

-RESEARCH ARTICLE-

## THE IMPACT OF ADOPTION OF IFRS5 OPERATIONS ON FIRM PROFITABILITY: EVIDENCE FROM PRIMARY DATA USING SEM-PLS.

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### —Abstract—

This research examines how the application of International Financial Reporting Standards (IFRS 5), specifically concerning non-current assets classified as held for sale and discontinued operations, influences organisational profitability. The investigation further evaluates the mediating and moderating influences of financial reporting quality, the transparency of financial statements, the degree of managerial commitment to regulatory compliance, and the extent of management's understanding of IFRS within

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this dynamic. A quantitative cross-sectional approach was adopted, involving a survey distributed among accountants, chief financial officers, and financial managers operating within both listed and unlisted firms across Iraq. Data were obtained from 430 participants through a structured questionnaire designed using validated Likert-scale measures. Structural equation modelling (SEM), implemented via SmartPLS 4, facilitated the assessment of measurement reliability, convergent and discriminant validity, and enabled the examination of direct, mediating, and moderating pathways within the proposed theoretical model. The findings demonstrate that comprehensive disclosures under IFRS 5, enhanced transparency in financial statements, and strong managerial commitment to adherence significantly improve both the quality of financial reporting and overall profitability. Furthermore, the influence of transparency, commitment, and IFRS-based disclosures on profitability is transmitted through improvements in financial reporting quality. Management's awareness of IFRS also directly contributes to profitability while moderating the influence of compliance practices, transparency, and disclosure quality on financial outcomes. These results suggest that technical compliance with IFRS is insufficient in isolation; instead, active managerial engagement, sustained organisational commitment, and ongoing professional development are crucial to maximising the advantages of financial reporting. These insights are particularly valuable for corporate executives, auditors, and regulatory authorities aiming to strengthen the effectiveness of financial disclosures and support enduring profitability.

**Keywords:** IFRS 5, Financial Reporting Quality, Disclosure, Transparency,

## INTRODUCTION

Transparent and reliable financial reporting has long served as a cornerstone for the growth of capital markets, investor trust, and effective corporate governance. The availability of financial information that is credible, timely, and comparable is not merely a regulatory formality but a strategic resource that enables firms to access funding, attract investment, and enhance long-term organisational outcomes (Barth et al., 2008; Bushman et al., 2004). In this context, the global transition towards the adoption of IFRS marks a substantial evolution in accounting practices. IFRS, developed and endorsed by the International Accounting Standards Board (IASB), aims to unify accounting procedures and financial statement presentation to enhance cross-border comparability and reinforce the predictability of reported financial outcomes (Hail et al., 2010; Jermakowicz & Gornik-Tomaszewski, 2006).

This transition has been extensively scrutinised in academic discourse due to its purported advantages. Researchers have highlighted improvements in the quality of accounting data, reduced asymmetry of information, and enhanced efficiency in global capital markets (Barth et al., 2008; Liu et al., 2011). According to Barth et al. (2008),

the adoption of international standards is linked with notable gains in accounting quality, largely through a reduction in earnings manipulation and an increase in the relevance of reported financial data. These enhancements are critical in both mature and emerging economies, as they form the basis for sound investment decisions. Similarly, [Bushman et al. \(2004\)](#) argue that financial transparency plays a vital role in enabling external capital providers to effectively monitor corporate activity, thereby fostering value creation and governance. At a micro level, the credibility of financial statements hinges upon the quality of accruals and reported earnings. [Dechow and Dichev \(2002\)](#) identify the accuracy of accrual estimation as an important indicator of accounting quality. Inaccurate or intentionally manipulated accruals can misrepresent a firm's actual economic position, thereby eroding stakeholder confidence. Reliable estimation of accruals, reduction of forecast errors, and faithful representation of underlying economic events are thus central to achieving high-quality financial reporting. Financial reports that exhibit such characteristics are more resilient to audit scrutiny and regulatory oversight and are more likely to inspire investor confidence.

The international harmonisation of accounting standards, particularly through IFRS, is not solely driven by theoretical considerations but also by practical needs for greater transparency in cross-border financial communications. [Hail et al. \(2010\)](#) underscore the significance of political, institutional, and economic factors in shaping this convergence agenda, including the facilitation of international listings, mergers, and capital movements. IFRS serves as a unified framework for financial communication, allowing multinational stakeholders to more easily interpret and compare financial data across jurisdictions. As reported by [Jermakowicz and Gornik-Tomaszewski \(2006\)](#), the adoption of IFRS by European Union-listed companies resulted in substantial changes to financial statement recognition, valuation, and disclosure practices, thereby improving the overall utility of financial reports in the region.

Nonetheless, the path to successful IFRS implementation is complex. The transition requires organisations not only to adopt new standards but also to invest in training, upgrade internal control mechanisms, and ensure consistent application of complex reporting requirements ([Jermakowicz & Gornik-Tomaszewski, 2006](#); [Khlif & Achek, 2016](#)). For example, [Liu et al. \(2011\)](#) observed that in regulated environments such as China, IFRS implementation led to improvements in accounting quality only when it was reinforced through strict enforcement and organisational preparedness. This underscores the importance of effective application and not merely formal adoption. Beyond compliance and capital market performance, enhanced reporting quality also contributes to improved managerial decision-making, efficient resource allocation, and effective risk management ([Iatridis, 2010](#)). In the UK context, [Iatridis \(2010\)](#) found that IFRS adoption resulted in financial statements that were more timely and informative, which in turn supported better strategic planning. [Bushman et al. \(2004\)](#) further maintain that transparency, particularly when disclosures are both comprehensive and

prompt, reduces ambiguity for investors and other stakeholders, promotes fair valuation, and lowers capital acquisition costs.

Recent scholarship also highlights the role of stakeholder perceptions in influencing firm performance. [Eklof et al. \(2017\)](#) demonstrate that customer perceptions, shaped in part by transparent public financial disclosures, have measurable effects on financial performance, particularly in service sectors such as banking. Similarly, [Papaioannou et al. \(2024\)](#) show that effective human resource strategies and innovation, when combined with transparent reporting, lead to improved financial outcomes in sport service organisations. [Santiago et al. \(2019\)](#) argue that the reputation of family-owned enterprises, bolstered by high-quality and transparent reporting, contributes positively to perceived financial stability and overall organisational success.

Despite extensive documentation of the benefits associated with IFRS adoption and improved reporting practices, further investigation is warranted regarding specific reporting standards and their direct implications for firm performance. One such under-explored area involves the treatment of non-current assets held for sale and discontinued operations as specified in IFRS 5. This standard mandates the separate presentation of assets intended for disposal and of discontinued operations within financial statements, aiming to increase the relevance and reliability of information, especially during significant organisational restructuring. However, the extent to which adherence to IFRS 5 enhances profitability remains insufficiently explored, particularly within varied economic and regulatory settings.

