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Walden University

College of Management and Technology

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Susan Ortega

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Walden University
2021

Abstract

Impact of Corporate Governance on Financial Reporting and Profitability of Banking

by

Susan Ortega

MS, Argosy University, 2006

BS, University of Phoenix, 2005

Doctoral Study Submitted in Partial Fulfillment

of the Requirements for the Degree of

Doctor of Business Administration

Walden University

April 2021

Abstract

A lack of corporate governance and financial reporting may lead to a decrease in profitability and bank closures due to poor management, lack of capital, and liquidity. Based on agency theory, the purpose of this correlational study was to investigate the relationship between corporate governance, financial reporting, and three measures of profitability; return on assets, return on equity, and net interest margin, in 80 banks within the Midwest from 2015–2018. The data were collected from the banks' websites and the Federal Deposit Insurance Corporation (FDIC). The results of the three regression analyses were not significant; however, financial reporting was a more substantial contributor (β = -.122) than corporate governance (β = -.021) for return on equity, so bank leaders should monitor and maintain robust financial reporting systems. The implications for positive social change include the potential to build confidence amongst investors, managers, employees, and board members. Banking leaders with accurate banking information and sound corporate governance may improve community banking, leading to increased investors, strategic assumption of risk, and community economic and job growth.

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Section 1: Foundation of the Study

Several international leaders have been apprised of or involved in famous financial scandals. These leaders include Bernie Madoff of Bernard L. Madoff Investment Securities, Kenneth Lay of Enron, John Sidgmore of WorldCom, Mark Vorsatz of Arthur Anderson, Xerox, Maxwell, and Allied Irish Bank (Agrawal & Cooper, 2017). These financial scandals resulted in a drop in the stock market, and several employees lost their jobs and lost their financial security. Investors also lost their investments, and the amount of tax collected decreased (Agrawal & Cooper, 2017). One common cause of these failures was a weak internal control system, which resulted from poor corporate governance (Awolowo, Garrow, Clark, & Chan, 2018).

The auditors' failure to reveal any discrepancies in the financial statements decreased investor's confidence in the financial records and became a huge factor in the accounting scandals (Ahmed, 2016). After the financial scandals, investors had a significant amount of doubt regarding the stock market, policymakers, and the reliability of professional accountants and auditors of (Isik & Folkinshteyn, 2017). Since the financial scandals were so high-profile, they have led to a debate on corporate governance's effectiveness as a strategy to improve financial reporting and protect investors (Anginer, Demirguc-Kunt, Huizinga, & Ma, 2016).

Business ethics and corporate governance rules and regulations have been at the forefront of investor's minds due to corporate mismanagement (Lemma & Negash, 2016). The recent financial scandals have justified the importance of new rules and regulations

to regulate corporate governance within organizations (Alotaibi & Hussainey, 2016). Legislators and regulators seek to strengthen and enhance corporate governance rules and regulations, disclosure, and transparency to prevent future financial crises (Al-Maghzom, Hussainey, & Aly, 2016). One example of the rules and regulations put into place to prevent financial crises is the Sarbanes-Oxley Act of 2002 (SOX) enacted by the U.S. Congress to impose corporate governance rules and regulations on publicly listed companies (Sorensen & Miller, 2017). SOX addressed audit independence, board independence, and corporate disclosures (Silkoset, Nygaard, & Kidwell, 2016).

The United States passed SOX in 2002, which changed the accounting profession standards (Sorensen & Miller, 2017). SOX had many vital provisions that companies needed to follow. The purpose of the requirements was to improve the independence of the external auditors and strengthen corporate governance and board of directors (Silkoset et al., 2016). Banking is a highly regulated industry, and corporate governance is a critical element to maintain transparent financial reporting (Sorensen & Miller, 2017). The regulation behind corporate governance continues to evolve; bank managers and board of directors can demonstrate the changes to investors by showing them the financial disclosures (Silkoset et al., 2016).

Background of the Problem

The purpose of corporate governance is to achieve long-term stockholder value; as the banking leaders adopt the best practices in corporate governance, the bank may achieve better financial performance and a better market for the bank (Al-Matari, Al-

Swidi, & Fadzil, 2014; Ghazali, 2010; Mazzotta & Veltri, 2014). Corporate governance is a valuable tool to mitigate the conflicts of interest between stakeholders and management (Al-Matari & Al-Arussi, 2016; Pandya, 2011). Corporate governance is a crucial piece to market stability and economic development, shown through research (Bonna, 2011; Chahine & Safieddine, 2011).

Corporate governance is crucial to protect the interest of all the stakeholders and shareholders. Corporate governance induces confidence not only from the stakeholders and shareholders but also (a) government, (b) employees, (c) suppliers, and (d) customers. Companies with weaker corporate governance have higher input costs, lower labor productivity, lower equity returns, lower value, and lower operating performance than banks with good corporate governance (Zaharia & Zaharia, 2012). Shareholders can see economic growth and an increase in wealth due to good corporate governance (Cretu, 2012).

In this study, I investigated the relationship between corporate governance, financial reporting, and profitability to see if strong corporate governance and financial reporting increased profitability. This study's focus was on corporate governance mechanisms in different levels of corporate governance and financial performance and market value by examining the relationship between corporate governance, financial reporting, and profitability. The findings of this study can be generalized to other regional banks.

Problem Statement

Small banks often fail because they do not have effective corporate governance and financial reporting in place (Lin & Chang, 2016). A bank's lack of effective corporate governance and financial reporting can lead to 76% of them failing within the first 5 years (Mustaghfiroh, 2016). Between 2008 and 2012, the United States closed 465 banks because of poor management, liquidity, and capital (Isik & Folkinshteyn, 2017). The general business problem is a lack of effective corporate governance and financial reporting within the banking institutions, which leads to a decrease in profitability. The specific business problem is how corporate governance and financial reporting in regional banks correlate with regional banking profitability.

Purpose Statement

The purpose of this quantitative correlational study was to examine the relationship between corporate banking governance, banking financial reporting, and regional bank's profitability by using the return on asset (ROA), the return of equity (ROE), and net interest margin (NIM). The independent variables were three mechanisms of corporate governance and financial reporting: (a) mature program, (b) new program, and (c) no program. Before comparing the three variables, each variable was evaluated independently for a more thorough strategic analysis. The three dependent variables, ROA, ROE, NIM, measured profitability from 2015 through 2018. The target population consisted of executive leadership in regional banks located in the Midwest United States. This study can lead to positive social change by equipping owners with information on

strategies that can provide new ways to reconfigure corporate governance and financial reporting, promoting operational efficiency and an economic contribution to state and local economies.

Nature of the Study

I chose a quantitative methodology for this study. In a quantitative study, the researcher looks at the data and the relationship between the variables and the research because the quantitative method studies things in their natural settings (Saunders, Lewis, & Thornhill, 2016) to solve for a predefined hypothesis (Cox, 2012). My goal for this study was to examine the relationship between governance and reporting on profitability through quantitative analytical procedures; therefore, the quantitative method was appropriate. In qualitative research, investigators focus on the broad business problem (Saunders et al., 2016). The qualitative method is used by researchers to collect the data and make adaptions to the research based on the unanticipated responses from participants (Saunders et al., 2016). The mixed-method research design is the combination of quantitative and qualitative research techniques that are used to address more complicated research questions and develops a deeper theoretical understanding (Saunders et al., 2016). The qualitative and mixed-method research design have some flexibility in the research; however, in this study, I used quantitative analytics. Therefore, neither qualitative nor mixed methods were appropriate.

I chose the correlational design for this study. Three research designs were considered: (a) correlational, (b) experimental, and (c) quasi-experimental. Correlational

design is used to examine the relationship between two or more variables (Carus & Ogilvie, 2009). Experimental quantitative research design is used to examine the cause and effect relationship between variables using the scientific method (Cokley & Awad, 2013). The quasi-experimental design is also used to examine the cause and effect relationship between the variables, but the researcher did not assign groups (Cokley & Awad, 2013). In this study, I used a correlational study allowed to investigate the study variable (Yilmaz, 2013). I used statistics and charting techniques to evaluate the numerical data to determine the variables' relationship. I recognized any trends showing a relationship between the variables (Carus & Ogilvie, 2009). The study was a monomethod quantitative design using secondary data as the single-data collection method. I provide a probable ranking of corporate governance, financial reporting, and the impact on profitability.

Research Question

For this study, the central research question was:

Research Question (RQ): What relationship exists between corporate governance, financial reporting, and banking institution profitability?

Hypotheses

Null Hypothesis ($H_{1\cdot 0}$): There was no statistically significant relationship between corporate governance, financial reporting and ROA as the dependent within banking institutions?

Alternative Hypothesis ($H_{1.A}$): There was a statistically significant relationship between corporate governance, financial reporting, and ROA as the dependent variable within banking institutions?

Null Hypothesis ($H_{2.0}$): There was no statistically significant relationship between the independent variables of corporate governance and financial reporting and ROE as the dependent variable within banking institutions?

Alternative Hypothesis ($H_{2.A}$): There was a statistically significant relationship between the independent variables of corporate governance and financial reporting and ROE as the dependent variable within banking institutions?

Null Hypothesis ($H_{3.0}$): There was no statistically significant relationship between the independent variables of corporate governance and financial reporting and NIM as the dependent variable within banking institutions?

Alternative Hypothesis ($H_{3.A}$): There was a statistically significant relationship between the independent variables of corporate governance and financial reporting and NIM as the dependent variable within banking institutions?

Theoretical Framework

The agency theory framework was the appropriate lens for my study. Agency theory links to corporate governance by acting as a monitoring tool for management (L'Huillier, 2014). I used the agency theory approach to look at the variables from an independent perspective. Tumbat and Grayson (2016) described agency theory as the approach that explained the relationship between agents and principals.

An agency theory study by Feils, Rahman, and Sabac (2018) identified how national corporate governance constraints affected a bank's performance. Cohen, Manion, and Morrison (2017) looked at how small banks' implementation of corporate governance affected their profitability by using agency theory as the theoretical framework. Furthermore, the relationship between corporate governance, financial reporting, and profitability in small banks identified by scholars through previous research. For instance, one item identified by the scholars was the proportion to which corporate governance's effectiveness can either increase or decrease the bank's profitability. Within agency theory, reporting and profitability were the foundational concerns of banking.

Operational Definitions

The following definitions are key terms within this study:

Corporate governance: The system of internal controls and procedures that regional banks follow. Corporate governance provides a framework that identifies managers' roles and responsibilities, the board of directors, and shareholders (Awotundun, Kehinde, & Somoye, 2011).

Financial reporting: Financial results of a company that shares with the public. The financial statements can show the financial health of the company (Adiloglu & Vuran, 2012). The financial statements include the income statement, balance sheet, and cash flow statement, which show the footnotes from the accountants, which describe more detail about the company's framework.

Mature program: Regional banks had corporate governance in place for more than ten years (Bonna, 2011).

Net interest margin (NIM): This measures the regional banks' investments to their debt (Ionescu, 2012). NIM is calculated by subtracting interest expenses from interest income then dividing by the average earning assets.

New program: Regional banks only had corporate governance in place for less than ten years (Bonna, 2011).

No program: Regional banks that either do not have any corporate governance or have ineffective corporate governance in place (Bonna, 2011).

Profitability: The banks' ability to show financial gain or profit (Yeh, 2017).

Regional banks: They are more extensive than community banks, and they offer more services and serve a specific geographical region (Yeh, 2017). Regional banks serve a specific geographic region and have at least $1 billion in assets (Al-Matari & Al-Arussi, 2016).

Return on assets (ROA): A ratio that shows how profitable a company is based on how effective the company is at using its assets. The formula to find ROA is to divide the net income by total assets (Adiloglu & Vuran, 2012).

Return on equity (ROE): A ratio that shows investors the return on their investment. ROE's formula is the net income divided by the average total equity (Adiloglu & Vuran, 2012).

Assumptions, Limitations, and Delimitations

Assumptions are beliefs considered to be accurate but that cannot be verified (Starbuck, 2014). Researchers make assumptions about theories under investigation, the methodology, the instrument for data collection, method of analysis, the sample, and the results (Starbuck, 2014). Limitations refer to potential study weaknesses. Limitations are areas that the researcher cannot control or address (Brutus, Aguinis, & Wassmer, 2013). Delimitations refer to the bounds of the scope of the study (Starbuck, 2014). The delimitations relate to theories, practices, and business problems within a study (Starbuck, 2014).

Assumptions

My first assumption was that excluding banks that do not have corporate governance or financial reports available does not affect the results. My second assumption was that the secondary archival data obtained was accurate, reliable, and honest information. My third assumption was that banks' profitability had no relationship to their corporate governance mechanisms in place.

Limitations

The study contained some potential limitations. The first inherent limitation of this study was the use of secondary data that were not initially intended for this study. The secondary data could potentially contain errors, which could have affected the findings of regional banks within the study. To overcome this limitation, it was essential to use various sources for data such as (a) banks' websites, (b) annual reports, and (c)

Moody's analytics. Data triangulation minimized limitations by using various data sources instead of just one source (Bonna, 2011).

The second limitation related to the measurement variables. Corporate governance is considered a framework indicator. I considered financial reporting an economic indicator that did not concern profitability. Academic researchers disagree on corporate governance and financial reporting indicators affecting profitability (Bonna, 2011).

The third limitation was the focus of the study. I focused on the internal process of a bank instead of external factors. External factors can have a significant effect on financial performance, just like internal factors. The macroeconomy, microeconomy, and inflation can all have a substantial impact on financial performance. If the findings of this study are compared to previous or future research by scholars, it is important to note any economic issues that could affect the results.

Delimitations

My goal for this study was to investigate the relationship between corporate governance, financial reporting, and profitability. My focus was on regional banks for the years 2015–2018. I only examined the regional banks with corporate governance and financial data available throughout the study period. The variables of corporate governance and financial reporting were limited to: (a) mature program, (b) new program, and (c) no program. ROA, ROE, and NIM represented profitability.

Significance of the Study

Corporate governance is essential for rural banks because accounting standards, regulations, legislation, and economic theories are not effective in mitigating conflicts between the board of directors and shareholders (Rouf, 2012). Furthermore, corporate governance can enhance the bank's financial performance and market value when publicly listed (Bonna, 2011). The effectiveness and efficiency of corporate governance systems can be different in mature and new programs in rural banks. The differences are the other corporate governance structures within rural banking that result in various economic and social conditions (Zaharia & Zaharia, 2012). Accordingly, the result of implementing corporate governance between mature and new programs is different. The benefits gained from corporate governance depend on the length of corporate governance implementation and the structure (Ionescu, 2012).

Contribution to Business Practice

In this study, I focused on explaining the relationship between corporate governance, financial reporting, and profitability in rural banks. Based on this study's vigorous procedures, the results may be generalized to other banks in the Midwest. Corporate governance and financial reporting affect the banks' strategic decisions in investing in the bank's resources. Shareholder wealth is a goal of many rural banks. There is often a direct positive relationship among corporate governance, financial reporting, and shareholder wealth (Rouf, 2012). When the bank managers try to increase shareholders' wealth, managers try to increase the bank's profits (Mazzotta & Veltri,

2014). General corporate governance practices and policies can play a crucial role in improving financial performance (Zaharia & Zaharia, 2012).

Furthermore, the banks' managers can use the study's findings to reduce investment risks and improve investor confidence in their performance. Bank managers can differentiate between the different types of banks and send reliable signals to attract investors by adopting acceptable corporate governance policies and practices. Bank managers may reduce the capital cost and enhance the banks' market value and reputation and raise funds necessary for the operation and expansion when improving the banks' corporate governance practices (Ionescu, 2012). Based on this study's findings, the concerned parties of corporate governance and financial reporting can build a thriving corporate governance model that maximizes the companies' profits and protects shareholder rights.

