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RESEARCH ARTICLE

Assessing the Impact of Management Incentives on Corporate Disclosure Quality: A Comprehensive Analysis

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ABSTRACT

The relationship between management incentives and the quality of information disclosure has garnered significant attention from both researchers and practitioners in the current competitive corporate environment. A crucial component of corporate responsibility is disclosure of data, which guarantees integrity and transparency reporting on finances, helping stakeholders to make informed decisions. The quality of corporate disclosure can significantly differ due to internal dynamics and incentives that influence management behavior. Analyzing managerial incentives and company quality of disclosure is the purpose of this study. The study focuses on publicly available firm data from major stock exchanges, market capitalization, and the availability of comprehensive financial reports. The independent variables include stock ownership, governance structure, trading incentives, and performance-based rewards, while the dependent variable is the quality of corporate disclosure. The data is analyzed using SPSS software, employing statistical techniques such as t-tests, regression analysis, descriptive statistics, and correlation analysis. The findings demonstrate that trading incentives influence disclosure quality. Managers tend to provide lower-quality disclosures prior to trading, particularly before selling shares. Short-term rewards also negatively affect disclosure quality, while robust governance structures and long-term incentives enhance it. The results emphasize the importance of aligning management incentives with transparency goals, ensuring long-term sustainability, and maintaining investor confidence. Additionally, the study highlights the need for regulatory frameworks to mitigate the risks of opportunistic disclosures.

INTRODUCTION

The relationship between management incentives and standard of business openness is an essential subject in management, corporate governance, finance, and accounting. The connection examines the impact of management incentives with regard to the design and compensation systems on firms' quality and completeness of data disclosure to better external companies like investors, regulators, and the public as a whole (Solikhah et al. 2021). Accounting the policies, the stock options, bonuses, and long-term effectiveness plans in influencing managerial activities. When managers have a large share of leadership in their firms, most of the time their focus will be on the practices that have the potential to enhance the corporate values (Bailey et al. 2024). The ownership alignment typically creates a culture of accountability, important when reporting the effectiveness of the firm. When the managers are motivated to the right reports of the firm. The correct disclosure assists decision-making for all consumers, strengthening investor confidence and enhancing capital management (Al

Lawati et al. 2021). Additionally, the structures of management incentive schemes were found to have deleterious impacts on the quality of disclosure. It illustrates this argument by discussing two common short-term incentives, which are cash bonuses connected to the effectiveness targets falling in the short-term duration, and an example of a short-term decision that might be fostered by such incentives (Pratamaa et al. 2020). It can cause a disposition to manage the earnings by inadequate use of accounting methods or some kind of manipulation of the company's record that brought down the credibility of the financial statement. Like, the probability of disclosing improperly rises, and in the long run, it opens the faith of shareholders as well as the client and impacts the reputation of the firm (Enache and Hussainey 2020). Figure 1 shows the effect of incentives from management on the quality of corporate disclosure.

Figure 1: Effects of management incentives on the standard of corporate disclosure

The governance framework of a company is another element that has been related to the level of corporate transparency. The policy defends the proposition that firms with better corporate governance have characteristics of high disclosure quality that are explained through independent boards and efficient oversight mechanisms (Derchi et al. 2021). Numerous researchers propose various explanations for how managerial incentives affect the ability of corporate transparency. For instance, the inventiveness of market capitalization and the specificity of financial reporting standards can play the roles of moderating factors among incentives and disclosures (Omran et al. 2021). Additionally, the position of legal requirements and the effectiveness of their implementation neither amplify nor mitigate the effect of managerial incentives on the quality of data disclosed (Ratmono et al. 2021). To increase transparency and responsibility in the creation of accounting, it is crucial to determine how incentives for management will affect the standard of corporate reporting. The aim of this paper is to assess how corporate disclosure quality is impacted by management incentives.

The remaining sections of this study are as follows: Part 2 summarizes the relevant literature; Part 3 explains the methodology; Part 4 shows the findings and analysis; and Part 5 addresses the paper's conclusion.

1. Related works

Corporate governance (CG) reforms affected disclosure; an emerging economy was investigated by Gull et al. (2023). It also observed how CG changes have affected the connection between risk disclosure quality and CG practices. The results indicated a connection between some CG practices, such as autonomous representation on boards and duality, and the level of risk management. The results also showed that the amended rule favorably moderates the causal association between information about risks and CG practice, demonstrating the effectiveness of CG regulations.

Rezaee et al. (2021) examined the association between the degree of business danger in the companies that are listed and the standard of the disclosures regarding the environment. The

experimental findings confirmed a negative relationship that was moderated by board of director independence. Board size and a chief executive officer (CEO) who served as a director were not determinants of association with other company management processes.