Moreover, the effectiveness of IFRS and its associated reporting requirements is contingent on several organisational factors, such as managerial dedication to compliance, clarity in financial reporting, and the level of IFRS knowledge and training within firms ([Khlif & Achek, 2016](#); [Liu et al., 2011](#)). Achieving the intended benefits of high-quality reporting depends on multiple internal drivers, including robust internal control systems, managerial understanding of IFRS provisions, and the cultivation of a compliance-oriented corporate culture ([Jermakowicz & Gornik-Tomaszewski, 2006](#)). The literature suggests that beyond formal adoption, consistent and accurate implementation, coupled with institutional support for quality reporting, is critical for realising the full advantages of IFRS. Against this backdrop, there is a clear imperative for empirical studies that analyse how the adoption and execution of IFRS—specifically in relation to non-current assets held for sale and discontinued operations—impact organisational profitability. Although prior research affirms a positive link between reporting quality and firm performance, limited attention has been paid to the mediating and moderating roles played by transparency, management engagement, and institutional awareness. Additionally, most existing research relies heavily on secondary data derived from published financial reports, leaving a knowledge gap concerning internal practices and perceptions within firms.

In response to these gaps, the current study aims to enrich the existing literature by collecting primary data directly from financial professionals, including accountants, auditors, and finance managers. Using SEM through SmartPLS, this research explores the intricate relationships among reporting quality, financial transparency, managerial practices, and organisational profitability. By focusing explicitly on IFRS 5 and incorporating both direct and indirect effects, the study provides an in-depth perspective on the mechanisms through which financial reporting influences performance. The findings are expected to offer valuable insights for academic researchers, regulatory bodies, and industry practitioners seeking to optimise the value derived from high-quality financial reporting in a globally integrated economic environment.

## LITERATURE REVIEW

The progression of international accounting standards has reinforced the importance of transparent and high-quality financial reporting, particularly within the framework of IFRS. A substantial volume of research highlights that the implementation of specific standards, such as IFRS 5, which addresses the treatment of NCAHDO, significantly contributes to the enhancement of financial information in terms of its credibility, comparability, and decision-making relevance (Bassemir & Novotny-Farkas, 2018; Bathla et al., 2024). This literature review undertakes a systematic evaluation of prior studies to draw comparisons among FRQ, FST commitments, MCC, the quality of IFRS 5-related disclosures, MAI, and their collective and individual influence on organisational profitability. These comparisons serve as the empirical and theoretical foundation for the hypotheses formulated in the present study.

### Financial Reporting Quality and Company Profitability

The association between FRQ and organisational profitability constitutes a foundational element within the accounting literature. High-quality reporting is characterised by the precision, dependability, and faithful depiction of economic transactions and events (Herath & Albarqi, 2017; Isidro et al., 2020). When financial statements are free from material errors or distortions, managers are better positioned to support stakeholders—including investors, regulators, and lenders—in making sound decisions, thereby reducing information asymmetry and promoting the efficient allocation of resources (Garrett et al., 2014). Empirical investigations have consistently found that improvements in FRQ facilitate greater access to external finance, lower borrowing costs, and ultimately enhance financial outcomes (Dayanandan et al., 2016; Isidro et al., 2020). For instance, Bathla et al. (2024) provide evidence that profitability across sectors improves following IFRS adoption, particularly where the quality of reporting shows substantial enhancement. Similarly, Alharasis et al. (2024) observed that the application of IFRS in the Iraqi banking sector significantly boosted profitability, primarily through the improvement of financial statement quality. These findings

underpin the formulation of the first hypothesis in this study: The influence of Financial Reporting Quality (FRQ) on Company Profitability (PROF) is positive and significant (Hypothesis 1).

### **The Financial Statement Transparency: Implications to the Reporting Quality and Profitability**

FST refers to the degree to which financial disclosures are clear, comprehensive, and readily accessible. Transparent reporting enhances stakeholder confidence and facilitates effective oversight and managerial accountability (Choudhary, 2025; Garrett et al., 2014). Prior research highlights that the absence of transparency not only undermines the perceived quality of financial reports but also exerts a direct negative impact on organisational performance (Devalle & Rizzato, 2013; Minh et al., 2023). Choudhary (2025) argues that the detailed disclosure of forward-looking information—an increasingly common feature under IFRS—significantly strengthens users' ability to interpret and utilise financial data while simultaneously improving the overall quality of the reports. Supporting this view, Devalle and Rizzato (2013) emphasise that enhanced transparency, achieved through precise and thorough disclosures, plays a pivotal role in elevating both the reliability and comparability of financial statements. Building on these insights, the current study proposes that Financial Statement Transparency (FST) has a positive and significant effect on Financial Reporting Quality (FRQ) (Hypothesis 2), as well as a direct effect on Company Profitability (PROF) (Hypothesis 3).

### **Management Commitment to Compliance**

The organisational context in which financial reporting takes place is significantly shaped by MCC. According to compliance theory, a strong and consistent adherence to established accounting principles and regulatory policies is essential for effective financial governance (Celis, 2018; Saad et al., 2019). When managerial teams actively prioritise compliance with IFRS provisions, they are more likely to promote a culture characterised by transparency and accountability, which in turn contributes to enhanced FRQ (Bathla et al., 2024; Way et al., 2024). Empirical findings indicate that MCC reinforces the robustness of internal control mechanisms, minimises the potential for misstatements, and improves the overall credibility of financial disclosures (Alharasis et al., 2024; Way et al., 2024). Saad et al. (2019) further reveal that MCC plays a mediating role in shaping organisational behaviour and compliance outcomes, as demonstrated in the academic sector, with similar implications observable within corporate environments. Accordingly, this study hypothesizes that Management Commitment to Compliance (MCC) has a positive and significant effect on Financial Reporting Quality (FRQ) (Hypothesis 4) and on Company Profitability (PROF) (Hypothesis 5).

## Quality of IFRS 5 Disclosure

IFRS 5 outlines specific disclosure requirements for NCAHDO. The quality of disclosures under this standard has become a central theme in recent academic discourse due to its direct impact on the decision-usefulness of financial statements for various stakeholders (Alhawtmeh, 2023; Devalle & Rizzato, 2013; Pășcan, 2015). High-quality IFRS 5 disclosures are generally defined by their clarity, promptness, comprehensiveness, and relevance. Alhawtmeh (2023) observes that effective implementation of IFRS significantly improves the measurement and disclosure of pertinent financial information, thereby contributing to enhanced FRQ. Moreover, Bassemir and Novotny-Farkas (2018) argue that the IFRS framework encourages more robust disclosure practices, which subsequently elevate FRQ and the reliability of key performance indicators. Supporting this perspective, Alharasis et al. (2024) (as shown in Figures 2 and 3) confirm that adherence to IFRS requirements leads to more credible and informative portrayals of financial conditions. In turn, this study hypothesizes a positive and significant relationship between the Quality of IFRS 5 Disclosure (QIFRS) and Financial Reporting Quality (FRQ) (Hypothesis 6), as well as a relationship between the Quality of IFRS 5 Disclosure (QIFRS) and the Company Profitability (PROF) (Hypothesis 7).