Implications for Social Change

At the community or society level, rural bank leaders and regulators can benefit from the study's findings to fight embezzlement, encourage more investments, and develop capital markets. The protection for shareholders and other stakeholders' interests is essential for creating maximum benefits for the citizens (Ararat, Black, & Yurtoglu, 2017). Bank leaders can use the study's findings to build corporate governance models, protect stakeholders' rights, reduce bankruptcies, and increase profits. Furthermore, promoting and implementing good corporate governance and financial reporting and

utilizing the study's findings can affect rural banking profitability, leading to economic growth.

A Review of the Professional and Academic Literature

With the increase in demand for corporate governance rules and regulations, business leaders need to address the economic and social effects. The academic literature on corporate governance has continued to increase in the last decade. The purpose of this literature review is to provide an overview of all past and present relevant studies that addressed the importance of corporate governance and its relationship to financial reporting and profitability. In the review, I focused on research that supports the research question, hypothesis, and theoretical framework of my study.

Literature Search Strategy

I used the following databases to conduct the literature review: Business Source Premier, Academic Source Premier, ABI/INFORM, EBSCO, and ProQuest Central. Related books were also collected through the college library. The search engines that I used were Google, Google Scholar, and Bing. The strategy was focused on peer-reviewed journal articles relevant to the study published within 5 years of expected CAO approval of the completed study. I collected references that support this study using several different methods. The strategy I used also included the identification of important concepts, keywords, and other relevant information.

I used the following key terms and a combination of search terms and phrases to find the literature: *corporate governance, financial reporting of banks, the profitability of*

banks, agency theory, and *corporate governance*. Other relevant terms included *financial reporting and profitability in banks, ineffective corporate governance, researcher bias,* and *regional banks*. Terms used in the search related to the methodology included *quantitative study, secondary data, Tabachnick and Fidell's formula,* and *regression analysis*.

I limited the search to peer-reviewed journals published within the last 5 years to provide recent articles on corporate governance implementation in regional banks. I used articles older than 5 years for seminal work sparingly when needed. Journal articles were ran through Ulrich's periodicals Directory to confirm they were peer-reviewed (Tallent, 2000). I also searched regulatory institution websites like Securities and Exchange Commission (SEC), Federal Deposit Insurance Corporation (FDIC), Office of Thrift Supervision (OTS), Office of the Comptroller of the Currency (OCC), and the National Credit Union Administration (NCUA) to obtain documents on corporate governance implementation within the banking industry. I used published books and research methods that were relevant to quantitative research in corporate governance.

The review of the professional and academic literature headings are organized into four principal headings: (a) corporate governance theories, (b) the concepts and definitions of corporate governance, (c) corporate governance and financial reporting in regional banks, and (d) corporate governance mechanisms. This study contains 128 references, of which 105 recommendations were published within 5 years of expected CAO approval of the completed research. I used peer-reviewed journal articles which

equal 100% of the total study's recommendations. The search terms I used frequently include: (a) *corporate governance*, (b) *corporate governance mechanisms*, (c) *corporate governance theories*, (d) *financial performance*, (e) *profitability*, and (f) *regional banks*.

Corporate Governance Theories

In this section, the foundational theory on corporate governance and other relevant theories, for understanding and how they related to corporate governance. Researchers have developed several approaches that highlight the regional banks' key objectives and how the banks meet their obligations and responsibilities towards stakeholders. Corporate governance began from agency theory, and through the emerging problems and issues, other theories such as stakeholder theory, stewardship theory, institutional theory, and resource dependency theory have developed (Githinji-Muriithi, 2017). In this study, the discussion of corporate governance theories included the five fundamental theories that affected the development of corporate governance: agency theory, stakeholder theory, stewardship theory, institutional theory, and resource dependency theory.

Foundational theory/agency theory. The proponents of agency theory use a type of agreement that connects owners and stakeholders in a principal-agent relationship. As per this agreement, managers have one objective: to satisfy the interests of the owners. Consequently, any variation from this agreement results in an agency problem (Carney, Gedajlovic, & Sur, 2011). The owners in corporations or banks are also the shareholders. Furthermore, the agency problem arises when the well-being of the agent relies on the

principal. An agency problem occurs when management sets goals that conflict with the purposes of the owners.

Since the agent acts on behalf of the principal, the principal is affected by the agent's actions. An executive can pursue their interests even if they do not reflect the interests of the shareholders. Executives often have information about the company, and they can exploit company resources to increase their profit, which can lower the owner's profits (Seal, 2006).

Researchers find ways to minimize any potential conflicts between managers and shareholders (Ajili & Bouri, 2018). The conflict needs to be resolved between managers and shareholders and between any internal and external shareholders. When the conflict is minimized, the company performance and shareholder profits increase (Akhidime, 2019). In many cases, the conflict between managers and shareholders results from a lack of corporate governance mechanisms. Corporate governance mechanisms need to be in place to ensure effective and efficient control while also allowing approval and sanctioning management decisions that minimize agency conflict (Al-Maghzom et al., 2016).

Even though agents act on behalf of the principal, it is important to monitor corporate governance mechanisms continuously. Monitoring the mechanisms ensures that the potential conflicts between agents and principals are mitigated (Al-Maghzom et al., 2016). Company performance and market value can be enhanced by reducing agency problems. A reduction in agency problems occurs when there is a continuous oversight

over management. The board of directors is essential to maintain oversight over management and ensure management is working in the shareholders' best interests. Corporate governance mechanisms are essential to maintaining supervision because it monitors management behavior and protects the shareholder's and ensures the interests between the two are aligned (Ali, 2018).

Advocates of agency theory identified several corporate governance mechanisms that help minimize conflicts of interests between the agent and principal. One corporate governance mechanism includes incentives to reward executives financially when they maximize stakeholder's profit. Some of the most typical incentives include bonuses and stock options, focusing on the company's long-term value maximization and stakeholder profit (Bebchuk & Hirst, 2019). Continuing to monitor the incentives and rewards helps align stakeholders' interests with the rewards of management (Bebchuk & Hirst, 2019). Hence, the shareholders choose individuals to represent them on the board of directors to ensure capital is applied to the intended purpose (Callaghan, 2019).

Agency costs are incurred by stakeholders (principals) when they reduce the failings of management and the board by hiring external auditors (Carney et al., 2011). On the other hand, owners incur agency costs when they have to overcome the opportunistic activities of management (Al-Matari & Al-Arussi, 2016). Therefore, agency costs occur when there is a misalignment between owners and managers and their interests (Callaghan, 2019). When there is an alignment between the objectives of

management (agent) and shareholders (principals), then the agency cost is lowered (Carney et al., 2011).

Other Relevant Theories

In this section, a few different theories were reviewed to understand and relate to corporate governance. The other relevant theories include stakeholder theory, stewardship theory, institutional theory, and resource dependency theory. Each theory has been applied to corporate governance in research, but agency theory is a better fit for this study.

Stakeholder theory. Stakeholders have become prevalent amongst management, boards, and media because they are affected by or can affect the company achieving their objectives. Stakeholders often include shareholders, suppliers, customers, employees, lenders, governments, and various other groups. Stakeholder theory can balance the interests of stakeholders and the company. Proponents of stakeholder theory encourage management to implement methodologies that allow the company to achieve its objective while keeping everyone satisfied (John, DeMasi, & Paci, 2016). The company's financial values the result of parties that come together, manage, collaborate, and then create a plan to enhance everyone's positions (Anginer et al., 2016).

While the definition of stakeholder theory varies by scholar, one common theme is that stakeholders are a group that is vital to the success and survival of the bank (Hendry, 2001). This definition encompasses the social system but is also oriented in companies. As a stakeholder, it is important to know how the firm's survival impacts

them directly or indirectly (Feils et al., 2018). Stakeholders own the company, and the managers must perform in the stakeholder's best interest.

Stakeholder theory combines many components: law, ethics, and economics. Supporters of stakeholder theory expand management's responsibility to encompass corporate social responsibility, profit maximization, and business morality (Till & Yount, 2019). Stakeholder theory is useful when developing and maintaining relationships with stakeholders because it discloses the information to ensure a good relationship between managers and stakeholders is maintained. This reduces agency problems, but many supporters do not feel that the information should be disclosed. Under stakeholder theory, management has more significant resources that allow them to identify and remedy internal problems (Feils et al., 2018). Transparency in financial information is important for investors; therefore, this information should be disclosed to ease investors' fears, and for this reason, agency theory is a better fit for this study.

Stewardship theory. Another theory that is common in corporate governance is the stewardship theory. Stewardship theory assumes that management aspires to high objectives by creating high levels of responsibility and achievement while still protecting the company's best interest (Samaha & Khlif, 2016). Stewardship theory originated in sociology and psychology (Yeong, Ismail, Ismail, & Hamzah, 2018). Under the stewardship theory, management acts altruistically for the firms' benefit and the owners (Dekker, 2016).

Advocates of stewardship theory presume that management's primary focus is to maximize company performance and market value, creating more benefits for the steward and principal (Liu, Luo, Huang, & Yang, 2017). Warren, Moffitt, and Byrnes (2015) defined management as a steward who works for the principal. Furthermore, the stewardship theory is defined as an act or behavior that looks at both the firm and its owners (Janvrin & Watson, 2017). However, management does play a role in stewardship theory because they align their benefits with the firm's objectives. In stewardship theory, management focuses on protecting the principals and increase profits (Silva, Quelhas, Gomes, & Domingos, 2017). In agency theory, however, managers work for their self-interests.

Ahmadi Simab and Shams Koloukhi (2018) acknowledged that under stewardship theory principals give management the tools necessary to empower them to perform in the best interests. Agency theory can cause mistrust between agents and principals. Still, the principals need to build a trusting relationship with the stewards to avoid a monitored and controlled structure. One of the main distinguishing features of stewardship theory is replacing a lack of trust (Martin, Farndale, Paauwe, & Stiles, 2016). When management has full authority, they can make independent decisions that are best for the company (Delaney, McManus, & Lamminmaki, 2016).

Under agency theory, however, the board of directors' effectiveness is accomplished by the separation of the CEO and chairman positions. However, in stewardship theory, CEO duality can be a good corporate governance practice that results

in positive financial performance. Since the authority chain is integrated and unified, the company can make faster decisions, leading to an increase in financial performance (Ghasemi, Mohamad, Karami, Bajuri, & Asgharizade, 2016). When the interests of the CEO and principals are aligned then the CEOs look at the interests of all shareholders and make decisions for their benefits (Drum, Pernsteiner, & Revak, 2016). Companies that have CEO duality are able to achieve faster, healthier, and more efficient decisions. This is due to the fact that the CEOs are trustworthy and good stewards of the bank's assets and resources (Rausch & Wall, 2015). Furthermore, there is no difficulty in management's motivations because the goal of steward is to outperform other companies (Rausch & Wall, 2015).

Institutional theory. Institutional theory is another lens through which researchers view corporate governance. Proponents of institutional theory focuses on the transactions between agents and the firm and the uncertainties involved (Krenn, 2016; Vadasi, Bekiaris, & Andrikopoulos, 2020; Zulfikar, Lukvianrman, & Suhardjanto, 2017). The role of banks in the economy is to eliminate uncertainty by reducing both information and transaction costs. When proper structure in banks is established then it facilitates interactions between firms. Interaction between firms gives each company an equal opportunity for an active role in an institutional environment. Krenn (2016) defined the institutional environment as a set of legal, social, economic, and political conventions that generate the initial source for creating products, services, and trade. Institutional

theory has a robust external environment that influences companies in a transitional economy (Krenn, 2016).

Banks are not just a place where cash transactions happen and cannot survive without financial legitimacy (Vadasi et al., 2020). Institutional theory is most effective in environments with high levels of legislation. In these environments, corporate governance is considered an arrangement where investors expect an adequate return on their investment. One component of institutional theory is the openness of bank practices and human behavior. Thus, social culture becomes an integral part of the institutional theory (Zulfikar et al., 2017).

Resource dependency theory. Pfeffer (1972) developed the resource dependency theory; the foundation of this theory is that companies rely on each other to get the required resources which creates a relationship between the companies (Ali, 2018). An interlocking directorship and social relationship is created between the multiple businesses. An interlocking directorship is when one person is a member of the board of more than one business which allows them to achieve directorship. This benefits both companies because the member brings experience and expertise to both companies. Utilizing the strengths and experiences of management and the board of directors from each company positively affects the strategic decision making of each company (Madhani, 2017). Furthermore, this theory sees advantages and motivations to linking businesses together with outside companies (Madhani, 2017). The linkages not only create an open dialogue to companies but also creates a good relationship among

shareholders. Having a good relationship with shareholders leads to an increase in value for companies and helps make shareholders feel more comfortable (Inya, Psaros, & Seamer, 2018).

Influential companies are able to control and monitor the external environments and influence social issues compared to smaller firms. Companies that are able to control and influence these issues are in a better position to solve tough social issues while maintaining the confidence of the shareholders (Silva et al., 2017). Under the resource dependency theory boards that have a large connection to external factors are able to access valuable resources such as raising capital, improving corporate governance, and making better strategic decisions (Korpi & Clark, 2017).

One factor in resource dependency theory is the board of directors' role in accessing required resources (Mece, 2018). Both the stakeholder theory and resource dependency theory focus on the participation of the board members in the decisions about control and management of the company (Mece, 2018; Silva et al., 2017). Academic scholars, however, have criticized both theories. Scholars disliked resource dependency theory because it does not focus on the decision making and internal process. Furthermore, the stewardship theory is blamed for the lack of details about the board of directors' activities (Madhani, 2017). The agency theory involves the board, managers, and shareholders and ensures managers are working in the company's best interests and shareholders.

In summary, corporate governance theories have been used throughout the research to identify and develop best practices and corporate governance (Bebchuk & Hirst, 2019). Even with these different theories, there is not one all-encompassing theory for corporate governance that works every time. However, there is not one specific theory that may work. Still, frequently a combination of one or more approaches can provide the business alignment between the interests of principal and management (Ajili & Bouri, 2018). In this study, agency theory was the most appropriate choice because the principal-agent relationship can be very significant when used appropriately.

The Concepts and Definitions of Corporate Governance

Corporate governance has become prevalent in the last decade. Within the last decade, more companies have seen the importance of corporate governance and have begun implementing it. Corporate governance is not only discussed in financial literature but also academic literature. The discussion includes corporate governance, including company ownership structure, economic efficiency, product competition, the international context, and general qualities (Awolowo et al., 2018). Agency conflict between stakeholders and managers leads to corporate governance issues. Even having the most efficient contract does not eliminate the conflict of interest between two parties (Ali, 2018). Corporate governance is a tool used by companies to solve potential conflicts of interest. Through the implementation of corporate governance, leaders can implement the strategic goals and objectives of the company. Corporate governance allows

companies to decrease the operational risk of the company by using adequate internal and external controls (Akhidime, 2019).

Corporate governance comprises the rules, regulations, and mechanisms adopted by the company to ensure management does not have a conflict of interest with customers, suppliers, stakeholders, society, employees, managers, and executive directors of the company (Akhidime, 2019). Corporate governance allows companies to increase profits and also reduce agency conflict. Corporate governance practices are directly related to company performance and investor confidence and protection (Akhidime, 2019). The quality of corporate governance is contingent upon the regulatory framework (Ararat et al., 2017). Corporate governance practices rely on company practices and federal practices (Awolowo et al., 2018).

Effective corporate governance can prevent scheming by shareholders and misconduct by management, reducing the risk for small investors. Companies that do not have misconduct or scheming by management, and shareholders tend to have higher quality corporate governance. Regulatory authorities enhance corporate governance rules, regulations, and practices, which are a substantial piece of strengthening and improving the basis for the company's long-term and short-term economic performance. There are two main categories of corporate governance: the insider system and the outsider system. Stakeholders in the insider system can have a conflict of interest between weak and substantial shareholders. However, the outsider system can have a conflict of interest between managers and detached shareholders (Ararat et al., 2017). There are two main

corporate governance goals integrity of management and guidance to maximize shareholders (Akhidime, 2019).

