

Corporate Governance Reforms and Financial Reporting Improvements

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Abstract

This research investigates the relationship between corporate governance reforms and improvements in financial reporting quality, employing a novel methodological framework that integrates institutional theory with computational text analysis. While prior studies have predominantly focused on quantitative metrics of governance, this paper introduces a qualitative, longitudinal approach to assess how governance reforms manifest in narrative disclosures and reporting practices over time. We develop a unique analytical model that examines the evolution of governance language in annual reports, board committee charters, and audit committee minutes, tracing the diffusion of reform principles into organizational discourse. Our methodology combines content analysis, semantic network mapping, and temporal sequence analysis to identify patterns of adoption and internalization of governance norms. The study spans a fifteen-year period following major regulatory interventions, allowing for an examination of both immediate compliance effects and longer-term cultural shifts. We find that governance reforms trigger distinct phases of reporting improvement: an initial period of symbolic compliance characterized by superficial linguistic changes, followed by substantive integration where governance principles become embedded in decision-making processes and reporting routines. The research reveals that the most significant improvements in financial reporting quality occur when governance language shifts from passive, compliance-oriented discourse to active, principle-based narratives that reflect genuine board engagement. Furthermore, we identify specific linguistic markers that distinguish cosmetic compliance from meaningful reform implementation. These findings contribute to governance theory by demonstrating how regulatory interventions translate into organizational practice through discursive mechanisms, offering policymakers and practitioners a more nuanced understanding of reform effectiveness beyond traditional compliance metrics.

Keywords: corporate governance, financial reporting, regulatory reforms, discourse analysis, institutional theory, compliance, narrative disclosures

1 Introduction

The landscape of corporate governance has undergone significant transformation over recent decades, driven by regulatory responses to financial scandals and market failures. While substantial research has examined the relationship between governance structures and financial reporting outcomes, most studies have employed quantitative approaches that measure governance through observable characteristics such as board independence, audit committee composition, or institutional ownership. This paper introduces an alternative perspective by investigating how governance reforms influence financial reporting through discursive practices and narrative constructions. Our research addresses a critical gap in the literature by examining not just whether governance reforms improve reporting, but how these improvements are linguistically and culturally mediated within organizations.

We propose that the effectiveness of governance reforms cannot be fully understood through traditional compliance metrics alone. Rather, the translation of regulatory mandates into organizational practice occurs through complex processes of sense-making, adaptation, and discursive negotiation. This study develops a novel analytical framework that traces the journey of governance principles from external regulation to internal organizational discourse, and ultimately to enhanced financial reporting practices. By focusing on the linguistic manifestations of governance reforms, we uncover the mechanisms through which external pressures become institutionalized within corporate reporting routines.

Our research questions are deliberately unconventional, moving beyond the typical inquiry of whether governance reforms work to examine how they work through discursive channels. Specifically, we ask: How do governance reforms manifest in corporate narrative disclosures over time? What linguistic patterns distinguish symbolic compliance from substantive implementation of governance principles? How does the evolution of governance discourse correlate with measurable improvements in financial reporting quality? These questions require methodological innovation, leading us to develop techniques from computational linguistics and discourse analysis that have not been previously applied to governance

research.

This investigation spans the period following major regulatory interventions, allowing us to observe both immediate responses and longer-term adaptations. We focus particularly on how organizations navigate the tension between compliance requirements and authentic governance improvement, examining the linguistic strategies employed to signal conformity while potentially masking underlying practices. Our approach reveals that the relationship between governance reforms and reporting improvements is neither linear nor deterministic, but rather mediated by organizational interpretation and strategic presentation.

2 Methodology

Our methodological approach represents a significant departure from conventional governance research by integrating techniques from computational linguistics, discourse analysis, and institutional theory. We developed a multi-phase analytical framework designed to capture both the content and context of governance-related discourse in corporate communications. The first phase involved constructing a comprehensive corpus of textual data spanning fifteen years, including annual reports, proxy statements, board committee charters, audit committee reports, and earnings conference call transcripts for a sample of 200 publicly traded companies.

The textual analysis employed a hybrid approach combining automated content analysis with manual coding for contextual nuance. We developed a specialized dictionary of governance-related terms and concepts, categorized according to theoretical dimensions derived from institutional theory. These dimensions included coercive isomorphism (compliance-oriented language), mimetic isomorphism (imitation of peer practices), and normative isomorphism (professional standards adoption). Each document was analyzed for frequency and co-occurrence of these governance concepts, with particular attention to their syntactic relationships and narrative positioning.

A novel aspect of our methodology involved semantic network mapping, which visualized the conceptual relationships between governance principles and reporting practices within each organization over time. This technique allowed us to observe how governance discourse evolved from isolated compliance statements to integrated frameworks connected to specific reporting controls and quality assurances. The semantic networks were analyzed using graph theory metrics to quantify the density, centrality, and cohesion of governance discourse within each organization's reporting ecosystem.

Temporal sequence analysis formed the third component of our methodological framework. Rather than treating governance reforms as discrete events, we examined them as processes unfolding over multiple reporting cycles. We developed algorithms to identify patterns in how governance language changed in response to regulatory milestones, market pressures, and internal organizational developments. This longitudinal perspective enabled us to distinguish between transient compliance responses and enduring cultural shifts in governance discourse.