## Management Awareness of IFRS

MAI has increasingly been recognised as a critical organisational asset in the context of financial reporting. This concept extends beyond a basic understanding of IFRS requirements to encompass the capability to translate such understanding into effective and value-enhancing reporting practices (de Araújo et al., 2014; Iordache, 2020; Puri et al., 2020). Iordache (2020) emphasises that managerial awareness is positively associated with the successful application of IFRS, which in turn contributes to improvements in FRQ. Similarly, de Araújo et al. (2014) observe that elevated levels of awareness among management are linked to higher compliance rates and enhanced organisational performance. Puri et al. (2020) further argue that the effective implementation of technically demanding accounting standards, such as those under IFRS, is largely dependent on MAI, a factor that holds particular relevance in the context of developing economies. In that way it is the hypothesis that Management Awareness of IFRS (MAI) and that it affects Company Profitability (PROF) positively and significantly (Hypothesis 8).

## Mediation Role of Financial Reporting Quality

Recent research increasingly suggests that the influence of FST, MCC, and the quality of IFRS-related disclosures on organisational profitability is, at least in part, mediated through improvements in FRQ (Alharasis et al., 2024; Minh et al., 2023). Bathla et al. (2024) and Bassemir and Novotny-Farkas (2018) argue that overall FRQ is enhanced

when firms engage in rigorous reporting practices and adopt systematic implementation processes, which subsequently lead to increased profitability. [Saad et al. \(2019\)](#) further reinforce this notion by demonstrating that the relationship between internal organisational behaviours and financial outcomes is mediated by high-performance work practices. On this basis, the present research makes the hypothesis that Financial Reporting Quality (FRQ) mediates the correlation within Financial Statement Transparency (FST) and Company Profitability (PROF) (Hypothesis 9), Management Commitment to Compliance (MCC) and Company Profitability (PROF) (Hypothesis 10), and Quality of IFRS 5 Disclosure (QIFRS) and Company Profitability (PROF) (Hypothesis 11).

### **Moderating Role of Management Awareness of IFRS**

Beyond its direct contribution, MAI may also function as a mediating factor in the relationships linking MCC, FST, disclosure quality, and organisational profitability. As noted by [Way et al. \(2024\)](#), the positive effects of compliance practices and commitment mechanisms on performance outcomes are significantly amplified when management possesses a high level of familiarity with IFRS within the organisation. Supporting this view, [Alharasis et al. \(2024\)](#) and [Choudhary \(2025\)](#) provide empirical evidence indicating that the advantageous impacts of MCC, FST, and robust disclosure quality on profitability are more pronounced when managerial personnel demonstrate a strong grasp of IFRS principles. These empirical insights form the basis for the final hypothesis proposed in this study: Management Awareness of IFRS (MAI) has a positive moderating effect between Management Commitment to Compliance (MCC) and Company Profitability (PROF) (Hypothesis 12), between Financial Statement Transparency (FST) and Company Profitability (PROF) (Hypothesis 13), and between Quality of IFRS 5 Disclosure (QIFRS) and Company Profitability (PROF) (Hypothesis 14).

In summary, the reviewed literature establishes a comprehensive conceptual framework wherein FST, MCC, and the quality of disclosures—enhanced through MAI—jointly contribute to shaping both FRQ and organisational profitability. Building upon this theoretical foundation, the present study advances the discourse by empirically examining the direct, mediating, and moderating roles of these variables within the specific context of IFRS 5. This approach offers a more nuanced understanding of how IFRS 5 influences key determinants of financial performance in an increasingly globalised reporting environment. [Table 1](#) outlines the hypotheses developed for the current investigation.

**Table 1: Research Hypotheses Formulated**

Hypothesis	Relationship
H1	Financial Reporting Quality (FRQ) → Company Profitability (PROF)
H2	Financial Statement Transparency (FST) → Financial Reporting Quality (FRQ)
H3	Financial Statement Transparency (FST) → Company Profitability (PROF)
H4	Management Commitment to Compliance (MCC) → Financial Reporting Quality (FRQ)
H5	Management Commitment to Compliance (MCC) → Company Profitability (PROF)
H6	Quality of IFRS 5 Disclosure (QIFRS) → Financial Reporting Quality (FRQ)
H7	Quality of IFRS 5 Disclosure (QIFRS) → Company Profitability (PROF)
H8	Management Awareness of IFRS (MAI) → Company Profitability (PROF)
H9	FST → FRQ → PROF (Mediation)
H10	MCC → FRQ → PROF (Mediation)
H11	QIFRS → FRQ → PROF (Mediation)
H12	MAI moderates MCC → PROF
H13	MAI moderates FST → PROF
H14	MAI moderates QIFRS → PROF

## METHODOLOGY

### Research Design

This study adopts a quantitative, cross-sectional survey design to assess the extent to which the application of IFRS 5, specifically concerning the reporting of NCAHDO at the cut-off date, influences firm profitability. The cross-sectional nature of the design enables data collection at a single point in time, allowing for the examination of the interrelationships among the primary constructs as they manifest within organisational settings.

### Population and Sampling

The target population for this study comprises professionals directly engaged in financial reporting and organisational decision-making. Specifically, the research focuses on accountants, chief financial officers (CFOs), and finance managers operating within both listed and unlisted firms. This group was selected due to their active roles in the preparation, oversight, and interpretation of financial statements, as well as their familiarity with IFRS requirements. The study obtained 430 valid responses, which exceed the commonly recommended sample size threshold for conducting SEM using the PLS approach.

## Instrumentation

A structured questionnaire served as the primary instrument for data collection in this study. This tool was specifically developed to align with established constructs identified in the existing literature relevant to the research focus. The questionnaire employed a Likert scale format, requiring respondents to indicate their level of agreement with each item on a five-point scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Each construct within the conceptual model—namely, the Quality of IFRS 5 Disclosure, FST, MCC, FRQ, MAI, and Company Profitability—was measured using multiple indicators to ensure the reliability and validity of the instrument (refer to Table 2). For instance, one item used to assess the clarity of IFRS 5 disclosure stated: “The financial statements of the company clearly separate assets held for sale from other asset categories.”