Companies that have sound corporate governance also have many benefits. One benefit of structured corporate governance is that it can increase the bank, city, and state's reputation. Capital markets are also increased due to structured corporate governance, which ensures the distribution of resources in a more efficient manner (Bonna, 2011). A potential crisis is eliminated while still guaranteeing the prosperity of the community.

From a bank's perspective, to have effective corporate governance, managers need to decrease capital cost while increasing liquidity and financing opportunities. Maintaining good corporate governance allows a company to overcome any potential conflicts swiftly. Banks that continue to have efficient corporate governance tend to be more successful than other companies (Drum et al., 2016). Investors tend to be willing to pay a higher price for shares when a company has well-organized corporate governance (Al-Maghzom et al., 2016). Corporate financial performances can be improved by having effective corporate governance. Effective corporate governance can help solve conflicts of interest between the bank and stakeholders (Krenn, 2016). Effective corporate governance is effective based on the rules and structure of board of directors, managers, and shareholders (Isik & Folkinshteyn, 2017).

While government regulation can be useful, there is a chance of overregulating corporate governance. If the government overregulates corporate governance, companies may not see economic and corporate stability. Some other problems with the

overregulation of corporate governance are that companies may have poor performance and a decline in the stock market value. Overregulation of corporate governance can increase corporate governance while limiting managerial initiatives, leading to negative performances (Douissa & Azrak, 2017; Inya et al., 2018).

Corporate governance concepts. To better understand corporate governance in regional banks, it is essential to understand the concept of corporate governance. Corporate governance equally distributes the power between three main groups: the board of directors, managers, and shareholders. Dividing up the power ensures that management decisions do not conflict with the interests of the shareholders (Isik & Folkinshteyn, 2017). Managers need to continually work in the best interests of the shareholders and the company while avoiding the potential to do what is best for themselves. One apprehension of corporate governance is managing the relationship between the board of directors, managers, and shareholders.

Corporate governance has both narrow and broad concepts (Callahan & Soileau, 2017; Chan & Kogan, 2016). The narrow corporate governance concepts identify the relationships between shareholders, the board of directors, managers, auditors, and others (Chan & Kogan, 2016). However, the broad concept is how the company maintains honesty and openness, which is essential for the efficiency of capital allocation, market confidence, and development of the companies (Callahan & Soileau, 2017). Both the narrow and broad concepts work together to efficiently and effectively allocates company resources (Chan & Kogan, 2016).

The restraint approach and the large approach are two essential approaches to corporate governance. A restraint approach helps achieve the owner's interests by defining the totality and economic means (Hendry, 2001). The types of investors in any company can play a significant part in the orientation and implementation of robust corporate governance. In a broader perspective, corporate governance represents the mechanisms and norms applied to complement and protect the shareholder's interests (Agrawal & Cooper, 2017). The corporate governance philosophy depends on the transparency and disclosures that improve shareholder's trust for a company. Corporate social responsibility trends creating a business that accepts the ethical principles and standards (Korpi & Clark, 2017). Hence, stakeholder's rights are protected and allow companies to focus on financial and operational performance.

Corporate governance definitions. There is not a universal corporate governance concept within regional banks in the United States. Additionally, researchers and scholars utilize different organizational governance definitions, instrumentations, and guides depending on the research (Marsidi, Annuar, & Rahman, 2017; Wilbanks, Hermanson, & Sharma, 2017). Therefore, several different definitions have been used to measure corporate governance.

However, the descriptions of corporate governance can generally be classified into two categories. The first category identifies financial structures, growth, efficiency, performance, and behavioral relationship with shareholders (Zainuldin, Lui, & Yii, 2018). The financial structures look at the behavior patterns of banks based on

contemporary research. The second category of definitions look at the framework of corporate governance and the rules and regulations that govern, control, and supervise company activity (Garcia-Sánchez & Garcia-Meca, 2018; Selmier, 2016). The second category looks more at the normative framework of corporate governance, also based on contemporary research. Even though the two categories are different, there are some overlapping ideas. For this study, several definitions were discussed, mainly the ones that were consistent with agency theory.

Corporate governance is a system of rules, practices, and processes that a firm uses to balance the company's stakeholders, senior management, executives, employees, and communities (Tarchouna, Jarraya, & Bouri, 2017). However, Selmier (2016) defined corporate governance as the framework of rules that the board of directors uses to ensure the company operates transparently while maintaining fairness. Garcia-Sánchez and Garcia-Meca (2018) identified several fundamental corporate governance principles that are apparent regardless of the company definition of corporate governance. Accountability, integrity, transparency, and responsibility are the basic principles that several researchers use to interpret corporate governance. Since there is no standard definition of corporate governance among researchers, management scholars define corporate governance concerning their company (Callahan & Soileau, 2017).

While the individual definitions of corporate governance vary, they all contain one crucial element concerning how corporate governance supervises and controls the organization's management managerial behavior (Silva et al., 2017). The phrase corporate

governance refers to the control mechanism that governs the management activities monitored by the board of directors (Vadasi et al., 2020). The companies' system that is controlled and monitored is called corporate governance (Heenetigala, Armstrong, & Clarke, 2011). The traditional definitions of corporate governance do not focus on the guidance that shareholders exercise on the board of directors and management to ensure they behave in the best interests (Yeh, 2017). Furthermore, corporate governance has many definitions to avoid the traditional approach (Vadasi et al., 2020). The traditional corporate governance approach focused on the legal relationship between managers, shareholders, and the board of directors.

Corporate governance is a system of rules and regulations that allow the institutional market to arise to pursue different categories (Ghosh, 2018). To increase the company's future profits, a company needs to maintain stable corporate governance. Another definition often associated with corporate governance is a system where firms are governed, monitored, and directed through the distribution of rights from the board of directors, shareholders, and management (Douissa & Azrak, 2017). The purpose of this definition shows how the relationship between boards of directors and management are controlled and governed by the shareholders.

Furthermore, corporate governance is a set of rules that monitor the connection between the companies' principals and agents and how they relate to the rights and responsibilities of shareholders (Adiloglu & Vuran, 2012). This particular definition emphasizes the system used to regulate the controls of the company. Hence, corporate

governance identifies the policies, procedures, and rules that the company must follow to properly control and monitor company performance (Primec & Belak, 2018). Corporate governance effectiveness depends on the broader environment in which it functions. For example, legislative environments include enforcement and efficient shareholder protection laws and general environmental support for businesses (Zainuldin et al., 2018). The focus of these definitions is how corporate governance governs, monitors, and controls companies by identifying responsibilities and rights among managers, the board of directors, and shareholders (Inya et al., 2018).

The most common definition used for corporate governance is the distribution of rights and responsibilities among different companies (Cretu, 2012). Once the rules and responsibilities have been identified, the company sees an improvement in the company's decisions, activities, and affairs. Hence, this definition focuses on corporate governance that provides the proper foundation to set the company objectives and determines how the goals are achieved while monitoring company performance. Corporate governance is often seen as a crucial component for companies that need to improve their economic efficiency and growth while increasing investor confidence. A corporate governance system encompasses the connection between the board of directors, shareholders, and management. It also creates how the company sets objectives while monitoring and controlling the process (Kumar, Kumar, Gupta, & Sharma, 2017).

Another definition for corporate governance focuses on the set of mechanisms that affect a company to determine the correct decisions to increase performance while

also increasing the market value of the company (Abdelbadie & Salama, 2019). Furthermore, corporate governance shows investors the returns that the shareholders received on their investments. This definition of corporate governance directly relates to the principal-agent relationship in agency theory. Agency theory focuses on the delegation to management to act in the best interests of the shareholders. Management also has responsibilities to the shareholders, leading to an adverse selection that leads to agency costs (Maxfield, Wang, & de Sousa, 2018). Therefore, corporation activities are greatly affected by the size, composition, and involvement of the board of directors. The board of directors controls and monitors how management acts on behalf of the shareholders.

The final definition of corporate governance addressed is the structure and processes used by management to improve corporate accountability, business prosperity, and improving the shareholder's investments while protecting their other interests (Vadasi et al., 2020). The basis of this definition is the interests of the shareholders and how they connect with the company's strategic decisions. In this definition, a company's structure and process enhances the shareholders' wealthy corporate governance (Ghosh, 2018). The different groups of definitions connect corporate governance to both company prosperity and the shareholders' increased value. The main component of corporate governance definitions is that both the company and shareholders see an increase in value or profit.

The differences between the above definitions of corporate governance illuminate the different views of researchers. The variance between the different definitions is

because of the diverse subjects covered by corporate governance and different researchers' viewpoints. Every scholar has a different intellectual background or interest that affects their definition of corporate governance. The definitions of these scholars are revised based on the topic researched. Even with these sizable numbers of corporate governance definitions, there are some common aspects. The previous descriptions all refer to a conflict of interest between management and shareholders, and a conflict of interest between insiders and outsiders when management and ownership are separate (Vadasi et al., 2020). Corporate governance works best when the board of directors, managers, shareholders, auditors, and employees all have the same objective in mind for the company.

Corporate Governance and Financial Reporting in Regional Banks

Corporate governance affects large banks, as well as regional banks throughout the United States. Corporate governance standards could be more organized and sustainable in regional banks than larger banks (Nazir & Afza, 2018). Many of the regional bank's board of directors comprises management from the bank instead of people who have no connection to the bank. Consisting of a board of too many insiders can cause a conflict of interest because they are too afraid of going against management. This section explores the practices of corporate governance in regional banks within the Midwest.

***Corporate governance in regional banks*.** Corporate governance in regional banks lacks structure because of the lack of professional management strategies, human

resource capabilities, and investment confidence (Ghosh, 2018). Many of the previous studies found that corporate governance systems are variable in regional banks. After the severe financial crisis, many regional banks began to establish corporate governance standards and principles. However, standard corporate governance arrangements are often inhibited by increased regulations (Al-Maghzom et al., 2016). Investor protection and ownership structures are a fundamental factor affecting corporate governance in the banking sector. Good corporate governance is crucial for the banking sector (Anginer et al., 2016). Regional banks need to create corporate governance that keeps both the shareholder and mangers interests in alignment.

In the banking sector, there are rules and regulations for conducting business, legal and regulatory systems to protect investors' obligations and rights, and penalties for violators. However, the lack of monitoring and enforcement of corporate governance policies causes problems. The banking sector needs to ensure the proper processes and effective corporate governance are implemented (Awolowo et al., 2018). Hence, legal and regulatory systems should include enacting rules and regulations and setting up mechanisms for enforcing rules and regulations. Furthermore, the legal framework for effective corporate governance exists, but compliance is insubstantial or absent (Lemma & Negash, 2016). Enforcement is often more critical in the banking sector (Silkoset et al., 2016). The banking sector needs to have a framework to help ensure effective corporate governance can be achieved. Banks need to create a structure that minimizes agency conflict while allowing shareholders to trust management to work on their behalf.

In general, annual reports and websites of publicly listed banks are feeble in voluntary disclosure (Primec & Belak, 2018). A lack of disclosure transparency and corruption among the banking sector is one of the most significant barriers to economic growth, economic development, and stability in the regional banks (Rossi, Nerino, & Capasso, 2015). Finally, there is a pressing need for a legislative overhaul on the regulatory agencies that enforce the banking sector's laws and regulations (Kumar et al., 2017). While there are some regulations in place, the loopholes allow for corruption, which minimizes shareholders' trust. Banks need to let the public know the framework for their corporate governance and how it differs from other industries to gain more investors' confidence.

Financial Reporting in Banks

Financial performance in banks can present a challenge in research both conceptually and in measurement. According to the Stewardship model, every business needs to make a profit to increase the bank's value (Bigus & Hillebrand, 2017). While this is true, not all banks have the same definition of value; researchers use two key reports when measuring financial performance: accounting perspectives and marketing perspectives. Most recent empirical studies use the accounting perspective to measure the company's financial performance; however, this leaves the market-based view underexamined (Bigus & Hillebrand, 2017).

Generally accepted accounting principles (GAAP) have a strict set of accounting rules and standards that banks must follow. The specific accounting rules and principles

are chosen based on the objectives and decisions of management. Accounting measures for financial performance that I found in recent studies include return on assets (ROA), the return of equity (ROE), and net interest margin (NIM) (Douissa & Azrak, 2017). Bank financial information is validated by external auditors and contained in the published financial statements. The financial statements are presumed to be of high quality and free from manipulations (Balakrishnan & Ertan, 2018). However, published financial statements can be biased and open to manipulation (Akhidime, 2019).

Profitability Measures

Profitability is a measure companies use to monitor their revenues. The banking industry has three key ways to measure profitability: return on assets (ROA) and return on equity (ROE) (Doku, Kpekpena, & Boateng, 2019). Another measure banks use to look at potential future earnings is the Net interest margin (NIM) (Nguyen, Pham, Nguyen, Nguyen, & Nguyen, 2019). ROA, ROE, and NIM are key factors investors, creditors, and managers use to determine companies' financial health.

Return on assets. ROA is a formula companies, creditors, and investors use to determine how well banks use their assets to generate revenues (Pointer & Khoi, 2019). Assets vary in every type of industry but especially in banks. The main types of assets that banks use to generate income are loans and securities (Doku et al., 2019). In banking, the ROA is determined by using the number of fees charged to customers and its net interest income (Witherite & Kim, 2006).

Return on equity. ROE is a formula used by companies to determine the return on net assets (Raza, Hayat, Farooq, & Bilal, 2020). ROE compares shareholder's equity concerning the company's profitability (Raza et al., 2020). ROE is a more critical formula for investors because it analyzes the shareholder's investments' return compared to its profits. A bank can increase its ROE by increasing its leverage, but too large of an increase can result in high risks (Shukla, Narayanasamy, & Krishnakumar, 2020).

Net interest margin. NIM is a ratio used by creditors to determine how well the banks use their assets to produce income (Nguyen et al., 2019). Banks with a higher net interest and higher margins tend to have a higher potential future margin (Asmar, 2018). The NIM compares the amount of interest that the bank is earning versus the amount of interest they are paying (Nguyen et al., 2019). The NIM is often a more stable economic indicator for banks' financial health than net income (Asmar, 2018). It is essential to look at the NIM of a bank for several years to ensure the bank is not trying to increase the margin by making a large number of risky loans (Asmar, 2018).

Corporate Governance Mechanisms

In the aftershock of many entities' global financial crises and financial scandals, corporate governance had become a substantial issue in the banking sector. Many solutions have been built upon effective corporate governance mechanisms and external monitoring mechanisms (El Khoury, 2018). The mechanisms were put into place to reduce the inefficiencies arising from adverse selection and moral hazard (Agrawal & Cooper, 2017).

There are two types of mechanisms: internal audit mechanisms and external monitoring mechanisms. The companies' activities are monitored and controlled through internal mechanisms, while external mechanisms comprise the control exercised over firms by external stakeholders (Onofrei, Firtescu, & Terinte, 2018).

Board independence. Board independence has been an area that regulators have focused on because it is crucial to reduce the influence on the CEO's influence over the board of directors (Abdelbadie & Salama, 2019). Regulations only require a certain amount of board members to be independent. The foundation for the regulations is that if board members are independent of bank executives, they are more likely to protect the shareholders (John et al., 2016). An independent board is crucial because they offer control mechanisms that allow the bank to achieve the firm's objectives (Chahine & Safieddine, 2011).