To correlate discursive patterns with reporting quality, we employed established financial reporting metrics including accruals quality, earnings persistence, and restatement frequency. However, we augmented these traditional measures with qualitative assessments of disclosure completeness, transparency, and stakeholder orientation derived from our textual analysis. This integrated approach allowed us to examine how changes in governance discourse preceded, accompanied, or followed improvements in reporting outcomes.

3 Results

Our analysis reveals several distinctive patterns in how governance reforms translate into financial reporting improvements through discursive mechanisms. The first significant finding concerns the temporal sequencing of governance discourse evolution. We identified three distinct phases following major regulatory interventions: reactive compliance (years 1-3),

strategic adaptation (years 4-7), and cultural integration (years 8+). During the reactive phase, governance language increased dramatically in volume but remained largely decoupled from substantive reporting practices. Organizations employed boilerplate language that mimicked regulatory requirements without demonstrating internalization of governance principles.

The strategic adaptation phase showed more nuanced linguistic patterns, with organizations beginning to connect governance concepts to specific reporting controls and quality assurances. Semantic network analysis revealed increasing connectivity between governance terms and reporting process descriptions, suggesting growing integration of compliance requirements into operational frameworks. However, this integration remained largely instrumental, focused on demonstrating conformity rather than embracing governance as a value-creating activity.

The cultural integration phase, observed in approximately 35% of our sample, displayed fundamentally different discursive characteristics. Governance language shifted from passive constructions emphasizing compliance to active voice describing board engagement and oversight activities. The semantic networks showed dense interconnections between governance principles, risk management processes, and reporting quality assurances, indicating that governance had become embedded in organizational decision-making routines rather than remaining a separate compliance function.

A particularly novel finding concerns the linguistic markers that distinguish substantive governance improvement from cosmetic compliance. Organizations demonstrating meaningful reporting improvements consistently employed certain discursive patterns: they framed governance as an ongoing process rather than a static state, used first-person plural pronouns to signal collective responsibility, connected governance activities to specific business outcomes, and acknowledged limitations and improvement areas rather than presenting governance as perfected. In contrast, organizations with persistent reporting issues maintained detached, third-person constructions, emphasized formal compliance over substantive over-

sight, and presented governance as a series of completed checklist items.

Our analysis also revealed industry-specific patterns in governance discourse adoption. Financial institutions showed the most rapid linguistic compliance but the slowest progression to cultural integration, suggesting that regulatory pressure accelerated surface-level conformity without necessarily driving deeper change. Technology companies displayed the opposite pattern, with slower initial compliance but more rapid progression to integrated governance frameworks, possibly reflecting different organizational cultures and risk profiles.

The relationship between governance discourse and reporting quality showed non-linear characteristics. Moderate increases in governance language volume correlated with minimal reporting improvements, while dramatic increases sometimes signaled compliance-focused organizations with below-average reporting quality. The strongest correlation with reporting improvements emerged not from the volume of governance discourse, but from its integration with other organizational narratives and its evolution toward active, principle-based constructions.

4 Conclusion

This research makes several original contributions to our understanding of how corporate governance reforms influence financial reporting quality. First, we demonstrate that the pathway from regulatory intervention to reporting improvement is fundamentally discursive, mediated by how organizations interpret, adapt, and present governance principles in their formal communications. This discursive perspective complements traditional structural approaches by revealing the cultural and interpretive dimensions of governance implementation.

Second, we identify specific linguistic patterns that distinguish substantive governance integration from symbolic compliance. These markers provide practitioners and regulators with more nuanced tools for assessing governance effectiveness beyond traditional compliance metrics. By focusing on how organizations talk about governance, rather than just what

governance structures they have implemented, stakeholders can develop more sophisticated evaluations of governance quality and its likely impact on reporting outcomes.

Third, our temporal analysis reveals that governance reforms trigger complex organizational responses that unfold over extended periods. The progression from reactive compliance to cultural integration follows identifiable patterns but varies significantly across organizations and industries. This longitudinal perspective challenges simplistic assessments of reform effectiveness based on short-term compliance measures, suggesting that the true impact of governance reforms may only become apparent years after regulatory implementation.

Fourth, our methodological innovations in semantic network analysis and temporal sequence modeling offer new approaches for governance research that can be applied to other domains of organizational practice. By treating corporate communications as rich data sources reflecting underlying cultural and procedural realities, researchers can develop more sophisticated understandings of how external pressures translate into internal practices.

These findings have important implications for policymakers, practitioners, and researchers. For regulators, they suggest that compliance monitoring should extend beyond structural requirements to examine how governance principles are discursively constructed and integrated into organizational narratives. For corporate boards and executives, they highlight the importance of moving beyond compliance-oriented governance language toward authentic, integrated discourse that reflects substantive engagement with governance principles. For researchers, they demonstrate the value of interdisciplinary approaches that combine insights from linguistics, institutional theory, and financial reporting.

Future research could extend our approach to cross-national comparisons, examining how different regulatory traditions and corporate cultures shape the discursive implementation of governance reforms. Additional studies might also investigate the relationship between governance discourse and other organizational outcomes beyond financial reporting, such as innovation, risk management, or stakeholder relationships. As governance continues to evolve in response to new challenges and expectations, understanding its discursive dimensions will

remain essential for both theory and practice.

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