**Table 2: Constructs and Items**

Construct Name	Item No.	Item Statement
Quality of IFRS 5 Disclosure (QIFRS5) (Hail et al., 2010; Iatridis, 2010)	QIFRS5_1	The financial statements clearly separate non-current assets held for sale from other assets.
	QIFRS5_2	The disclosure of discontinued operations is detailed and understandable.
	QIFRS5_3	The timing of disclosure regarding assets held for sale meets IFRS 5 requirements.
	QIFRS5_4	The company consistently applies IFRS 5 policies across reporting periods.
	QIFRS5_5	Stakeholders can easily locate information about non-current assets held for sale in financial statements.
Financial Statement Transparency (FST) (Bushman et al., 2004)	FST_1	The company’s financial statements are easy to understand for non-experts.
	FST_2	All relevant information about discontinued operations is fully disclosed.
	FST_3	The reporting of non-current assets held for sale avoids ambiguity.
	FST_4	Users find it easy to compare financial information with previous years.
	FST_5	The financial statements enable users to make informed decisions.
Management Commitment to Compliance (MCC) (Khlif & Achek, 2016; Liu et al., 2011)	MCC_1	Top management regularly reviews compliance with IFRSs, including IFRS 5.
	MCC_2	Adequate resources (training, technology, staff) are provided for implementing IFRS requirements.
	MCC_3	Management encourages open discussion about reporting issues and IFRS compliance.
	MCC_4	Management strictly enforces penalties for non-compliance in financial reporting.
	MCC_5	There is a culture of accountability regarding financial disclosures.
	MCC_6	Management proactively updates policies in response to changes in IFRS standards.
Financial Reporting Quality	FRQ_1	The financial statements are free from material misstatements or errors.
	FRQ_2	The company provides sufficient explanations for significant changes

(Mediator) (FRQ) (Barth et al., 2008; Dechow & Dichev, 2002)		in asset or liability classifications.
	FRQ_3	The company's financial reports are consistent and comparable over time.
	FRQ_4	The company provides relevant disclosures that help stakeholders assess the company's performance.
	FRQ_5	Financial statements faithfully represent the company's economic activities.
Management Awareness of IFRS (Moderator) (MAI) (Jermakowicz & Gornik- Tomaszewski, 2006; Khlif & Acheh, 2016)	MAI_1	Management is knowledgeable about the requirements of IFRS 5.
	MAI_2	Management regularly attends training or seminars on new and revised IFRSs.
	MAI_3	Management actively monitors changes and updates in international accounting standards.
	MAI_4	Management ensures the accounting staff is well-informed about IFRS requirements.
	MAI_5	There is frequent internal discussion of IFRS implications for reporting non-current assets and discontinued operations.
Company Profitability (Dependent) (PROF) (Eklof et al., 2017; Papaioannou et al., 2024; Santiago et al., 2019)	PROF_1	The company's net profit has increased over the last three years.
	PROF_2	The company's return on assets (ROA) is satisfactory compared to competitors.
	PROF_3	The company achieves its profitability targets regularly.
	PROF_4	The company's operating profit margin is stable or improving.
	PROF_5	The company's financial reporting has contributed positively to its profitability.

Prior to the main data collection phase, the questionnaire underwent a rigorous review by academic experts and was pilot tested with a small group of finance professionals. This preliminary evaluation aimed to ensure the clarity, relevance, and comprehensiveness of the instrument. Based on the feedback received, necessary modifications were implemented to strengthen the overall validity of the questionnaire.

### Data Collection Procedure

To ensure broad participation and improve response completeness, data collection employed a dual-mode survey strategy comprising both digital and in-person administration. The online surveys were circulated through email and relevant professional associations, while physical distribution took place during financial sector events such as workshops, seminars, and company site visits across Iraq. Participation was strictly voluntary, and all respondents were guaranteed anonymity and data confidentiality to foster openness and reduce potential response bias.

### Data Analysis Techniques

The collected data were analysed using SmartPLS 4, a well-established software application designed for conducting partial least squares structural equation modelling (PLS-SEM). The analytical procedure was structured in two distinct phases.

## Measurement Model Evaluation

The measurement model's reliability and validity were examined using multiple established criteria:

1. **Outer Loadings:** Indicator reliability was determined by evaluating the outer loadings of each item with its associated construct. A loading coefficient of 0.70 or higher was deemed acceptable, reflecting a strong association between the observed variable and its underlying construct.
2. **Composite Reliability:** To assess internal consistency, composite reliability scores were calculated. Values equal to or greater than 0.70 were considered indicative of satisfactory reliability across the indicators within each construct.
3. **Average Variance Extracted (AVE):** Convergent validity was confirmed where the AVE value for each construct surpassed 0.50, demonstrating that the construct captured more than 50% of the variance from its observed indicators.

## Structural Model Evaluation

The structural model was assessed to evaluate the hypothesised relationships between the study constructs. The procedures adopted included the following:

1. **Path Coefficients and Significance:** The significance of the proposed relationships was tested using the bootstrapping method, employing 5,000 resamples. Path coefficients, t-values, and p-values were reported to determine the strength and statistical significance of each relationship.
2. **Mediation Analysis:** The indirect influence of Financial Reporting Quality on organisational profitability was assessed through mediation testing within the PLS-SEM framework.
3. **Moderation Analysis:** The moderating role of Management Awareness of IFRS was examined by creating interaction terms, allowing for the analysis of whether MAI significantly influenced the strength of specific structural paths.
4. **Model Fit and Relevance:** To further evaluate the model's explanatory and predictive capabilities, measures such as R-squared ( $R^2$ ) values and predictive relevance ( $Q^2$ ) were calculated.

## Ethical Considerations

The study adhered strictly to ethical research standards. Participation was entirely voluntary, and all respondents were briefed on the research objectives and procedures through an informed consent process. Both data collection and analysis were conducted with full respect for participant confidentiality and anonymity, with all information used exclusively for academic research purposes. In conclusion, the adopted methodology—comprising a rigorously constructed survey instrument, a purposefully selected group

of financial professionals, and robust analytical techniques—positions the study to generate credible and insightful findings. These results are expected to contribute meaningfully to understanding how IFRS-aligned reporting practices influence corporate profitability.

## RESULTS

### Convergent Validity Test

The outcomes of the convergent validity assessment, as shown in [Table 3](#), confirm that all constructs used in the study—FRQ, FST, MAI, MCC, PROF, and QIFRS—exhibit strong measurement properties.