Agency theory gives the perspective that external and independent board members are more valuable than internal board members because they are not as committed to management and their goals (Kaczmarek, 2017). Internal board members are often apprehensive about raising sensitive issues related to the CEO's performance and actions because they feel beholden to the CEO for their jobs. Independent board members do not have a professional relationship with the CEO; therefore, they do not hesitate to speak up when something is not right (Al-Matari & Al-Arussi, 2016). Board members that do not own a large percentage of the company stock are more likely to monitor and control operations because they look out for the company (Al-Matari & Al-

Arussi, 2016). Both internal and external board members have a legal obligation to make sure the decisions are significant to both the company and the stockholders. However, external board members can face difficulties because they are not directly communicating with management (Ararat et al., 2017).

An independent board of directors protects shareholders' interest while still controlling and monitoring the functions to align with management and stakeholders' interests. Having a majority of independent directors allows the bank to reduce agency costs while planning and tracking roles more important (Heenetigala et al., 2011). Independent directors can mitigate the power of management, preventing the misuse of firm resources and improving performance and market value. However, independent directors can align themselves with managers instead of stakeholders because they do not have a stake (Chan & Kogan, 2016). Stewardship theory is another perspective that argues insider directors have all the information to make better managerial decisions, so the proponents claim superior bank performance is a result of a board constructed of primary insiders (Davydov & Swidler, 2016).

Research about firm performance and board independence is mixed (Ahmed, 2016). Several researchers found that board independence improved bank performance, while other researchers negatively impacted board independence and bank performance (Isik & Folkinshteyn, 2017). The contrast in findings can be attributed to several different factors, differences in sample size, performance measures, the study's timeframe, and independent directors' operational definition (Chu, Dai, & Zhang, 2018). Independent

directors, as a single factor does not guarantee an increase in the bank's performance. The success of a bank is a result of many factors working together in correlation. For instance, many banks are successful when the board consists of a balance between inside and outside directors (Sorensen & Miller, 2017).

Board committees. Board committees are an internal part of corporate governance, which ensures managers conduct themself in a way that is in the best interest of both stakeholders and shareholders (Maxfield et al., 2018). The circumstances and requirements within the bank determine the number of board committees needed. The committee's purpose is to help the board of directors perform their duties efficiently and effectively. The board of directors is responsible for creating policies, rules, and procedures that outline the committees' responsibilities, duration, and duties. The board provides a framework for the committee, explaining how the board oversees the committee. Each committee's composition should consist of an appropriate amount of independent and non-executive members that identify any activities or actions that may be a conflict of interest, including the appointment of CEO and integrity of financial and non-financial reports (Louati & Boujelbene, 2015). Having a mixture of independent and management members on the board gives great perspectives when deciding which policies should be created. The four joint committees in regional banks are audit committees, compensation, human resource committees, nominating and corporate governance committees, and risk committees.

Audit committees. According to the Federal Reserve Bank, the audit committee should consist of three or more board members (Steckler & Clark, 2019). The members should not have any relationship that may interfere with their independent judgment. Each committee member should be familiar with the necessary finance and accounting practices (Lei & Chen, 2019). The shareholders are responsible for issuing rules about the committee and also appointing members to the committee. Shareholders also identify the duration and any procedures that a committee needs to follow. One key objective of the audit committee is to assist the board of directors in ensuring that the bank maintains an effective internal control system and risk management (Barnham, 2015). The audit committee should hold regular meetings with external auditors to ensure financial statements are accurate (Al-Matari & Al-Arussi, 2016). According to the Sarbanes-Oxley Act (SOX) of 2002, both internal and external auditors need to sign off on financial statements to ensure there is no corruption (Financial stability: Overcoming the crisis and improving the efficiency of the banking sector, 2009).

An audit committee is consistent with agency theory because it is an additional mechanism that ensures the shareholders are safeguarded (Samaha & Khlif, 2016). The audit committee mechanism increases the monitoring and communication between management, the board of directors, and external auditors (Afsharian & Ahn, 2017). However, Chao, Yu, Hsiung, and Chen (2018) showed a negative correlation between an independent audit committee and members with accounting and financial backgrounds. Companies with financial experts on their audit committee are less likely to restate their

financial statements (Ali, 2018). This view conflicts with Lei and Chen's (2019) recommendation for the best practice in corporate governance.

The independence principles state that the audit committee must work independently and perform all of their duties and responsibilities with professional care (Jiraporn & Nimmanunta, 2018). Independent audit committees can challenge executive decisions because they do not have a personal relationship with the bank's managers (Ajili & Bouri, 2018). Personal relationships can cause problems because there is an appearance of cooperation or conflict of interest. Audit committees monitor the quality and flow of information between shareholders, managers, and board members, which alleviates many agency problems (Chan & Kogan, 2016). However, previous researchers revealed mixed findings of how committee member independence affects financial information and internal controls' reliability. While some researchers found a positive correlation between committee member independence and the reliability of financial data and internal controls, other researchers found that independent audit committees did not affect the reliability of financial data and internal controls (Berger, Bouwman, & Kim, 2017; Ong, 2018). Other researchers found that there was a positive connotation between internal sound controls and an independent audit committee. When audit committee members have financial and accounting backgrounds, it can increase the likelihood that material misstatements are found and corrected promptly. Audit committees that understand the financial statements are also more likely to disclose more information than banks that do not have an independent audit committee (L'Huillier, 2014).

Compensation and human resources committee. The board of directors appointed the compensation and human resources committees to review and approve any goals and objectives related to the Chief Executive Officer (CEO) (Agyei-Mensah, 2017). The committee also oversees the executive's salary and plans about equity-based compensation plans (Ajili & Bouri, 2018). The committee has exclusive rights to terminate any responsibilities, including consultants or experts (Ali, 2018). All the members of this committee will be appointed annually by the board of directors. There should be at least three members, and they must agree to (a) satisfy the independence and other requirements, and (b) qualify as non-employee directors (Agrawal & Cooper, 2017). The compensation and human resources committee need to be independent members, so they are not to swayed to make decisions.

Nominating and corporate governance committee. The board of directors created the nominating and corporate governance committees to evaluate the board of directors on the board members' skills and characteristics and their corporate governance (Bigus & Hillebrand, 2017). The committee determines the corporate governance of the company and makes the necessary recommendations for any changes. The committee should consist of at least three or more committee members that satisfy the independence rules listed in the New York Stock Exchange (NYSE) (Mazzotta & Veltri, 2014).

Risk committee. The risk committee is a separate committee that evaluates risk management, policies, and procedures (Louati & Boujelbene, 2015). The risk committee member should consist of the executive and non-executive directors and any management

member involved with the various areas of risk management (Inya et al., 2018). This committee aims to identify any potential risks and recommend the board to minimize the potential risks. The committee should meet at least three times a year (Isik & Folkinshteyn, 2017).

Transition

In Section 1 of this study, I addressed the fundamental issues that have led to corporate governance's progress as an evolving requirement. Furthermore, Section 1 covered the critical reasons for examining the relationship with corporate governance, financial reporting, and profitability. In Section 1, I described the general problem and the specific business problem of the study. The general business problem is the controversial findings from previous studies failed to provide a consensus concerning the relationships between corporate governance, financial reporting, and profitability; these conflicting findings may challenge business leaders' loyalty and compliance with the best corporate governance practices. The specific business problem is that some leaders do not know the correlation between effective corporate governance, financial reporting, and regional banking profitability.

The theoretical framework is agency theory. The theoretical foundations addressed in the literature review through 4 main parts frame the research questions and hypotheses. The literature review comprises (a) corporate governance theories, (b) the concepts and definitions of corporate governance, (c) corporate governance and financial reporting in regional banks, and (d) corporate governance mechanisms. In Section 2, I

addressed the study's proposed methodology to explain (a) research method and design, (b) population and sampling, (c) data collection, (d) data analysis technique, and (e) reliability and validity of the study. In Section 3, I presented and interpreted the findings obtained from the data process and analysis. I also presented (a) the conclusions, (b) applications to professional practice, (c) recommendations for actions and further study, and (d) the implication for social change intended for improving business practice.

Section 2: The Project

Appropriate application and thorough enforcement of effective corporate governance mechanisms are crucial to the survival and growth of publicly listed firms (Popescu, 2019). Strong corporate governance helps leaders meet their legal requirements and alleviate any conflicts of interest. Corporate governance can also make a firm appealing to potential investors. Investigating and providing evidence on the relationship between corporate governance, financial reporting, and profitability can enable the firm's executives to comply with the legal requirements (Bonna, 2011). Banks will also need to develop socially responsible behaviors, which in return can help lower the manager's cost of capital and enhance profitability and the reputation of the firms (Bonna, 2011). This section details a description of the proposed study's methodology and design features.

Purpose Statement

The purpose of this quantitative correlational study was to examine the relationship between corporate banking governance, banking financial reporting, and regional bank's profitability by using ROA, ROE, and NIM. The independent variables were three mechanisms of corporate governance and financial reporting, (a) mature program, (b) new program, and (c) no program. An evaluation of each variable was done independently before comparison for a more thorough strategic analysis. The dependent variable was profitability from 2015 through 2018. The target population consisted of executive leadership in regional banks located in the Midwest United States. This study may lead to positive social change by equipping owners with information on strategies

that may provide new ways to reconfigure corporate governance and financial reporting, promoting operational efficiency and an economic contribution to state and local economies.

Role of the Researcher

My role as the researcher was to (a) select the topic, (b) design the study, (c) collect the data, (d) provide peer-reviewed or seminal sources, and (e) plan the approach, as well as present (a) the summary, (b) conclusion, (c) recommendations, and (d) the social implications of the study integrated with the conclusion. This study's population was the publicly listed regional banks in the Midwest for the period 2015–2018. The sample choice was based on the availability of corporate governance data and years in business. Management scholars called this type of sampling nonprobability of convenience sampling (Matlakala, Chiliya, Chuchu, & Ndoro, 2019; Shivani & Rashmi, 2019). I reviewed the data for 100 banks for this study. However, I only used 80 banks because 20 did not have corporate governance in place. These 20 banks did not have their corporate governance or financial information available. For multiple regression studies, researchers suggest using Tabachnick and Fidell's (2013) formula for establishing the study's sample size: $N > 50 + 8(m)$. N is the number of selected banks, while m is the number of the study's independent variables (Bujang, Sa'at, Ikhwan, & Sidik, 2017). The sample size of this study should be at least $50 + 8(3) = 74$ samples. Therefore, the sample size of 80 banks was a sufficient size for drawing the generalization about the study's population as a whole.

I worked to ensure that the data sources were reliable and valid and that the collected data were analyzed, interpreted, and presented ethically. The data of corporate governance mechanisms, financial reporting, and profitability came from the banks' printed or electronic annual reports and the FDIC website. The data collection biases can be prevented by clear and careful preparation of the data collection process, using multiple sources of data, choosing a sample that represents the population, and using proper measurement metrics. To ensure the reliability and validity of data and the information in this study, I used the typical technique to collect secondary data and avoid the discrepancy of collecting primary data.

Participants

Researchers should impartially select the participants, protect the participants from any harm, and ensure the confidentiality of participants. Researchers should also be truthful and courteous to all individuals participating in the research (Fujii, 2012). no human participants were involved in this study. Therefore, participants' protection procedures and documents, such as confidentiality protocols and informed consent forms, and precautions for preserving participants' integrity and impartiality were not required. Because there were no participants in this study, the Belmont Report did not apply.

In Section 3 of the application to professional practice and implications for change, I will provide analysis descriptions, explain the characteristics of input variables related to bank financial performance and profitability, and ensure analysis and ethically interpret the study's data. I have worked as a business owner and instructor for more than

23 years for various organizations. This has allowed me to accumulate expertise in corporate finance, financial analysis, corporate governance, and risk management. This experience has also allowed me to experience corporate governance systems and mechanisms, corporate performance, and profitability issues relevant to addressing the purpose and research questions for this study. This amassed expertise helped me better comprehend and assist in the complete study. My assisting role ensured no bias in data collection and sampling and the statistical analysis and interpretation.

Research Method and Design

There are three different approaches when conducting studies: qualitative, quantitative, and mixed methods. Consideration was taken when reviewing the three different approaches to determine the appropriate approach for this study. The choice of research methods needed to align with the research questions. Therefore, the methodology can be qualitative, quantitative, or a combination of both approaches (Callaghan, 2019; Daniel, 2019). The qualitative approach is suitable when previous studies have not been conducted on specific social problems or if the study variables are not noticeably identified. The quantitative approach is best because it helps test theories by examining the correlation between the independent and dependent variables.

Furthermore, the quantitative approach depends on collecting and analyzing numerical, categorical, or ordinal data (Callaghan, 2019). The mixed-methods approach is appropriate when either the qualitative or quantitative method is not appropriate to address the specific business problem because it allows the researcher to use a

combination of both methods (Bonna, 2011). The qualitative approach was not appropriate for this study because my study aimed to examine the relationship between corporate governance, financial reporting, and profitability by examining the variables' statistical relationship. Furthermore, the mixed approach requires ample time to collect, analyze, and process the data that can be rigorous (Callaghan, 2019). Therefore, the quantitative method was best suited as a means to examine my primary question and secondary data. The crucial representations of quantitative research lie in the numbers, objectivity, and generalizability of the data.

Research Method

This study used the quantitative correlational research method to test the resulting hypothesis and answer the research questions. Quantitative research primarily focuses on testing hypotheses and theories (Crane, Henriques, & Haskel, 2017). Researchers use the quantitative method questions to examine the relationships and variances among the variables, while in a quantitative hypothesis, the researchers test to find the relationship among the variables (Callaghan, 2019; Crane et al., 2017). Quantitative analysis is used to examine the relationship between variables. The independent and dependent variables can be measured using secondary (archival) data or primary data from instruments, which allows the data to be analyzed and interpreted using statistical measures (Daniel, 2019).

Post-positivist researchers often use quantitative research to examine the relationships between independent and dependent variables. The association between independent and dependent variables can be posed as questions or hypotheses.

Quantitative research is deductive; therefore, it starts with a general case and then moves to the specific problem (Barnham, 2015). The quantitative approach is used to form a relationship between the independent and dependent variables through hypothesis and research questions and then examine the relationship between them (Popescu, 2019). There was an alignment between my study and the post-positivist worldview because both aimed to identify the relationship between corporate governance, financial reporting, and profitability. Post-positivist assumptions better align with quantitative studies than qualitative. Furthermore, the quantitative study was the most appropriate method for this study because it examined the relationship between the independent and dependent variables.

Research Design

The most appropriate way to examine the relationship between corporate governance, financial reporting, and profitability was to use a quantitative correlational research design. A quantitative correlational study's emphasis is to examine the possible relationships amongst the variables (Barnham, 2015). Hence a quantitative correlational design study aligns with a post-positivist worldview (Popescu, 2019). The post-positivist worldview is also a good mechanism to use in scientific methods to understand social problems' complexities by utilizing numerical measures and testing the hypothesis. The quantitative correlational design is best for the proposal language because the purpose of the study is to study the relationships among corporate governance, financial reporting, and profitability (Zulfikar et al., 2017). The experimental design and quasi-experimental

design were not appropriate for this study. An experimental design best fits studies in which cause and effect relationships of variables are examined. The quasi-experimental design best fits studies in which intervention's causal effect within a targeted population on a study of control groups are assessed (Vadasi et al., 2020). The key difference between correlation designs and experimental and quasi-experimental designs is that correlation does not signify cause and effect relationship or causation by manipulating independent variables (Alotaibi & Hussainey, 2016). Hence, a quantitative correlational design is best suited to investigate the relationships between corporate governance, financial reporting, and profitability.

