overall, the study shows that improving FRQ requires both structural reforms and cultural change within governance practices. By empowering boards with greater diversity and embedding sustainability into reporting, firms can enhance credibility, strengthen investor confidence, and contribute to the long-term stability of capital markets. Future research should extend this analysis by considering longitudinal and industry-specific dynamics, as well as cross-country comparisons, to better understand how governance practices and societal expectations interact in shaping transparent financial reporting.

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