**Table 3: Convergent Validity Test**

Constructs	Items	Loading	Alpha	CR	AVE
FRQ	FRQ1	0.788	0.848	0.892	0.623
	FRQ2	0.826			
	FRQ3	0.787			
	FRQ4	0.776			
	FRQ5	0.767			
FST	FST1	0.772	0.833	0.882	0.599
	FST2	0.778			
	FST3	0.775			
	FST4	0.77			
	FST5	0.774			
MAI	MAI1	0.798	0.847	0.889	0.616
	MAI2	0.756			
	MAI3	0.775			
	MAI4	0.837			
	MAI5	0.755			
MCC	MCC1	0.745	0.849	0.888	0.57
	MCC2	0.761			
	MCC3	0.748			
	MCC4	0.768			
	MCC5	0.757			
	MCC6	0.75			
PROF	PROF1	0.775	0.831	0.881	0.597
	PROF2	0.745			
	PROF3	0.756			
	PROF4	0.776			
	PROF5	0.811			
QIFRS	QIFRS1	0.792	0.84	0.887	0.61
	QIFRS2	0.802			
	QIFRS3	0.774			
	QIFRS4	0.747			
	QIFRS5	0.789			

For each construct, the outer loadings of individual indicators exceeded the recommended threshold of 0.70, signifying a robust relationship between the items and their respective constructs. Cronbach's alpha values ranged from 0.831 to 0.849, and composite reliability (CR) values fell between 0.881 and 0.892, both well above the minimum benchmark of 0.70. These outcomes reflect a high level of internal consistency across the indicators for each construct. Additionally, all constructs demonstrated AVE values exceeding 0.50, ranging from 0.570 to 0.623. This indicates that each construct explains more than half of the variance in its observed indicators, confirming adequate convergent validity. Overall, the findings validate the reliability and construct validity of the measurement model, ensuring that the constructs are suitably measured and can be confidently used in subsequent structural testing.

### HTMT Ratio: Evidence for Discriminant Validity

The HTMT ratio results presented in [Table 4](#) provide strong evidence supporting discriminant validity among the constructs included in the study. All HTMT values fall below the recommended threshold of 0.85, indicating that the constructs are empirically distinct and that no problematic overlaps exist between them. For example, the highest observed HTMT value is 0.519, recorded between QIFRS and FRQ, which remains comfortably within acceptable limits. Similarly, the HTMT values for pairs such as FRQ and FST (0.446), and PROF and FST (0.416), further substantiate the presence of discriminant validity. The lowest HTMT values are associated with MAI and its relationships with the other constructs, suggesting that MAI captures a particularly distinct dimension within the framework. Collectively, these findings confirm that each construct represents a unique aspect of the conceptual model, affirming their distinctiveness and justifying their inclusion in the structural analysis.

**Table 4: HTMT Ratio**

	FRQ	FST	MAI	MCC	PROF	QIFRS
FRQ						
FST	0.446					
MAI	0.084	0.104				
MCC	0.377	0.052	0.047			
PROF	0.496	0.416	0.164	0.33		
QIFRS	0.519	0.064	0.031	0.05	0.303	

### The Fornell-Larcker Criterion to Assess Discriminant Validity

The Fornell–Larcker criterion was employed to evaluate discriminant validity within the measurement model by comparing the square root of each construct's AVE with its correlations with all other constructs. As shown in [Table 5](#), the diagonal elements represent the square roots of the AVE values for each construct, while the off-diagonal elements indicate the inter-construct correlation coefficients. To establish discriminant

validity, the square root of the AVE for each construct must exceed its corresponding correlations with all other constructs in the same row and column. In Table 5, this condition is met across all constructs. For instance, the square root of AVE for FRQ is 0.789, which surpasses its correlations with FST (0.377), MAI (-0.023), MCC (0.32), PROF (0.417), and QIFRS (0.44). Similar patterns are observed for the other constructs, with square root AVE values of 0.774 for FST, 0.785 for MAI, 0.755 for MCC, 0.773 for PROF, and 0.781 for QIFRS, each exceeding their respective inter-construct correlations. These results demonstrate that each construct shares more variance with its own indicators than with other constructs in the model, thereby confirming adequate discriminant validity according to the Fornell–Larcker criterion. This further substantiates that the constructs are both conceptually and statistically distinct within the measurement framework.

**Table 5: Fornell Larcker**

	FRQ	FST	MAI	MCC	PROF	QIFRS
FRQ	0.789					
FST	0.377	0.774				
MAI	-0.023	-0.083	0.785			
MCC	0.32	-0.006	0.006	0.755		
PROF	0.417	0.349	0.147	0.279	0.773	
QIFRS	0.44	0.031	0.01	0.026	0.253	0.781

### Cross Loadings to Assess the Discriminant Validity

Table 6 presents the cross-loadings matrix, which serves to assess the discriminant validity of the measurement model by evaluating whether each item exhibits a higher loading on its designated construct compared to its loadings on other constructs. According to established methodological standards, indicators are expected to show the strongest association with their assigned construct, reflecting appropriate construct differentiation. In this analysis, every item demonstrates a maximum loading on its corresponding construct. For instance, all items associated with FRQ (FRQ1 to FRQ5) exhibit the highest loadings on FRQ and substantially lower loadings on FST, MAI, MCC, PROF, and QIFRS. A similar pattern is observed across the other constructs: items FST1 to FST5 align most strongly with FST, MAI1 to MAI5 load highest on MAI, MCC1 to MCC6 align primarily with MCC, PROF1 to PROF5 show their highest loadings on PROF, and QIFRS1 to QIFRS5 load most heavily on QIFRS. The distinct differences between each item's primary and secondary loadings confirm that the indicators are accurately capturing their respective constructs, without overlapping substantially with others. This consistency across all constructs affirms that the measurement model possesses robust discriminant validity, thereby establishing its appropriateness for subsequent structural evaluation.