The independent variables in the regression model were three corporate governance and financial reporting mechanisms (a) mature program, (b) new program, and (c) no program. The dependent variables in the study were profitability. I used ROA, ROE, and NIM to measure the profitability of the banks. ROA and ROE are the most popular value-based measures of profitability (Agrawal & Cooper, 2017; Balakrishnan & Ertan, 2018). ROA determines the firm's growth over the specific period, while ROE clarifies a company's profitability compared to other companies within the same industry for a specific period. ROA and ROE are used by investors to determine that the higher the return on assets and the higher the return on equity, the companies show a greater financial performance (Drum et al., 2016). Tobin's *q* was a tool that measured the market value of the banks. Tobin's *q* is the most common measure in empirical corporate

governance because it considers the risks and is less likely to misrepresent the findings (Silva et al., 2017).

Population and Sampling

The FDIC website lists 100 regional banks in the Midwest. In this study, I excluded the firms that did not have corporate governance or financial reports available. The exclusion of these banks was due to different reporting standards applicable to these banks, making it difficult to compare the banks' financial performance compared to other industries. I used the remaining 80 publicly listed banks as the general population (Systems, 2012; See Appendix A).

There are various sampling techniques. The various techniques include (a) purposive, (b) convenience, (c) simple random, and (d) stratified random sample. The selection of the study sample is based on the available data in specific years. Researchers call this type of sampling nonprobability or convenience sampling (Popescu, 2019).

In the nonprobability sampling technique, researchers select study samples based on the current availability of information (Davydov & Swidler, 2016). The specific sample was 80 regional banks listed on the FDIC website for the years 2015–2018. Newly established banks were eliminated from the study because the new companies do not have enough time to implement the corporate governance and financial reporting mechanisms Furthermore, new banks can also be negatively impacted due to cash flow problems within the business and low financial responsibility because they focus on expanding the bank (Bonna, 2011). A bank operating for at least 5 years have had

sufficient time to implement corporate governance practices and improve their financial performance (Bonna, 2011). Companies that have been in existence for longer periods of time tend to have more awareness from regulators, investors, analysts, and corporate governance practices are apparent. All banks chosen were publicly listed before 2015.There were several factors that led to choosing banks from 2015–2018 (a) availability of data and financial statements, (b) corporate governance, and (c) financial information throughout tests such as ROA, ROE, and NIM. Corporate governance and financial information are available on the bank's websites as well as the FDIC database. The fiscal year of the chosen banks reflected the calendar year, and there was no change to their fiscal year during the period researched. Furthermore, the banks were listed on the New York Stock Exchange for the period researched.

Ethical Research

I was responsible for demonstrating the honesty and reliability, and credibility of the research methodologies (Carus & Ogilvie, 2009). For this quantitative study, I developed an ethical approach applied to every stage of the research (Cokley & Awad, 2013). Each Walden doctoral student must obtain Institutional Review Board (IRB) approval to gather, analyze, and complete the research. The IRB members' prominent roles to ensure the studies meet the criteria and acceptability of practices and standards for professional conduct, institutional regulations, and any applicable laws (John et al., 2016).

The data was collected from the financial institution's websites, SEC, and FDIC websites. The study data was selected by the bank's names using their annual reports and then saved to a password-protected thumb drive and arranged alphabetically by the bank names. There were not any human participants in the study. Hence, there was no need for participant protection procedures, confidentiality agreements, or informed consent forms. For protection purposes, the data handled had strict security measures. After collection and the study publication, the data will be stored for 5 years before deletion.

Data Collection Instruments

The data collection is broken into three headings instruments, data collection techniques, and data collection organizations. Instruments are tools that were used to collect, define, and process the data assembled (Carus & Ogilvie, 2009). Data collection in this study was used to gather data to be analyzed and interpreted through secondary sources. Data organization techniques, however, represented the data collection for statistical analysis and explanation.

Instruments

There is no universally accepted definition for corporate governance mechanisms, definitions, instrumentations, metrics, and indexes in corporate governance research. The researcher's purpose and interest determine corporate governance's focus and definition (Agyei-Mensah, 2017). Researchers used several indexes, instruments, and metrics to analyze corporate governance, financial reporting, and profitability to measure the different variables.

Corporate governance indexes have varied as much as the definition of corporate governance in academic literature. One index that has become widely used is the G-Index. The G-Index has become popular due to the consistency in scores (Gulati, Kattamuri, & Kumar, 2019). The G-index is straightforward and easy to use. Another benefit of using the G-index is the transparency and ease of reproduction (Mohammadreza & Farzaneh, 2018). Hence, G-index accurately and objectively reflects the relationship between corporate governance, financial performance, and profitability (Bonna, 2011; Gulati et al., 2019). The research questions and literature review allowed different sets of indexes to be used, such as the equal-weighting approach in the G-index construction (Bonna, 2011). In this study, each variable's indexes were calculated each year for the specified period between 2015 and 2018. The amounts were then added to estimate each variable index's total score and then divided by 4 to get the average score index calculation. The following addresses the measurement of the independent and dependent variables.

Corporate Governance

I developed a mature index value by assigning an equal-weighted approach of 1 point for each year the corporate governance was in effect. A program that was in effect for 10 years would have 10 points, whereas an operation for 15 years would have 15 points (Gulati et al., 2019; Mohammadreza & Farzaneh, 2018). I developed a new program index value by assigning an equal, weighted approach of 1 point for each year the corporate governance was in effect. A program that was in effect for 1 year would

only have 1 point, whereas one in operation for 9 years would have 9 points (Mohammadreza & Farzaneh, 2018). I developed a matrix for companies that did not have any corporate governance. If a company did not have any corporate governance, they received a 0 (Mohammadreza & Farzaneh, 2018).

Financial Reporting

Financial reporting is used by organizations to demonstrate the business activities and financial performance of the company. I developed a mature index value by assigning a value for the banks financial reporting. If there was no financial reporting then they received a 0 (Mohammadreza & Farzaneh, 2018). Banks that had 1-20 years' worth of financial reporting were assigned a 1 value (Mohammadreza & Farzaneh, 2018). Banks that had 21 plus years received a 2 for the financial reporting (Mohammadreza & Farzaneh.

Financial Performance

The corporate performance was measured by ROA, ROE, and NIM. ROA is the ratio used to measure the profitability of a company. The higher the ratio, the higher the company's profitability. ROE is a ratio used to measure the amount of net income to equity. The higher the ratio, the larger the ratio means investors receive a higher return on their investment (Ghosh, 2018). NIM is a ratio that measures the profits a company receives from its investments. A positive number means they have been making sound investment decisions; a negative number means that the bank has made poor investment decisions.

Nature of the Variables

Corporate governance and financial reporting were an example of nominal variables because they were attributes that were being measured. A nominal variable also has more than two categories but there is not an intrinsic order to the categories (Bonna, 2011). ROA, ROE, and NIM were examples of continuous numeric variables because there was an unlimited number of options for their values. A variable is discrete when there a specific points that can be plotted on a line (Bonna, 2011).

Data Collection Technique

The collection of financial statements and corporate governance information of each firm was collected from public documents such as annual reports, FDIC, and bank websites from 2015-2018. I used content analysis techniques to analyze the available data (Al-Najjar & Al-Najja, 2017). One method used to study communication content is content analysis. The content analysis includes empirical measurements and also theoretical definitions. Content analysis allows the researcher to create objective and systematic criteria to transform the written text into reliable data that can be analyzed for the symbolic content of communication (Bonna, 2011). The financial statements used included income statements and balance sheets. The corporate governance and financial reporting factors were collected from the annual reports. The corporate governance factors included (a) mature program, (b) new program, and (c) no program. The profitability information that was collected includes (a) ROA, (b) ROE, and (c) NIM. Combining the data is important to create indexes, scores, and ratios. The indexes and

ratios made it easier to create a score or a single number. The data and information collected were a great instrument that enabled me to analyze and examine the relationship between corporate governance, financial reporting, and profitability

Data Analysis

Before the multiple regression analysis was conducted, I analyzed a sample correlation matrix. The correlation matrix allowed me to reject or accept the individual null hypothesis for each of the independent variables' mechanisms. The correlation matrix identified which variables should be included in the actual regression analysis.

Once the data was collected and analyzed, then the appropriate scores and indexes for each variable were created. I then analyzed the data statistically to test the hypothesis and answer the research question. A theoretical framework was created in section 1 based on the agency theory to connect the independent variables of corporate governance and financial reporting and the dependent variables ROA, ROE, and NIM. I then addressed the research question and tested the hypotheses using Minitab multiple regression statistical software program.

Multiple regression models have been used in corporate governance studies to examine the relationship between corporate governance and financial reporting with profitability. For instance, Ameni, Bilel, and Abdelfettah (2017) examined the impact of corporate governance mechanisms and financing activities using multiple regression analysis models. Multiple regression models have also been used to examine the relationship between corporate governance and firm performance (Davydov & Swidler,

2016). Furthermore, multiple regression analysis can specify the relationship between corporate governance mechanisms and commercial banks (Steckler & Clark, 2019). Still, other researchers have used regression analysis to measure corporate governance's effect on firm value, measured by economic value (Krenn, 2016). Bonna (2011) measured corporate governance by using multiple regression to investigate the relationship between corporate governance and financial performance.

Multiple regression analysis is a statistical instrument that analyzes data within many different designs. Multiple regression analyzes the data to recognize the relationship between two or more variables. In this study, multiple regression analysis was used to examine the relationship between corporate governance, financial reporting, and profitability in regional banks within the Midwest. The objective was to conclude if effective corporate governance correlated with better financial reporting and increased profitability. The study model is given in the equation:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 \ldots \beta nXn + €$$

where Y is the dependent variable and X1… Xn is the independent variable, α is the intercept, and € is a random error variable. The β1…. βn are the beta coefficients of the independent variables (Bonna, 2011).

I used standard multiple linear regression. I chose multiple regression models after thorough consideration of other quantitative tools, including correlational analysis, simple linear analysis, and ANOVA analysis of variances (Bonna, 2011). Correlational analysis and the simple linear analysis examine the relationship between only two

variables (Mazzotta & Veltri, 2014). The study's purpose and the type of independent and dependent variables led to multiple regression analysis choices. Multiple regression analysis allowed me to examine three strengths of the relationships between the two independent variables and three dependent variables (Rossi et al., 2015). The generic equations for the model are:

$$ROA=\alpha+\beta1X1+€$$

$$ROE=\alpha+\beta2X2+\beta3X3+€$$

$$NIM= \alpha+\beta1X1+\beta2X2+\beta3X3+€$$

If the null hypothesis is not rejected, then the conclusion is that there is no linear relationship between the independent and dependent variables (Bonna, 2011). However, if the null hypothesis is rejected, the conclusion is that there is a statistically linear relationship between the independent and dependent variables (Bonna, 2011). The multiple regression techniques automatically produce t-statistics. Furthermore, there were six t-tests for each one of the correlation coefficients to identify which independent variables explain the variations in the three dependent variables (ROA, ROE, NIM). I used the multiple correlation coefficient to determine (adjusted R2) to examine the overall percentage of the dependent variables' variation explained by the independent variables. The null hypothesis of this study is rejected if the p-value is less than α, .05.

Study Validity

Validity in the study refers to the level that specific measurement satisfies for which it was collected (Cokley & Awad, 2013). This study used secondary data because I

obtained the information from public databases and its documents. There are two main types of validity: internal and external. Internal validity focuses on confirming that the dependent variable's variations are due to variations in the independent variables instead of external factors (Dekker, 2016). There was no consideration for internal validity in this study because internal validity addressed the causal relationship's cause and effect relationship where it is most relevant (Rausch & Wall, 2015). Next, I examined external validity. External validity in quantitative research is crucial in determining the research results in the entire population or other samples (Zulfikar et al., 2017). Hence, for this study, inferential statistical techniques that include hypothesis testing and ANOVA were good statistical analyses for generalizing the study's population.

This study created a group of metrics following the G-index approach and ensured the metrics covered are all needed material for this study. The study data review tested whether the data set reflects data on corporate governance mechanisms, financial reporting, and profitability to ensure the theoretical concepts are measured consistently (Ahmed, 2016). I used appropriate sampling procedures and statistical tests. Furthermore, reliable measurement procedures avoid type I and type II errors for having statistical validity conclusions of the study. To improve the statistical validity requires selecting the proper sampling procedures, proper statistical tests, and the appropriate measurement procedures of the study (Agyei-Mensah, 2017).

The validity of the multiple regression model was confirmed by addressing the assumptions for multiple regression analysis. The assumptions for multiple regression

models include (a) outliers, (b) linearity, (c) multicollinearity, (d) homoscedasticity, (e) normality, (f) and independence of residuals (Maxfield et al., 2018). When the assumptions are not met, the results could be considered untrustworthy, leading to under- or overestimating the effect size or significance or a type I or type II error (Bernard, Gledson, Vikramaditya, Woochan, & Burcin, 2017). Several different outlier tests can be performed. Dixon, Grubbs, Tietjen-Moore, Generalized Extreme Studentized Deviate (ESD) tests are a few outlier tests. When trying to detect non-linearity, there are three significant ways to see linearity: (a) utilizing previous research to inform current analysis, (b) examining residual plots, and (c) routinely running a regression analysis that includes curvilinear components (Feils et al., 2018). The collinearity (Collin) analysis and variance inflation factor (VIF) are two analyses used to detect multicollinearity (Bujang et al., 2017). The Levine's test or regression standardized predicted value are ways to verify or check via visual examination the homoscedasticity assumption (Silva et al., 2017).

Visual inspection of data plots, kurtosis, and skew are examples of testing normality assumptions (Alali, Anandarajan, & Jiang, 2012). Non-parametric statistical techniques are often used by researchers when the parametric assumptions are in doubt or not met. Hence, bootstrapping and transformation are some examples of a parametric statistical technique. While transformations can improve normality, it can make the interpretations more complex. Therefore, transformations need to be used cautiously (Gulati et al., 2019). Furthermore, bootstrapping helps eliminate the need for data

transformation. For this study, I used bootstrapping when the parametric assumptions were not satisfied. In situations where the assumptions were not satisfied, it is beneficial to compute a bootstrap confidence interval that does not rely on the parametric assumptions. Bootstrapping is a useful method to attain vigorous non-parametric estimates of confidence intervals (Hubbard & Carriquiry, 2019; Yong & Seong-Jung, 2019).

Transition and Summary

Section 2 began by restating the purpose statement and the reasons for conducting the study. Section 2 presented (a) a description of my role as the researcher. (b) the methodologies, (c) strategies, (d) techniques, (e) variables' metrics, and (f) reliability and validity of the study. Section 2 presented the reasons for selecting the quantitative method to conduct this study. Furthermore, Section 2 addressed the reasons for choosing 80 publicly listed regional banks as the sample size from January 2015–December 2018 financial years. The source of the secondary data was the FDIC website and the sampled companies' websites. Section 2 included a discussion of the data collection techniques, the reason for choosing multiple regression modeling, and a description of the reliability and validity of the study's instruments. Section 3 presented and interpreted the findings obtained from the data analysis, as well as contained (a) summary, (b) conclusion, (c) recommendations, and (d) the social implications of the study integrated with the conclusion.

Section 3: Application to Professional Practice and Implications for Change

The relationship between corporate governance, financial reporting, and ROA, ROE, and NIM, has gained widespread prominence in the economy. Researchers have examined this relationship; however, the findings have been mixed, and researchers have not had any concurrence in the findings. Researchers have found negative, positive, and neutral relationships between corporate governance, financial reporting, and profitability (Adiloglu & Vuran, 2012; Alali et al., 2012; Ararat et al., 2017). The purpose of my study was to augment the relationship between corporate governance, financial performance, and profitability in regional banks. The theoretical framework of this study is based on agency theory. This section is organized into eight principal headings: (a) introduction, (b) presentation of findings. (c) applications of professional practice, (d) implications for social change, (e) recommendations for action, (f) recommendations for further study, (g) reflections, and (h) conclusions.