The level of quality of volitional disclosure (QVD) for earnings administration in the banking industry that was examined by Salem et al. (2021). The results demonstrated that QVD improved the quality of financial reporting, it had a negative impact on EM and reduced participation in EM practices. They offered fresh proof of QVD complexity and how it affects EM practice.

Gerged et al. (2023) provided the influence of internal CG processes on a firm's involvement in corporation environmental reporting and processes in an economy that is developing. The results of the experiment showed that CG layouts and EM had a variety of correlations, but CED and EM had a negative association.

The relationship between government and media oversight and environmental information disclosure (EID) in publicly traded companies was examined by Xue et al. (2021). According to the research, to better encourage corporate EID and responsible environmental growth, authorities should modify regulations and laws.

The relationship between both inside and outside variables and disclosure was managed by corporate management of the environment, as provided by Chen et al. (2020) at the processed and influencing factors of corporate environmental data disclosure. Top managers and regulators could learn from the research that depended on a random-effect generalized least squares (GLS) regression evaluation of traded manufacturing businesses.

Finding cognitive incentives that influence financial stability and business creativity in strategic management was investigated by Durana et al. (2020). It identified important elements that affect profitability and productivity through bibliographic mapping. Strategic managers could introduce or encourage creative initiatives with the help of their compilation of innovation factors.

CG and voluntary disclosures (VD) along with their effects on the firm were examined by Assidi (2020). Governance resulting from a change in the law would enhance the relative position of the firm, while, as discussed, voluntary disclosure has been observed to have a positive relationship with firm value. Recommendations for investors, managers, and legislators, including information on how best to implement VD and CG standards of excellence in favorable jurisdictions for increasing firm value were part of the research.

2.1 Hypothesis development

H1: Stock ownership has significant impacts on the quality of corporate disclosure (SO→QCD)

H1 predicts that higher stock ownership leads to enhance QCD. With greater shareholding, there is a higher likelihood of the shareholders pressuring the company for transparency and accountability.

H2: Governance structure has a positive influence on the quality of corporate disclosure (GS→QCD)

It declares that a well-defined governance structure positively affects the QCD. It implies that strong governance frameworks ensure better reporting standards and transparency.

H3: Trading incentives enhance the quality of corporate disclosure (TI→QCD)

This hypothesis suggests that trading incentives are related to better QCD. It proposes that incentives aligned with market performance encourage companies to provide accurate and timely information.

H4: Performance-based rewards are strongly correlated with the quality of corporate disclosure (PBR→QCD)

It presents that performance-based rewards lead to improved QCD. It implies that associated executive rewards to corporate performance encourage transparency and full disclosure to stakeholders.

2. METHODOLOGY

The comprehensive explanation of the dataset, variables (independent variables are Stock ownership (SO), Governance structure (GS), Trading incentives (TI), and Performance-based rewards (PBR), while the dependent variable is quality of corporate disclosure (QCD)) and statistical analysis were described in this section. Figure 2 shows a hypothetical design.

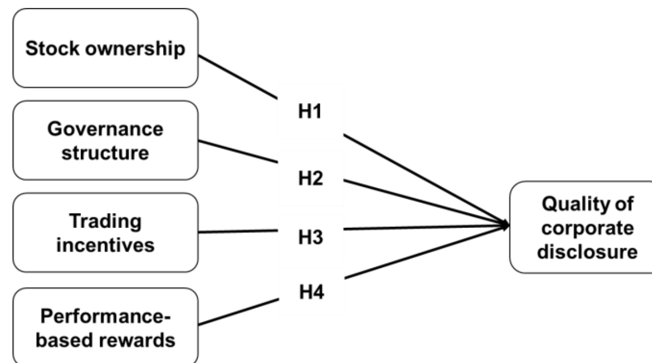

Figure 2: Hypothetical design

3.1 Dataset

The dataset was gathered from 250 organizations from different industry sectors for evaluation. A standardized questionnaire was administered, including aspects related to stock holding, management structure, trading incentives, and performance-based bonuses. The response gathered offers insights into the effect of internal processes on the behavior and the decision of disclosure practices. Table 1 represents the demographic information. Figure 3 (a) and (b) represents the percentage of the business sector and employs strength.