**Table 6: Cross Loadings**

	<b>FRQ</b>	<b>FST</b>	<b>MAI</b>	<b>MCC</b>	<b>PROF</b>	<b>QIFRS</b>
FRQ1	<b>0.788</b>	0.231	0.024	0.333	0.359	0.319
FRQ2	<b>0.826</b>	0.313	-0.011	0.225	0.359	0.373
FRQ3	<b>0.787</b>	0.317	0.044	0.245	0.308	0.300
FRQ4	<b>0.776</b>	0.318	-0.056	0.231	0.292	0.398
FRQ5	<b>0.767</b>	0.309	-0.090	0.230	0.324	0.342
FST1	0.318	<b>0.772</b>	-0.057	-0.035	0.295	0.034
FST2	0.312	<b>0.778</b>	-0.062	0.002	0.289	0.040
FST3	0.278	<b>0.775</b>	-0.100	-0.020	0.241	0.013
FST4	0.288	<b>0.770</b>	-0.037	0.019	0.265	0.052
FST5	0.253	<b>0.774</b>	-0.067	0.016	0.252	-0.026
MAI1	-0.005	-0.076	<b>0.798</b>	0.012	0.120	0.015
MAI2	-0.034	-0.084	<b>0.756</b>	0.000	0.090	-0.004
MAI3	-0.069	-0.079	<b>0.775</b>	0.005	0.086	0.005
MAI4	0.020	-0.048	<b>0.837</b>	0.010	0.159	0.019
MAI5	-0.039	-0.052	<b>0.755</b>	-0.011	0.092	-0.005
MCC1	0.223	-0.047	0.022	<b>0.745</b>	0.211	0.030
MCC2	0.268	0.005	-0.044	<b>0.761</b>	0.176	0.008
MCC3	0.262	-0.012	-0.014	<b>0.748</b>	0.179	0.044
MCC4	0.240	0.027	0.026	<b>0.768</b>	0.223	-0.014
MCC5	0.214	-0.013	0.024	<b>0.757</b>	0.220	0.005
MCC6	0.242	0.009	0.012	<b>0.750</b>	0.253	0.043
PROF1	0.358	0.269	0.132	0.253	<b>0.775</b>	0.189
PROF2	0.317	0.284	0.090	0.173	<b>0.745</b>	0.216
PROF3	0.307	0.263	0.131	0.204	<b>0.756</b>	0.224
PROF4	0.323	0.246	0.095	0.203	<b>0.776</b>	0.174
PROF5	0.305	0.283	0.114	0.242	<b>0.811</b>	0.176
QIFRS1	0.301	0.008	-0.005	-0.016	0.248	<b>0.792</b>
QIFRS2	0.353	-0.008	-0.011	0.023	0.207	<b>0.802</b>
QIFRS3	0.382	0.050	0.017	0.019	0.166	<b>0.774</b>
QIFRS4	0.339	0.054	0.024	0.015	0.146	<b>0.747</b>
QIFRS5	0.341	0.021	0.017	0.056	0.22	<b>0.789</b>

## Measurement Model

Figure 1 presents the measurement model diagram, offering a visual depiction of the relationships between constructs and their corresponding indicators. Each construct—QIFRS, FST, MCC, FRQ, MAI, and PROF—is illustrated as a circular node, with directional arrows leading to its respective indicators, represented as rectangles. The numerical values adjacent to these arrows denote the loadings, reflecting the strength of association between each construct and its indicators. All indicator loadings exceed 0.74, indicating strong reliability and supporting the appropriateness of the selected indicators. The Figure 1 also portrays the hypothesised structural relationships among constructs. Arrows connecting constructs illustrate the proposed direct effects, with

associated path coefficients indicating the strength and direction of influence. For instance, QIFRS, FST, and MCC each exhibit significant direct relationships with FRQ, with respective path coefficients of 0.420, 0.366, and 0.311. These values suggest that each of these constructs contributes positively to the enhancement of FRQ. In addition, these constructs exert direct effects on PROF, with coefficients of 0.154 (QIFRS to PROF), 0.289 (FST to PROF), and 0.215 (MCC to PROF), reinforcing their role in shaping firm-level financial outcomes.

MAI functions as both a direct determinant of PROF, with a path coefficient of 0.157, and as a moderating variable. The model includes dashed arrows representing interaction effects between MAI and the independent variables (e.g., MAI  $\times$  QIFRS, MAI  $\times$  FST, MAI  $\times$  MCC), with moderation coefficients ranging from 0.135 to 0.149. These values indicate that MAI enhances the influence of QIFRS, FST, and MCC on PROF, although the strength of these moderating effects is comparatively modest. Furthermore,  $R^2$  values are displayed within the construct circles, with FRQ accounting for 42.2% of its variance and PROF explaining 37.7%. These values confirm that the independent variables provide a substantial level of explanatory power within the structural model, affirming its suitability in organisational and financial reporting contexts.