Introduction

The purpose of this quantitative correlational study was to investigate the relationship between corporate governance and financial reporting and (a) profitability of Midwestern regional banks from 2015–2018. This study's main focus was to illuminate the importance of corporate governance and financial reporting in profitability. This was to help investors and customers understand how corporate governance and financial reporting influences and profitability and the economic growth within the community.

In general, the study's findings revealed that there is not a statistically significant relationship between corporate governance and financial reporting mechanisms and profitability. However, the results did show there was a substantial relationship between ROA, ROE, and NIM. The findings showed that corporate governance and financial reporting mechanisms did not have a significant connection with profitability. The results demonstrated that board independence did not have a statistically significant relationship with ROA, ROE, and NIM.

Presentation of the Findings

The fundamental purpose of this study was to find the answer to the research question. Research Question (RQ): What relationship exists between corporate governance, financial reporting, and banking institution profitability?

This section includes inferential statistical analysis and a detailed description of the study's research findings. I concluded data analyses using MINITAB. The MINITAB file contained inferential statistics regarding corporate governance and financial reporting and profitability of the sampled banks. Inferential statistics included, for example, ANOVA analysis, *t*-test, and multiple regression analysis. ANOVA helps identify whether or not to reject the null hypothesis via the *p*-value. A *t*-test explains the variation in the dependent variables and which independent variable has clarifying value.

Testing the Assumptions

This section includes the five assumptions tests and the results of those assumption tests. Assumption testing is in statistics to ensure that the data is trustworthy.

If an assumption is not met it can result in a Type I or Type II error which means that the results are not trustworthy (Osborne & Waters, 2002). Through the testing I was able to determine that a multicollinearity regression test would be best for my chosen study. Below is the explanations and tables for the outliers, linearity, homoscedasticity, normality, and independence of residuals tests.

Outliers. The first assumption test performed was the outlier test. The outlier test identifies any data that deviates from the other data within the sample (Maxfield et al., 2018). An outlier can be identified by using a histogram, frequency distribution, or converting the data to z-scores (Osborne & Waters, 2002). Upon observation of the data in Table 1, I concluded that there was one significant outlier that needed to be removed. Table 1 shows the Grubbs test for outliers. Table 2 shows the removed outlier.

Table 1.

Outliers for 2015-2018, Grubbs' Test

Variable	N	Mean	StDev	Min	Max	G	P
ROA	320	1.0335	0.6062	-0.3800	6.7034	9.35	0.000
ROE	320	9.365	3.602	-2.260	21.056	3.25	0.344
NIM	320	3.1615	0.8060	0.0062	4.6300	3.91	0.024
CG	320	90.64	49.92	8.00	184.00	1.87	1.000
FR	320	1.9375	0.2424	1.0000	2.0000	3.87	0.029

Table 2.

Outliers removed

Year	CG	FR	ROA	ROE	NIM
2015	141	2	7	10	3

Linearity. The second assumption test that I performed was the linearity test. A linearity test measures if the data was linear. When performing a multiple regression test it is important that the independent and dependent variables are linear (Osborne & Waters, 2002). If there is not a linear relationship between the independent and dependent variables then it can cause an under-estimation of the relationships (Osborne & Waters, 2002). After performing the linearity test it was determined that the data was linear which identifies that a multiple regression analysis would be appropriate. Figure 1 through *Figure 3* below shows the results of the linearity test for the dependent and independent variables. Linearity was not met for ROA or ROE; linearity was met for NIM.

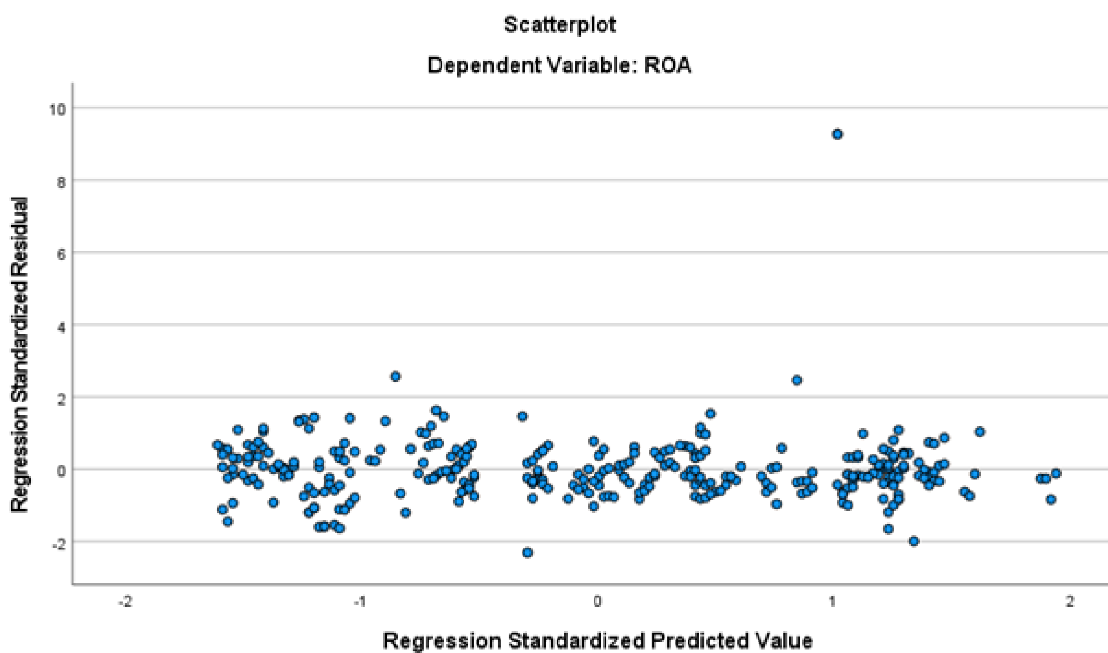

Figure 1. Scatterplot of residuals for independent variables vs ROA

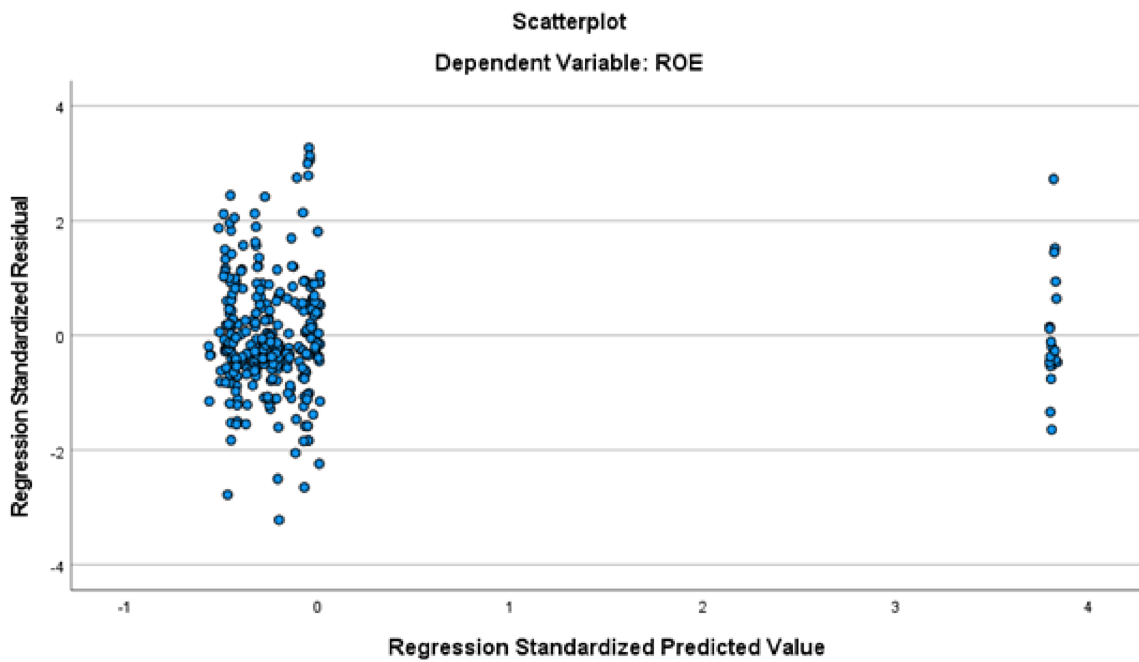

Figure 2. Scatterplot of residuals for independent variables vs ROE

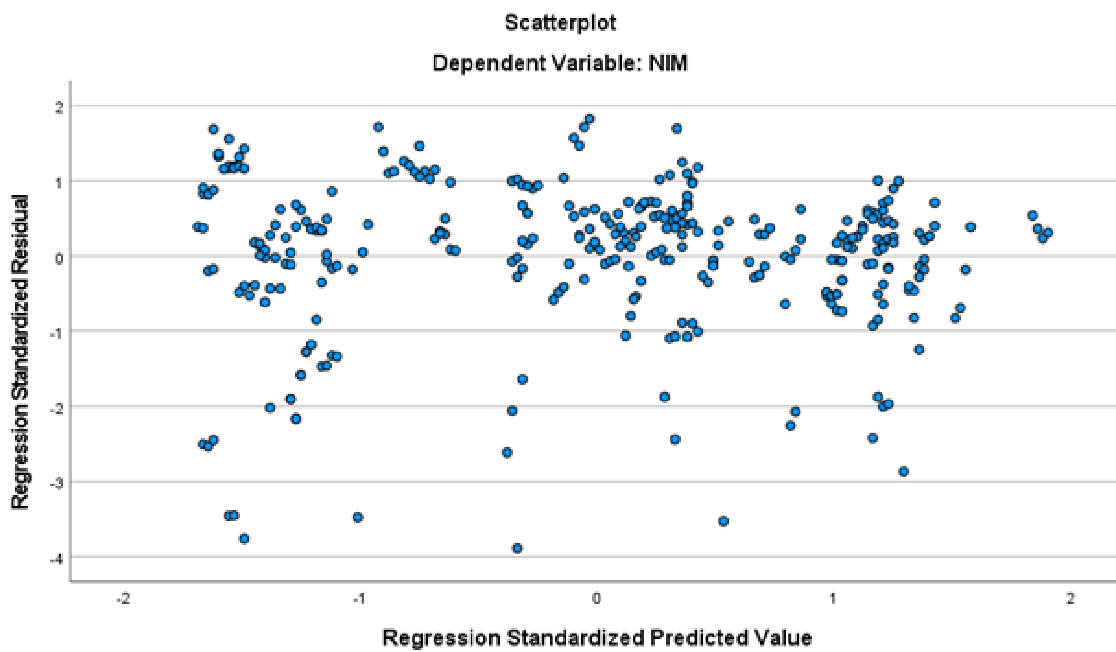

Figure 3. Scatterplot of residuals for independent variables vs NIM

Homoscedasticity. The third assumption test that I performed was the homoscedasticity test. Homoscedasticity looks to see if the variance of errors in the same across all levels (Osborne & Waters, 2002). The assumptions of homoscedasticity can be measured visually by looking at the plot of standardized errors (Osborne & Waters, 2002). I was able to visually identify based on Figures 1 and 2 that the data was not randomly scattered around the horizontal line which indicates ROA and ROE are not homoscedasticity. Figure 3 above does however show that NIM does have homoscedasticity.

Normality. The fourth assumption that I tested was the normality test. A normality test shows if the data is normally distributed (Maxfield et al., 2018). When performing assumption testing, a regression test assumes that the variables have a normal distribution (Osborne & Waters, 2002). If data is not normal then it can skew the results by distorting the relationships between the variables (Osborne & Waters, 2002). I was able to identify that the data was not normal from my inspection of the data plot for ROA. Figure 4 shows the data plot for ROA with the outliers. Figure 5 shows the data plot with the outliers removed. Figure 6 shows the data plot for ROE and figure 7 shows the data plot for NIM. I did however identify that NIM was normal based on a visual inspection.