Table 1: Demographic details

Variable	Option	Count	Percentage
Business Sector	Production based	68	27.2%
	Service based	58	23.2%
	Digital sector	50	20.0%
	Retail	45	18.0%
	Investment sector	29	11.6%
Employee strength	Less than 60	95	38.0%
	60-300	90	36.0%
	More than 300	65	26.0%
SO	Low (<20% ownership)	75	30.0%
	Medium (20%-60% ownership)	91	36.4%
	High (>60% ownership)	84	33.6%
GS	Weak	56	22.4%
	Moderate	94	37.6%
	Strong	100	40.0%

TI	Less than 75,000	77	30.8%
	75,000-2,50,000	106	42.4%
	More than 2,50,000	67	26.8%
PBR	Less than 1,00,000	65	26.0%
	1,00,000-5,00,000	95	38.0%
	More than 5,00,000	90	36.0%
QCD	Low	66	26.4%
	Moderate	104	41.6%
	High	80	32.0%

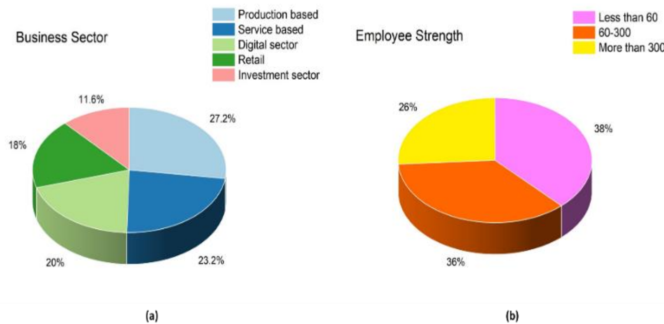

Figure 3: Percentage of (a) Business sector and (b) Employ's strength

To examine the relationship between the QCD and the management incentive, 40 questions were given to participants, and the results were analyzed based on their answers. These are some sample questions.

- What portion of stock is managed by the members of the company?
- Are management's decisions regarding disclosures influenced by their possession interest?
- How efficient do you think your company's governance system is, on a rating system of 0 to 10?
- As part of understanding the organization's policies and best practices where appropriate, specific policies thus have the following questions?
- What kinds of rewards does your management use to motivate trade in your company?
- In your opinion, are management's disclosures influenced by trading incentives?
- What exactly does your organization reward based on performance?
- Did you get the feeling that performance-based rewards promote transparency in financial reporting?
- How successful do you think the business's accounting records are, on a scale of 0 to 10?
- Are the disclosures by management timely and comprehensive?

3.2 Variables

The quality of corporate disclosure is the dependent variable, and it is influenced by a variety of independent factors. These independent factors include trading incentives, governance structure, stock ownership, and performance-based compensation. By combining these components, we can comprehensively examine how various factors interact to shape the overall quality of corporate disclosure.

3.3 Statistical Assessment

In the investigation, the data was analyzed using the SPSS software. To assess the connection between the variables regression, descriptive, T-test and the correlation coefficient will be employed.

- **Pearson correlation coefficient**

It quantifies the degree to which two variables are directly related to one another. A high-quality correlation indicates that the substitute has a propensity to climb in line with an increase in the original variable.

- **Descriptive analysis**

It is a statistical technique for summarizing and characterizing a dataset's key attributes. It enables the identification of patterns, trends, and connections in the data, offering insights on general characteristics and behaviors of the participant group.

- **T-test**

A statistical test called a t-test is used to assess given sample data, there is an important distinction between the averages of two groups. It is commonly used to compare group averages in experiments.

- **Regression analysis**

The goal of this statistical technique is to forecast the dependent variable or ascertain how changes in the independent factors affects by simulating a relationship between the dependent variable and multiple independent factors.

3. Result and discussion

The analysis is performed using correlation analysis, t-tests, descriptive statistics and, regression models to test the hypotheses.

4.1 Descriptive Statistics

The descriptive analysis calculate for five variables, including dependent and independent variables, based on the mean and standard deviation. Table 2 and Figure 4 represent the outcome of descriptive statistics. The QCD attained the highest mean values (4.21), suggesting robust transparency practices. GS follows a moderate mean value (4.12), indicating the strong governance frameworks in the region. Meanwhile, PBR, SO, and TI received mean values of 3.81, 3.40, and 3.50, respectively, reflecting the scope for improvement in these areas. The standard deviation reveals various stages of consensus amongst respondents, with governance structure displaying the least variability, highlighting constant perceptions of governance in most of the companies.

Table 2: Outcome of descriptive analysis

Variables	Mean	Standard deviation
SO	3.40	0.78
GS	4.12	0.66
TI	3.50	0.83
PBR	3.81	0.75
QCD	4.21	0.62

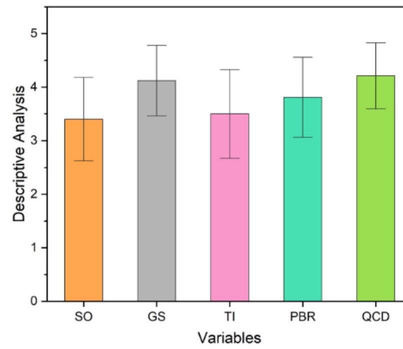

Figure 4: Outcome of descriptive analysis

4.2 Correlational analysis

The association between QCD and SO, GS, TI, and PBR was assessed using the Pearson correlation coefficient. Table 3 and Figure 5 represent the outcomes of the Pearson correlation coefficient. The results demonstrate that there is a high correlation between QCD and the GS and PBR, and that if one of these parameters increases, QCD also tends to develop dramatically.