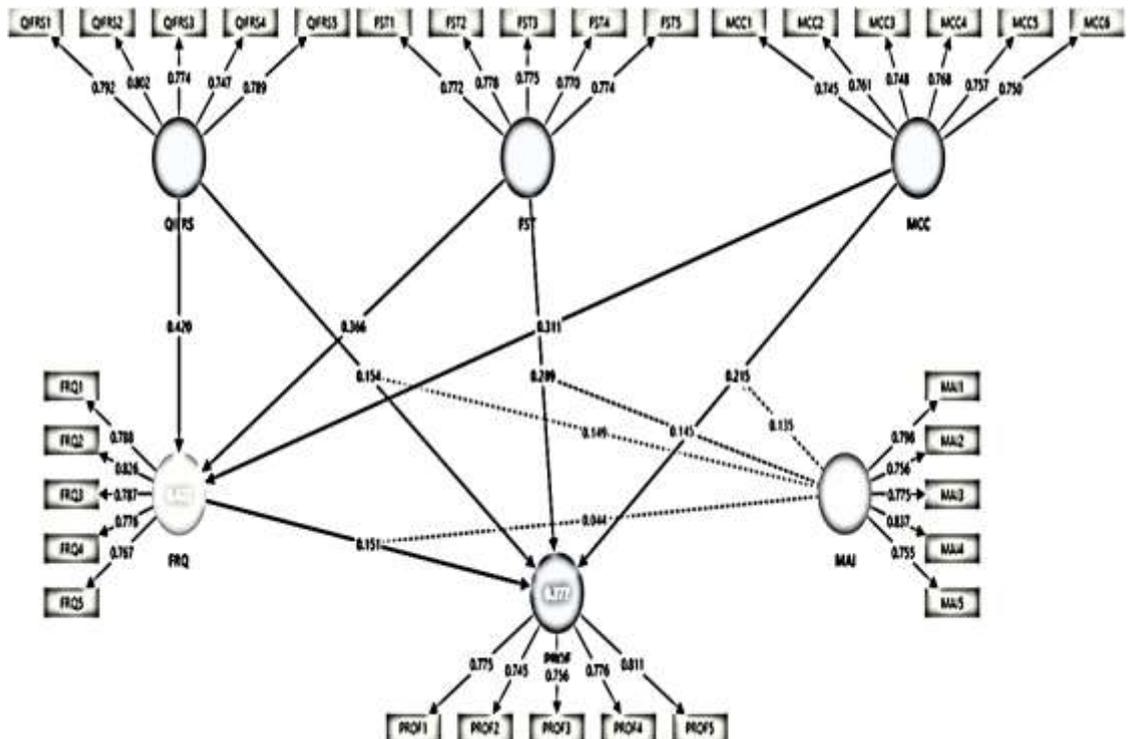


Figure 1: Measurement Model

## Path Analysis

Table 7 presents the outcomes of the path analysis based on structural equation modelling, encompassing direct, indirect, and moderating relationships among the constructs. Each entry in the table outlines the original path coefficient (O), sample mean (M), standard deviation (STDEV), t-statistic, and p-value associated with each hypothesised relationship. The results reveal several statistically significant direct relationships. FRQ exerts a positive and significant influence on PROF, with a path coefficient of 0.151 and a p-value of 0.003, suggesting that enhanced reporting quality contributes to improved profitability. FST positively affects both FRQ (0.366,  $p < 0.001$ ) and PROF directly (0.289,  $p < 0.001$ ), underscoring its pivotal role in fostering both reporting quality and financial outcomes. Similarly, MCC significantly strengthens FRQ (0.311,  $p < 0.001$ ) and contributes directly to PROF (0.215,  $p < 0.001$ ). QIFRS also shows substantial direct effects, improving FRQ (0.420,  $p < 0.001$ ) and exerting a positive impact on PROF (0.154,  $p = 0.001$ ). In addition, MAI is identified as a significant direct predictor of PROF, with a path coefficient of 0.157 ( $p < 0.001$ ).

**Table 7: Path Analysis**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
FRQ -> PROF	0.151	0.147	0.051	2.980	0.003
FST -> FRQ	0.366	0.366	0.039	9.360	0.000
FST -> PROF	0.289	0.290	0.044	6.512	0.000
MAI -> PROF	0.157	0.164	0.042	3.726	0.000
MCC -> FRQ	0.311	0.312	0.039	7.983	0.000
MCC -> PROF	0.215	0.217	0.038	5.600	0.000
QIFRS -> FRQ	0.420	0.421	0.036	11.656	0.000
QIFRS -> PROF	0.154	0.157	0.046	3.349	0.001
MAI x MCC -> PROF	0.135	0.130	0.046	2.895	0.004
MAI x FST -> PROF	0.145	0.140	0.051	2.875	0.004
MAI x QIFRS -> PROF	0.149	0.139	0.059	2.534	0.011
MAI x FRQ -> PROF	0.044	0.046	0.056	0.787	0.432
FST -> FRQ -> PROF	0.055	0.054	0.02	2.796	0.005
MCC -> FRQ -> PROF	0.047	0.046	0.017	2.791	0.005
QIFRS -> FRQ -> PROF	0.063	0.062	0.022	2.879	0.004

Moderation analysis demonstrates that MAI amplifies the effects of several constructs on PROF. Specifically, the interactions of MAI with MCC (0.135,  $p = 0.004$ ), FST (0.145,  $p = 0.004$ ), and QIFRS (0.149,  $p = 0.011$ ) reveal significant moderation, indicating that the positive impact of these predictors on profitability becomes stronger when management awareness is high. However, the interaction between MAI and FRQ does not exhibit a significant moderating effect (0.044,  $p = 0.432$ ), as evidenced by the low t-statistic and non-significant p-value. The Table 7 further includes indirect effects, illustrating mediating relationships through FRQ. FST, MCC, and QIFRS each

influence PROF indirectly via FRQ, with significant paths observed in all cases (FST → FRQ → PROF: 0.055,  $p = 0.005$ ; MCC → FRQ → PROF: 0.047,  $p = 0.005$ ; QIFRS → FRQ → PROF: 0.063,  $p = 0.004$ ). These findings confirm that part of the influence of transparency, compliance, and IFRS 5-related disclosure on profitability operates through their enhancement of financial reporting quality.

## Structural Model

Figure 2 presents a graphical summary of the key results derived from the PLS-SEM analysis. Each construct is illustrated as a circular node, with directional arrows signifying hypothesised relationships. The accompanying values on these arrows include the standardised path coefficients and their respective t-statistics (in parentheses). Within each construct, the  $R^2$  values are displayed, indicating the proportion of variance in the construct explained by its predictors. Specifically, FRQ and PROF report  $R^2$  values of 0.422 and 0.377, respectively, highlighting the strong explanatory capability of the model. The Figure 2 also demonstrates that QIFRS, FST, and MCC each exert statistically significant and substantial direct influences on FRQ, with standardised path coefficients of 0.420, 0.366, and 0.311, respectively. These coefficients are supported by t-statistics that exceed the conventional significance threshold, signifying that improvements in disclosure quality, transparency, and compliance contribute meaningfully to enhanced reporting quality. These same constructs also exhibit direct positive effects on PROF, with coefficients of 0.289 for FST ( $t = 6.512$ ), 0.215 for MCC ( $t = 5.600$ ), and 0.154 for QIFRS ( $t = 3.349$ ), indicating that these organisational attributes have a measurable influence on firm profitability.

FRQ itself acts as a significant predictor of PROF (0.151,  $t = 2.980$ ), suggesting that part of the profitability advantage associated with improvements in QIFRS, FST, and MCC stems from their ability to elevate reporting quality. The  $R^2$  figures further affirm that 42.2 percent of the variance in FRQ and 37.7 percent in PROF can be attributed to the specified predictors, underlining the model's robustness within the scope of organisational performance research. MAI is depicted as both an independent predictor and a moderating factor. It exhibits a significant direct association with PROF (0.157,  $t = 3.726$ ), confirming its relevance in financial outcomes. The model also displays interaction effects—represented with dashed arrows—where MAI enhances the effect of MCC (0.135,  $t = 2.895$ ), FST (0.145,  $t = 2.875$ ), and QIFRS (0.149,  $t = 2.534$ ) on PROF.

However, the moderating role of MAI in the link between FRQ and PROF is not statistically significant (0.044,  $t = 0.787$ ), as the t-value does not meet the threshold for significance. Overall, the structural model illustrates that QIFRS, FST, and MCC exert both direct and indirect influences on PROF. The indirect effects are mediated by FRQ, with MAI further enhancing the magnitude of selected relationships. These findings provide a comprehensive understanding of the interconnected roles of disclosure,

transparency, compliance, and awareness in shaping financial outcomes.