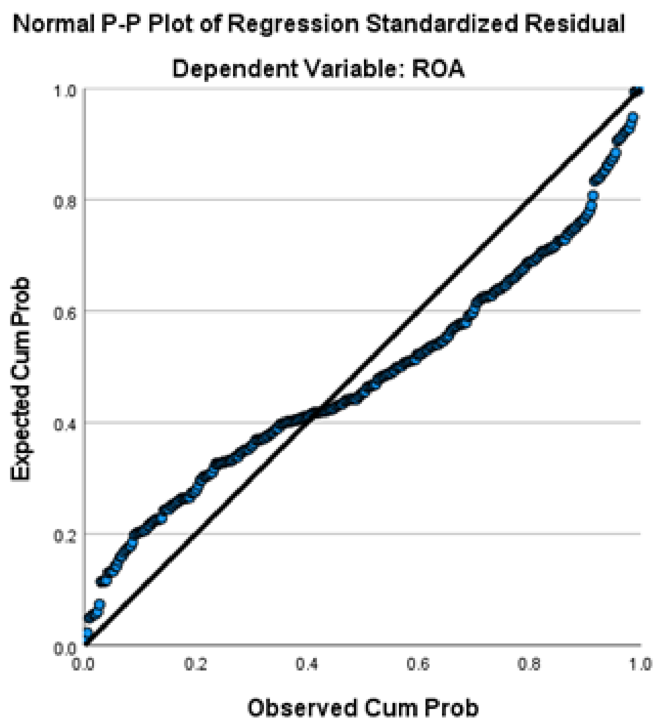

Figure 4. P-P normality plot for ROA without outliers removed

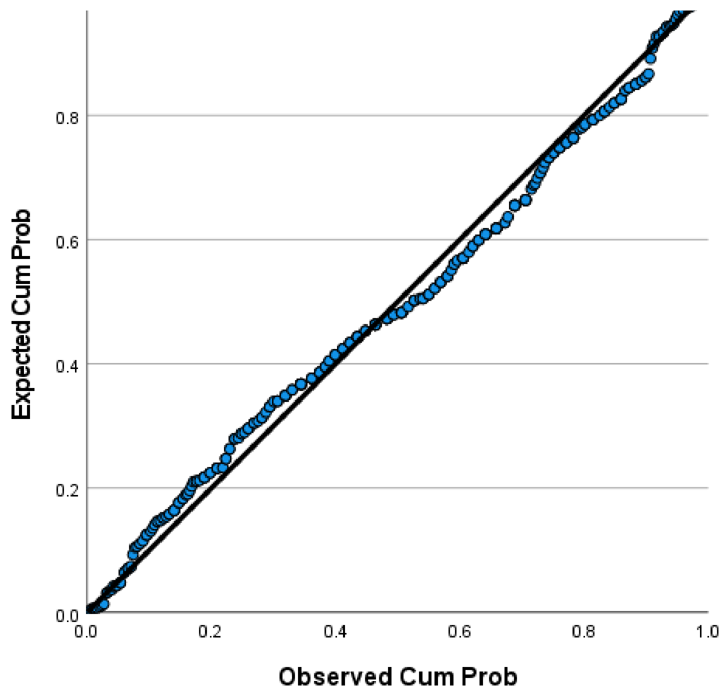

Figure 5. P-P normality plot for ROA with outliers removed

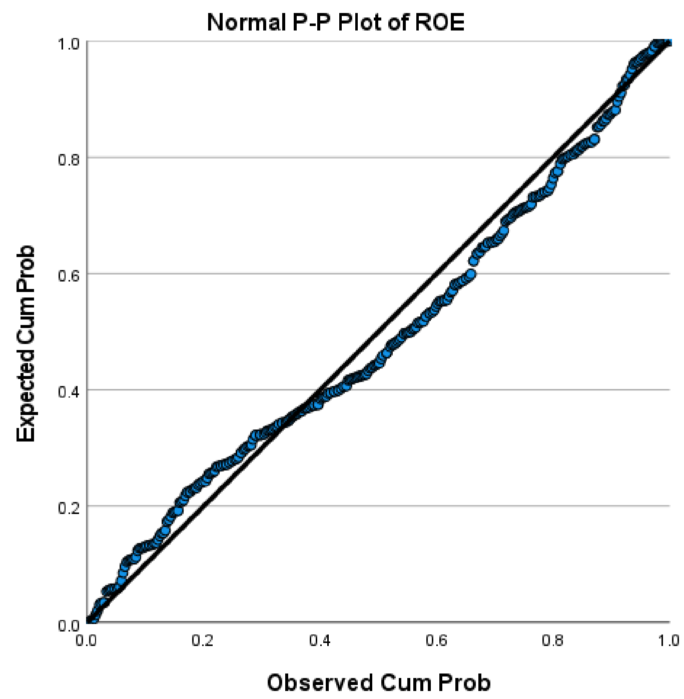

Figure 6. Probability plot for normality of ROE

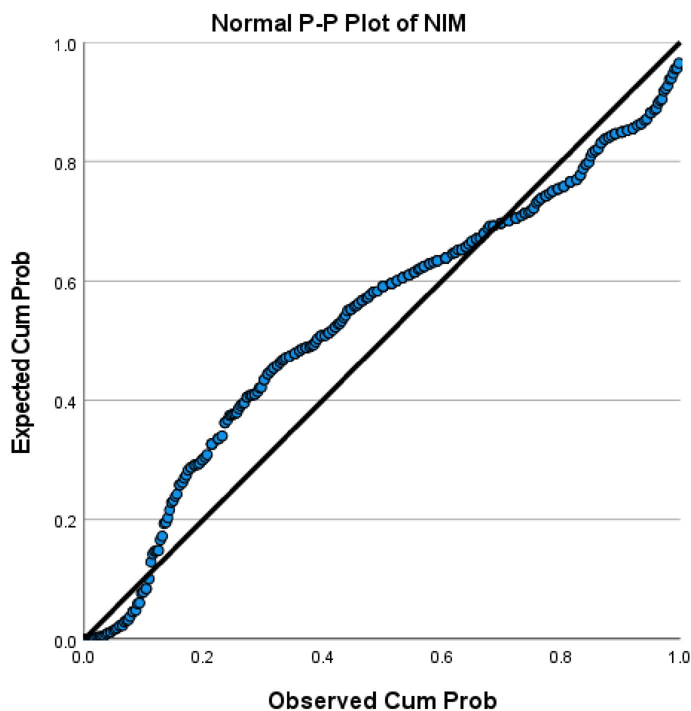

Figure 7. Probability plot for normality of NIM

Independence of Residuals. The last assumption test was the independence of residuals. The independence of residuals test shows that there is independence (Maxfield et al., 2018). The Durbin-Watson value was near 2.0, indicating there was an independence of residuals. Table 3 shows the independence of residuals for corporate governance, financial reporting, and ROA. The Durbin-Watson statistic was 1.991 which shows there was an independence of residual. Table 4 shows the independence of residuals for corporate governance, financial reporting and ROE. The Durbin-Watson was 1.855 which shows there was an independence of residuals. Y=Table 5 shows the independence of residuals between corporate governance, financial reporting and NIM. The Durbin-Watson was 1.978 which shows an independence of residuals.

Table 3.

Model Summary with Durbin-Watson for independence of residuals, FR + CG vs. ROA

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.091[a]	.008	.002	.60555	1.991

Table 4.

Model Summary with Durbin-Watson for independence of residuals, FR + CG vs. ROE

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.133[a]	.018	.011	3.58160	1.855

Table 5.

Model Summary with Durbin-Watson for independence of residuals, FR + CG vs. NIM

Model Summary					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.084[a]	.007	.001	.80566	1.978

The outlier test showed one outlier that needed to be removed. The outlier was then removed. The linearity test showed that not all the data were linear. The normality test identified only one as being approximately normal. The homoscedasticity test showed independence of variance. The independence of residuals showed ROA, ROE, and NIM with a value below 2 which shows an independence of residuals. Even though not all assumptions were met, I decided to go ahead and use a multiple regression for my study. Since the data was financial data it did not matter if all the assumptions were met.

Inferential Statistical Analysis of the Study Sampled Banks

The heading presents the relationship between corporate governance and financial reporting and the dependent variables of the study. The title includes analyzing the linear relationship between corporate governance, financial reporting and the dependent variables and then presents the multiple regression findings in tables. The first subheading illustrates the relationship between corporate governance, financial reporting, ROA, ROE, and NIM. The next subheading includes the analysis of corporate governance, financial reporting and ROA. The third subheading consists of the analysis of corporate governance, financial reporting and ROE. The fourth subheading consists of the analysis of corporate governance, financial reporting and NIM.

ROA, ROE, and NIM. I checked the multicollinearity among the independent variables using multiple regression and examining the relationships between corporate governance and financial reporting, and the dependent variables. Multicollinearity exists when two or more predictors in a multiple regression model are highly related or correlated, as one independent variable can be predicted from other independent variables. Multicollinearity is not a problem in the multiple regression model if the tolerance static between two explanatory variables falls above .40. Low tolerance means high multicollinearity, and increased tolerance means low multicollinearity. Table 6 presents the correlation of the dependent and independent variables for multiple regression models for testing the multicollinearity among these variables. The table illustrates that multicollinearity does not represent a problem in the study. As per the

correlation matrix, the second highest correlation between the two explanatory variables is positive 8.8% between CG and ROA. Also, the table identifies the pairwise correlation of negative 13.1% which is between FR and ROE. I tested the relationship between corporate governance, financial reporting and ROA, ROE, and NIM. The results were not significant, $F(1, 60) = .75$, R^2 = XX.

Table 6.

Correlation Matrix of Corporate Governance and Financial reporting

	ROE	ROA	NIM
FR	-0.131	0.014	-0.005
CG	-0.071	0.088	0.075

ROA. Next, I checked the multicollinearity among the independent variables and ROA as the dependent variable using multiple regression between examining the relationship between corporate governance, financial reporting, and the dependent variable of ROA. Table 6 represents the correlation of all the study explanatory variables for multiple regression models for testing the multicollinearity among these variables. The table illustrates that multicollinearity was not a problem in this study. Table 7 below shows the correlation between corporate governance, financial reporting and ROA. Table 8 shows the ANOVA for corporate governance, financial reporting, and ROA. The significance is .269 which is above .05. Since it is above the p-value it shows that there is not a significant relationship between corporate governance, financial reporting, and ROA. Table 9 shows the significance is .110 for corporate governance and .694 for financial reporting which shows that there is not a statistically significant relationship

between the independent and dependent variables. As per the correlation matrix, the highest correlation between the two explanatory variables is positive 8.8%. The second highest pairwise correlation between ROA and CG was a positive 1.4%. When VIF is equal to 1 there is not multicollinearity (Amiati, 2019). If the VIF is above 1 then the predictors are moderately correlated (Amiati, 2019). Table 10 shows the VIF for multicollinearity and significance of independence variables versus ROA. The VIF for corporate governance and financial reporting was 1.183. Since the VIF is above 1 it does show that the variables are moderately correlated but it is not enough to be concerned about.

Table 7.

Correlation Matrix of Corporate Governance and Financial reporting

	ROA
FR	0.014
CG	0.088

Table 8.

ANOVA for independent variables (FR, CG) vs. dependent variable ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.967	2	.484	1.319	.269[b]
	Residual	116.240	317	.367		
	Total	117.207	319			

Table 9.

Coefficients and significance of independent variables vs. ROA

Model		Unstandardized Coefficients		Standardized Coefficients			Correlations
		B	Std. Error	Beta	t	Sig.	Zero-order
1	(Constant)	.982	.136		7.231	.000	
	CG	.001	.001	.098	1.603	.110	.088
	FR	-.060	.152	-.024	-.393	.694	.014

Table 10.

VIF coefficients for multi-collinearity and significance of independent variables vs. ROA

Model		Correlations			
		Partial	Part	Tolerance	VIF
1	(Constant)				
	CG	.090	.090	.845	1.183
	FR	-.022	-.022	.845	1.183

The test of the statistical hypothesis independent and dependent variables uses the following formula:

$$H_{2.0}: \beta1=\beta2=\beta3=\beta5=\beta=0$$

$$H_{2.A}: \text{Not all } \beta i \text{ are zero}$$

The R-value clarifies the variation in ROA, and the betas describe which independent variables have explanatory power. The multiple regression analysis was conducted using Minitab software. The multiple regression results and the model for regression findings are included in Tables 7, 8, 9, and 10. The decision to reject the null hypothesis that all the coefficients are zero and accept the alternative hypothesis.

Therefore, there is no evidence to confirm the relationship between corporate governance, financial reporting and ROA. A hypothesis test for the regression formula's corporate governance would identify which of the coefficients are not zero. The relationship between corporate governance, financial reporting and ROA is inconclusive. Thus, I rejected the null hypothesis because there is not a significant relationship between corporate governance, financial reporting, and profitability.

The lack of relationship between corporate governance, financial reporting and ROA specifies that shareholders are not interested in corporate governance and financial reporting. This lack of interest is likely due to a lack of proper coordination and overlapping of responsibilities and duties, resulting in inefficiencies. Similarly, the lack of relationship between corporate governance, financial reporting and ROA indicates that shareholders do not like excessive ownership stakes in the hands of board members, which reduces corporate financial performance.

ROE. Next, I checked the multicollinearity among the independent variables and ROE the dependent variable using multiple regression between examining the relationship between corporate governance, financial reporting, and dependent variable of ROE. Table 6 presents the correlation of all the study explanatory variables for multiple regression models for testing the multicollinearity among these variables. The tables 11, 12, 13, and 14 illustrates that multicollinearity was not a problem in this study. As per the correlation matrix, in table 11the highest correlation between the two explanatory variables is negative 13.1%. The second highest pairwise correlation between ROE and

CG was a negative 7.1%. Table 12 looks at the p-value which shows .269. Since it is above .05 it shows that there is not a significant relationship between the variables. Table 13 shows the significance of independent variables is .060 for model 1 constant and it was too low to detect for the corporate governance and financial reporting. Table 14 shows the VIF which is 1.183. The value is above 1 slightly which shows a moderate correlation between the variables. The correlation is not significant enough to worry about.

Table 11.

Correlation Matrix of Corporate Governance and Financial reporting

	ROE
FR	-0.131
CG	-0.071

Table 12.

ANOVA for independent variables (FR, CG) vs. dependent variable ROA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.967	2	.484	1.319	.269[b]
	Residual	116.240	317	.367		
	Total	117.207	319			

Table 13.

Coefficients and significance of independent variables vs. ROE

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Correlations Zero-order
1	(Constant)	73.001	2	36.500	2.845	.060[b]	73.001
	CG	4066.428	317	12.828			4066.428
	FR	4139.429	319				4139.429

Table 114.

VIF coefficients for multi-collinearity and significance of independent variables vs. ROE

Model		Correlations Partial	Part	Tolerance	VIF
1	(Constant)				
	CG	-.022	-.021	.845	1.183
	FR	-.112	-.112	.845	1.183

The test of the statistical hypothesis independent and dependent variables uses the following formula:

$$H_{3.0}: \beta1=\beta2=\beta3=\beta5=\beta=0$$

$$H_{3.A}: \text{Not all } \beta i \text{ are zero}$$

The relationship between corporate governance, financial reporting and the dependent variables were tested using multiple regression analysis. I conducted a multiple regression analysis using Minitab.

NIM. Lastly, I checked the multicollinearity among the independent variables and ROA the dependent variable using multiple regression between examining the relationship between corporate governance, financial reporting, and dependent variable of ROA. Tables 15, 16, 17, and 18 presents the correlation of all the study explanatory

variables for multiple regression models for testing the multicollinearity among these variables. The table illustrates that multicollinearity was not a problem in this study. As per the correlation matrix, the highest correlation between the two explanatory variables is negative .05%. The second highest pairwise correlation between NIM and CG was a positive 7.5%. The test of the statistical hypothesis independent and dependent variables uses the following formula:

$$H_{4.0}: \beta 1=\beta 2=\beta 3=\beta 5=\beta =0.$$

$$H_{4.A}: \text{Not all } \beta i \text{ are zero}$$

I used multiple regression analyses to examine the relationship between the market value measured by NIM and corporate governance. I conducted multiple linear regression analysis using Minitab. However, the decision is to reject the null hypothesis and accept the alternative hypothesis that all the slope coefficients are not zero. Therefore, there is evidence to support a linear relationship between NIM and corporate governance (see Table 15. 6). Table 16 shows the ANOVA which shows a significance of .269. Since this is higher than the p-value of .05 it shows there is not a statistically significant relationship. Table 17 shows the coefficients and significance of the variables. The significance is .323 which is greater than .05 which signifies the relationship is not significant. Table 18 shows the VIF for the variables. The VIF is 1.183 which signifies a moderate correlation but the correlation is not significant enough to worry about.

Table 15.

Correlation Matrix of Corporate Governance and Financial reporting

	NIM
FR	-0.005
CG	0.075

Table 126.

ANOVA for independent variables (FR, CG) vs. dependent variable NIM

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.967	2	.484	1.319	.269[b]
	Residual	116.240	317	.367		
	Total	117.207	319			

Table 137.

Coefficients and significance of independent variables vs. NIM

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Correlations Zero-order
1	(Constant)	1.470	2	.735	1.133	.323[b]	1.470
	CG	205.762	317	.649			205.762
	FR	207.232	319				207.232

Table 148.

VIF coefficients for multi-collinearity and significance of independent variables vs. NIM

Model		Correlations Partial	Part	Tolerance	VIF
1	(Constant)				
	CG	.084	.084	.845	1.183
	FR	-.038	-.038	.845	1.183

Interpretation of Findings

This study aimed to investigate the relationship between corporate governance, financial reporting, and profitability. To examine these relationships and answer the research question, a theoretical framework is based on agency theory to create a connection between corporate governance and financial reporting as independent variables and measure corporate profitability as a dependent variable. Profitability was measured by ROA, ROE, and NIM. I conducted a multiple regression to find linear relationships profitability as dependent variables and corporate governance and financial reporting as predictors. I used a correlation matrix of the predictors and VIF values to check the correlation or multicollinearity problems among predictors. Multicollinearity was not the issue in the multiple regression models. I also used R-value to clear up the dependent variables' variation and identified the independent variables with explanatory power. The discoveries of the study are presented below.

Corporate governance and corporate financial reporting. The study's research question addressed the relationship between corporate governance, financial reporting, and profitability in regional banks. The literature on corporate governance provided controversial findings regarding the relationship between corporate governance, financial reporting, and profitability (Greuning & Bratanovic, 2020). The multiple regression analysis results identified a non-statistically significant relationship between ROA, ROE, and NIM. The p values at 5% level of significance and adjusted R2 in Table 3, 4, and 5 and confirmed a positive relationship between the study predictors and ROA. However,

the findings revealed that corporate governance and financial reporting did not have a significant relationship with ROA. The p values and the adjusted R2 in Table 4 supported a statistical relationship between corporate governance and financial reporting and profitability measured by ROE.

The literature has not fully explored the relationship between corporate governance mechanisms and financial performance. However, previous researchers found a positive effect on the number of board members on committees on the disclosure and transparency of accounting information (Bonna, 2011). I expected that the impact of corporate governance and financial reporting would affect profitability. The regression results in Table 6, Table 7, Table 11 and Table 15 identified an insignificant relationship between corporate governance, and financial reporting, ROA, ROE, and NIM. The results are consistent with previous studies on corporate governance and financial reporting and how improper coordination of committees can negatively affect the financial performance (Bonna, 2011).