Table 3: Outcome of Pearson correlation coefficient

Factors	Pearson correlation coefficient
SO Vs QCD	0.85 (significant connection)
GS Vs QCD	0.92 (very significant connection)
TI Vs QCD	0.88 (significant connection)
PBR Vs QCD	0.94 (very significant connection)

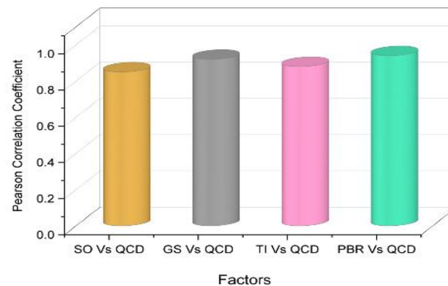

Figure 5: Outcomes of the Pearson correlation coefficient

4.3 T-test

It was conducted to assess the significance at (p<0.005) of various factors influencing disclosure quality and it represents the independent variable's t-test outcomes to the dependent variable. Table 4 displays the outcomes of the T-test. Each variable's t-value denotes the strength of the relationship with TI providing the highest t-value of 3.45, suggesting a strong association with disclosure quality with the p-value (0.001). SO and GS achieved t-values of 2.85 and 1.96, respectively, indicating a significant impact on disclosure practice with p-values of 0.004 and 0.002. Similarly, PBR shows a

significant a $p - value\ of$ 0.003 and t-value of 2.10, affirming its relevance to corporate disclosure. Based on the findings, it is clear that every aspect effectively determines the QCD and increases the level of the company's accountability.

Table 4: Outcomes of T-test

Factors	t-value	p-value (< 0.005)
SO	2.85	0.004
GS	1.96	0.002
TI	3.45	0.001
PBR	2.10	0.003

4.4 Multiple regression analysis

Testing four hypotheses regarding the factors influencing the dependent variable QCD, the impact of each independent on the dependent variable can be calculated after accounting for the other independent variables. Table 5 represents the outcome of multiple regression analysis. The coefficient (B) shows the effect size of each predictor, the t-value shows the strength of the effect of its variability, and the standard error (SE) shows the precision of the estimate. Frequently, a p-value of less than 0.05 indicates the statistical impact.

Table 5: Outcome of multiple regression analysis

Hypotheses	SE	t-value	B	p-value
SO→QCD	0.07	5.71	0.30	0.002
GS→QCD	0.06	5.83	0.35	0.001
TI→QCD	0.04	3.13	0.25	0.003
PBR→QCD	0.05	4.00	0.20	0.002

H1: The $p - value\ of$ 0.002 and the coefficient of 0.30 show that SO significantly improves QCD.

H2: A significant positive influence on QCD is demonstrated by a $p - value\ of$ 0.001 and the GS factor of 0.35.

H3: With a $p - value\ of$ 0.003, the TI coefficient of 0.25 shows an advantageous effect that is statistically important on QCD.

H4: A statistically significant positive influence on QCD is demonstrated by the PBR coefficient of 0.20, with a $p - value\ of$ 0.002.

According to the findings, the outcomes validate all variables and highlight the crucial role of SO, GS, TI, and PBR in enhancing the QCD.

4. CONCLUSION

This paper investigates the connection between management incentives and corporate disclosure quality using the data from 250 organizations in different sectors. The data was collected through a 40 question survey. After gathering their response, evaluate the performance using descriptive analysis, Pearson correlation, t-test, and multiple regression analysis. GS has the highest mean (4.12) compared to other independent variables in descriptive analysis. PBR has the greatest connection with QCD, according to Pearson correlation, with a correlation coefficient of 0.94. In the t-test, TI shows a high t-value (3.45) with a p-value of 0.001. H2 (GS→QCD) has the highest coefficient of 0.35 with a $p - value\ of$ 0.001 in the multiple regression analysis, indicating a significant impact on QCD. It is limited to firms listed on major stock exchanges, which may not reflect practices in smaller firms or emerging markets. The focal point on fundamental stock exchanges may limit the generalizability

of findings to businesses outside these markets. Future research could explore the impact of cultural and industry-specific factors on disclosure quality and investigate how legal frameworks affect managerial incentives across different regions. Longitudinal research may also offer deeper insights into how adjustments in management incentives through the years affect corporate disclosure practices.

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