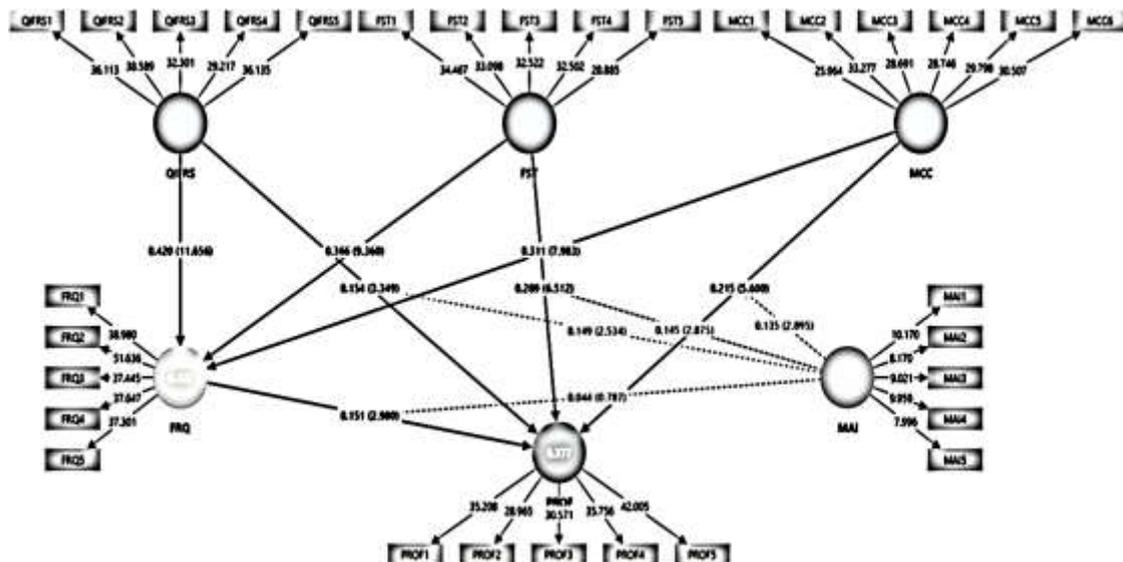


Figure 2: Structural Model

## DISCUSSION

The empirical results of this study offer compelling support for the assertion that the adoption and practical application of IFRS, specifically IFRS 5, substantially contribute to enhancing both FRQ and PROF. This aligns with the expanding academic discourse which highlights the positive transformation in accounting quality attributed to IFRS adoption across various jurisdictions and sectors (Bassemir & Novotny-Farkas, 2018; Bathla et al., 2024; Dayanandan et al., 2016; Paşcan, 2015). The observed positive association between FRQ and PROF is consistent with earlier studies which argue that financial statements that are credible, accurate, and transparent serve to reduce information asymmetry, thereby improving decision-making among stakeholders and contributing to enhanced firm valuation (Garrett et al., 2014; Gaynor et al., 2016; Herath & Albarqi, 2017; Isidro et al., 2020). The findings of the current study affirm that firms exhibiting high FRQ tend to perform better financially, supporting the premise that stakeholder trust and transparency in financial reporting constitute a strategic organisational asset (Bathla et al., 2024; Garrett et al., 2014).

Furthermore, the strong and statistically significant direct effects of FST and MCC on both FRQ and PROF reinforce earlier conclusions by Devalle and Rizzato (2013), Choudhary (2025), and Celis (2018). These outcomes suggest that thorough and accessible disclosures, coupled with an internal culture that prioritises adherence to reporting standards, form the foundation for producing high-quality financial reports. The importance of leadership accountability and the role of internal commitment to compliance are reaffirmed by Saad et al. (2019), who demonstrate that such

organisational behaviour enhances overall performance. The notable influence of QIFRS on both FRQ and PROF aligns with the conclusions of [Alhawtmeh \(2023\)](#), [Gbadebo \(2023\)](#), and [Alharasis et al. \(2024\)](#). Their findings show that timely, detailed, and clear disclosures, as mandated by IFRS, significantly enhance the decision-usefulness and comparability of financial information. This results in increased stakeholder confidence and reputational gains for the organisation. Similarly, [Minh et al. \(2023\)](#) find that improved disclosure practices following IFRS implementation contribute to enhanced internal evaluations and performance outcomes.

MAI emerged as a critical variable within the model. Not only does it directly enhance PROF, but it also moderates the effects of MCC, FST, and QIFRS on PROF, thereby amplifying their influence. These findings support those of [de Araújo et al. \(2014\)](#), [Iordache \(2020\)](#), and [Puri et al. \(2020\)](#), who maintain that continuous education and awareness among management are essential to realising the full benefits of IFRS. Organisations led by well-informed management are better equipped to implement complex standards and adapt to evolving regulatory environments ([Iordache, 2020](#); [Puri et al., 2020](#)). Moreover, the mediation analysis reveals that FRQ serves as a significant conduit through which FST, MCC, and QIFRS affect PROF. This outcome is consistent with previous research suggesting that improvements in organisational practices influence financial outcomes primarily by elevating the quality of financial reporting ([Alharasis et al., 2024](#); [Bathla et al., 2024](#); [Saad et al., 2019](#)).

These conclusions also resonate with international studies indicating that the effectiveness of IFRS adoption and its influence on accounting quality depend not only on technical compliance but also on broader contextual elements, including legal structures, local institutional conditions, and firm-level characteristics ([Bassemir & Novotny-Farkas, 2018](#); [Dayanandan et al., 2016](#)). The multi-dimensional nature of compliance theory [Celis \(2018\)](#), the strategic value of MAI ([de Araújo et al., 2014](#); [Iordache, 2020](#)), and the direct and mediated effects of QIFRS on PROF contribute to an expanded theoretical understanding of IFRS-related outcomes. From a practical perspective, the findings suggest that firms should prioritise continuous IFRS-related training, foster a culture of openness and regulatory compliance, and ensure that management is actively involved in adapting to evolving reporting obligations. Such measures not only improve FRQ but also translate into tangible gains in PROF. These insights offer guidance for regulatory authorities and standard-setting institutions, indicating that emphasis should extend beyond formal IFRS adoption to include management development and the promotion of robust disclosure practices ([Devalle & Rizzato, 2013](#); [Gbadebo, 2023](#)).

## CONCLUSION

This study explored the influence of reporting non-current assets held for sale and

discontinued operations in accordance with IFRS 5 on PROF, with a particular focus on the mediating and moderating effects of FRQ, FST, MCC, and MAI. The findings confirm that high-quality IFRS-aligned disclosures, robust FST, and strong MCC are critical determinants of improved FRQ and enhanced PROF. Moreover, MAI not only contributes directly to stronger PROF outcomes but also amplifies the impact of organisational compliance, disclosure practices, and transparency on profitability. The results reinforce international literature which contends that technical compliance alone is insufficient to realise the full potential of IFRS. Instead, continuous managerial engagement, a culture of transparency, and ongoing professional development are essential for effective IFRS implementation. The mediation analysis underscores that FRQ functions as a vital mechanism through which organisational practices are converted into improved PROF. Overall, the study presents significant theoretical and practical contributions. For corporate executives, policymakers, and regulators, the results underline the importance of integrating high-quality, reliable disclosures with strong institutional support and proactive managerial awareness. This integrated approach represents a strategic pathway to maximising the value of financial reporting and achieving long-term profitability in an increasingly complex and interconnected global financial environment.

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