The empirical research on the relationship between corporate governance, financial reporting, and profitability found a mixed relationship between corporate governance structure and financial performance. I expected banks with a more mature corporate governance and financial reporting would improve profitability understanding. Contrary to my expectation, the regression results in Table 6, Table 7, Table 11 and Table 15 provided an insignificant relationship between corporate governance maturity, financial reporting and profitability measured by ROA, ROE, and NIM. The findings

indicate that investors do not care how mature the banks corporate governance and financial reporting, which reduces bank performance.

The previous studies about the relationship between executive compensation and corporate financial performance found a mixed relationship between executive compensation and financial performance. Some researchers found that excessive executive compensation could reduce financial performance; however, others found that increasing executive compensation could directly improve bank performance (Liu et al., 2020). I expected that the larger the executive compensation, the lower the corporate financial performance measured by ROA, ROE, and NIM. Furthermore, the significant positive relationship between executive compensation and financial reporting was not expected. Hence, the regression results identified that the higher the executive compensation could attract, retain, and motivate experienced executives, positively affecting financial reporting.

In general, the relationships between all independent variables of corporate governance and corporate financial reporting mechanisms and profitability measured by ROA, ROE, and NIM were weak. The regression results of the relationships between independent variables and financial performance indicated that the adjusted R2 was below 30%. Hence, I excluded all insignificant variables from the regression models and reconducted the multiple regression analysis to determine if the variance in the financial performance explained by significant variables increased. The regression results showed that no material change of the adjusted R2.

In conclusion, the study’s findings revealed no significant relationships between corporate governance and financial reporting and profitability measured ROA, ROE, and NIM. Corporate governance did not affect ROA, ROE, and NIM. ROA and ROE had a significant positive relationship. ROA also had a meaningful positive relationship with NIM. ROA, ROE, and NIM all had significant positive relationships.

Corporate governance and profitability. The study research question focused on the relationship between corporate governance, financial reporting, and profitability in regional banks. The multiple regression results suggest that there was not a statistically significant relationship between corporate governance and financial reporting and ROA, ROE and NIM. The p values at 2.6% for ROA, 2.6% for ROE and 2.6% for NIM and adjusted R2 in Table 8, 12 and 16 supported the evidence of no relationship between corporate governance and NIM. The results supported the statistical evidence of a weak relationship between ROA, ROE, and corporate governance because R2 is 4.84%. I found that corporate governance and financial reporting did not have a significant relationship with NIM. In the literature, most corporate governance scholars concluded that corporate governance is an essential factor for the firm value. Most researchers found a significant positive relationship between corporate governance and bank value. A few scholars found a mixed relationship (Bebchuk & Hirst, 2019; Callahan & Soileau, 2017; Madhani, 2017).

The regression results supported statistical evidence of an insignificant relationship between corporate governance, financial reporting and NIM. Some

researchers found a positive relationship, whereas others found a negative relationship between corporate governance, financial reporting and NIM. Some scholars identified board independence as a corporate governance mechanism that increases NIM. Other scholars identify board independence to control the CEO's power, which increases NIM. Furthermore, other researchers believe that independent board members are more likely to align their interests with management, which leads to an increase in NIM (Abdelbadie & Salama, 2019). The study aligns with previous studies that identified no significant relationship between corporate governance, financial reporting, and NIM.

In general, boards use committees to help corporate directors perform and discharge their responsibilities and duties effectively. Hence, committees could help improve the financial performance and NIM of a bank. The relationship between committees and NIM has not been thoroughly studied; however, Bonna (2011) identified a negative relationship between committees and NIM. The implication is that banks with too many board committees may lead to inefficiency due to improper coordination. I expected that the relationship between the board committees would be positive with increased efficiency. The regression results identified statistical evidence of an insignificant negative relationship between board committees and NIM. However, this study's findings are consistent with the findings of Bonna (2011) that there is a negative relationship between corporate governance, financial reporting, and NIM.

The agency theory agents recommend a higher overlap between stock ownership and business management to mitigate interest conflicts. Mitigating the conflict of interest

leads to better bank value (Seal, 2006). Therefore, I expected that higher ownership among the board members increases the bank NIM. The regression results provided statistical evidence of an insignificant relationship between ownership structure and NIM. The previous studies produced mixed findings regarding the relationship between corporate governance and NIM (Ajili & Bouri, 2018). The findings of this study are inconsistent with agency theory regarding the ownership concentration by board members. The results are still consistent with some previous research findings of the relationship between ROA, ROE, and NIM.

In general, the relationship between all independent variables of corporate governance, financial reporting, and NIM was weak. The regression results of the relationship between the independent variables indicated that the adjusted R2 was below 20%. Therefore, I excluded all significance from the regression model and conducted the multiple regression analysis to determine if NIM's variance explained the significant independent variable. The regression results showed no material change to the adjusted R2. In conclusion, the study’s findings revealed insignificant relationships between corporate governance and NIM.

Applications to Professional Practice

This study's primary purpose was to increase the understanding of CEOs on the importance of corporate governance for financial reporting and profitability in regional banks. The study's findings were consistent with previous studies that identified a significant relationship between financial reporting and profitability. Some previous

studies also showed that corporate governance had an insignificant, meaningful, and adverse effect on financial reporting and profitability. The study also showed evidence conflicting with the previous studies.

This study's findings may help CEOs know whether or not corporate governance affects financial performance and profitability. Once bank CEOs understand the relationship between corporate governance, financial reporting, and profitability, they may be more apt to implement corporate governance and follow the rules and regulations. Legislators may also capitalize on the results that identify corporate governance and how they can enhance the state and country's economic growth. The study provides critical information for researchers, regulators, and investors to improve the return on investments and financial performance while mitigating bank failures. The findings could improve investor confidence in the banks' performance while also reducing investment risk.

Furthermore, the results can benefit shareholders by identifying banks that implement and exercises corporate governance and financial reporting best practices. Investors will efficiently and adequately allocate the invested funds to compliant banks, resulting in higher ROA, ROE, and NIM. Banks that do not have acceptable corporate governance and financial reporting practices will find difficulty in finding investors and raising capital. Hence, corporate governance with the board of directors and executives that comply with the best practices can mitigate interest conflicts between stakeholders.

According to Bonna (2011), being compliant can help companies raise funds necessary for operation and expansion.

Several studies identified corporate governance and financial reporting as a crucial factor for the overall growth of bank performance and the country and state economy. However, some of the research had mixed reviews on the relationship between corporate governance, financial reporting, and profitability. Bank CEOs want additional evidence of the relationships between the variables. Producing a connection between the variables is the responsibility of the researcher. However, this study's results represent a select value and benefit for bank CEOs and investors because this research looked at the relationship between corporate governance, financial reporting, and profitability in regional banks within the Midwest. The findings in this study can reduce investment risk while also increasing investor confidence in regional bank performance.

Furthermore, the findings can help stakeholders invest in banks that adopt the best corporate governance and financial reporting practices. The increase in investors can lead to an increase in ROA, ROE, and NIM. Hence, any banks that do not have good corporate governance and financial reporting would find it difficult to raise capital within the stock markets and investors. As a result, boards of directors and executives must comply with and adopt corporate governance practices. More investors could allow banks to raise funds necessary to expand operations (Bonna, 2011).

Based on previous studies, corporate governance is crucial for banks' growth and the local and state economies. However, some of the findings were mixed with the

influence of bank performance, corporate governance, and financial reporting. Bank CEOs do want more evidence as to the relationship between the three variables. This study's findings represent an added value for CEOs and investors because this is one of the few studies that examine the relationship between corporate governance, financial reporting, and profitability in regional banks.

Implications for Social Change

Since there is no significant relationship between corporate governance, financial reporting, and profitability, social change suggestions have become more reasonable and more transparent. This lack of significance can still create a place for change within society. Suppose the CEOs understand the importance for banks to adhere to corporate governance guidelines. In that case, they can see an increase in investors and financial performance; it could lead to a rise in corporate governance compliance.

Bank executives strive to increase the banks' financial performance, and investors need to see the negative and positive relationship between experienced employees and an increase in investors. Therefore, this study supports a need for compliance among CEOs and corporate governance regulations. The banks that comply with corporate governance rules and regulations significantly impact investors, customers, suppliers, employees, and the community. Therefore, through this study, I urge bank executives, regulators, investors, employees, and customers to work in unison to create a better society.

Bank leaders need to consider more than just the bank's commercial activities and consider the benefits of the local communities and societies in which they operate. When

bank executives change how they think, it can result in economic benefits and social change such as better profits, higher investments, increased employee satisfaction, and job security. Hence, compliance with corporate governance has several implications beyond increased financial performance and profitability. Corporate governance compliance can improve investors and the community's lives, leading to positive social change. Therefore, this study's findings may contribute to positive social change by encouraging bank executives to comply with corporate governance regulations.

In this study, there have been many benefits of corporate governance for both society and business practices. Although the study's findings did not support the research question, it can provide several services for the community, investors, employees, and banks. The community's benefits are reducing corruption and embezzlement, which reassures investors and increases investments—an increase in assets increases in developing markets, which directly impacts the community's economic health. The benefits for investors, employees, and banks include reducing the cost of capital while improving the bank's financial and non-financial performance. Taking these steps will also enhance the bank's reputation, positively impacting shareholders' values and lowering the investment risk. From a broader perspective, implementing the information and findings within this study could affect its financial stability. When banks are more profitable, the government can see economic growth. Investors want companies that can be sustainable. When banks are built with sound corporate governance and have a solid

financial foundation, they provide a balance for investors between economic growth and social support.

Recommendations for Action

This quantitative correlational study aimed to investigate the relationship between corporate governance, financial reporting, and profitability in regional banks. The recommendations for corporate governance varied by the scholar. Some suggested small board sizes, increased board independence, board committees, board members to own more stock, and increased executive compensation. On the other hand, shareholders and legislatures encouraged larger-sized boards, fewer board committees, greater ownership among board members, and decreased executive compensation. However, the findings within the study conflicted with the assertions from scholars, shareholders, and legislature.

The findings provided that there was not a correlation between board size with financial reporting and profitability. Even though board size can be a crucial corporate governance mechanism and could help mitigate agency problems, there was no direct correlation between corporate governance and profitability. Greuning and Bratanovic (2020) discussed the importance of the board of directors within the banking institutions. The board of directors controls the strategic direction, management, and operational policies and ensures the bank follows their regulations (Greuning & Bratanovic, 2020). This study's findings showed the importance of the ROA, ROE, and NIM within the banking institutions, but they did not directly correlate with corporate governance. I

recommend that the banks ensure that their corporate governance and financial reporting follows all rules and regulations to encourage more investors in the stock market. I recommend that the bank's board of directors consists of at least eight members. The majority of banks within this study had boards that consisted of at least eight members. A larger size board can provide better supervision over management, accessibility to more resources, and members with more experience. All of these items will lead to the better financial health of a company.

This study's findings provided evidence that executives who receive an excessive amount of compensation increase the bank's financial performance. However, there was not any indication of the rise in compensation affecting the profitability of the banks. I recommend that the banks use compensation incentives to reward executives and ensure that they align with the stakeholders' interests. The incentives should consider levels of benefits along with executive compensation to both financial performance and profitability. Executive compensation should be based on its financial performance and focus more on long-term performance than short-term performance.

The findings did not identify any relationship with ROE, ROA, and NIM, which has not been the case in previous studies. Board independence is crucial to efficient and effective control of executive compensation and bank performance. Banks with an increase in board independence, show an increase in profitability. Board independence also promises a more significant amount of integrity on the financial statements. An increase in reliable financial statements reduces the number of bankruptcies and

economic distress of banks. Furthermore, consistent with previous studies but differing to the study's findings, I recommend that stock markets encourage banks to hire a larger portion of independent board members.

Bank board committees ensure that the executives perform in the best interests of the shareholders. The number of committees each bank has did not have a direct correlation with the bank's financial performance and profitability. Based on the literature review and experience, I recommend that each bank's number of committees is limited to three. The committees should be reduced to the three most significant committees: executive committee, nomination, remuneration committee, and audit committee. Each bank should have its corporate governance that identifies each committee's responsibilities to avoid duplication of duties, leading to more efficient decisions. The duties of each committee should be expanded to include any related areas. For instance, the executive committee can also perform capital investment functions and strategic planning. Each committee should have at least one member with experience within their related areas.

The last recommendation would be that regulators set strict penalties for non-compliance with corporate governance. The sentences should be imposed not only on the bank but also on the executives and board members for non-compliance. Since there is a massive demand for corporate governance, it is essential to define corporate governance. Having one definition for corporate governance will encourage and enforce banks to

make decisions in the shareholders' best interests. Using one purpose will also help balance the power between banks and stakeholders.

The parties that should pay attention and capitalize on this study's findings include academic researchers, regulatory bodies, business leaders, the board of directors, CEOs, CFOs, financial analysts, and experts in the area of corporate governance, financial reporting, and banking. I will disseminate this study's results through finance and accounting periodicals, professional conferences, including informational meetings within the community forums and decision-makers. I will also publish the entire study in the ProQuest/UMI dissertation database.

Recommendations for Further Research

This research is a few studies investigating the relationship between corporate governance, financial reporting, and profitability in regional banks within the Midwest. As discussed in previous sections, such as Applications to Professional Practice and Recommendations for Action sections, this study's findings conflicted with some earlier studies while being consistent with others. This study, however, did have some limitations which can be avoided in future studies.

The study used the available secondary data instead of primary data. Future studies could collect preliminary data through interviews and surveys, which would allow them to make the necessary adjustments or calculations on the corporate financial reports. The adjustments or recalculations of corporate financial information to standardized accounting practices may result in different financial statements components leading to

different results. This study used ROA, ROE, and NIM, accounting measures for measuring financial performance and profitability. Scholars disagree on the specific steps to assess financial performance and profitability, such as economic value added, equity prices, and market value-added. These measures can change the research findings.

The focus of this study was on the internal processes of the company instead of external factors. External factors, however, can play a significant part in the financial performance of a bank. Some of these factors include interest rate policy, macroeconomy, inflation, micro-economy, and other factors all can have a significant impact on financial performance and profitability. Future studies can use external factors instead of internal factors to investigate financial performance and profitability.

I used three corporate governance and financial reporting mechanisms, such as (a) mature program, (b) new program, (c), and no program. Future studies can use different corporate governance and financial reporting mechanisms such as executive compensation, board size, ownership structure, leverage, voting rights, dividend policies, takeover policies, and board members. Most of these corporate governance mechanisms were not used in previous research or literature. Using different corporate governance and financial reporting mechanisms can provide different results.

Reflections

I work as an accounting instructor at a local community college. As a practitioner in the corporate governance and financial reporting field, I examined the relationship between corporate governance, financial reporting, and profitability with the

preconceived notion that corporate governance and financial reporting mechanisms significantly impact profitability. I used secondary data in the current study; therefore, my previous belief did not influence the findings. This study's findings revealed that corporate governance and financial reporting does not play a significant role in financial performance.

Moreover, I discovered that corporate governance really has no effect on the bank’s profitability. The results did show that too much corporate governance can lead to an inefficient organization. The inefficiency can be attributed to the large number of tasks they undertake. For instance, they have several individual subcommittees, stakeholder interests, management requests, and state and federal regulations. As a result, this leads to limited responses for customer needs. In order to be effective, the banks need to rely on their customer service representatives and focus on financial performance instead of corporate governance.

In this study, no human participants were involved; thereby, the researcher had no possible effects on the participants. The DBA journey helped me gain new insight and experience of different processes and techniques in this study. This study's findings helped me understand the importance of the relationship between corporate governance and financial reporting and profitability. Furthermore, the findings of this study motivated me. They created an interest in conducting further research in corporate governance and considering different mechanisms and statistical techniques to improve bank performance and the environment.

Conclusion

The purpose of this study was to identify if there was a significant relationship between corporate governance, financial reporting and profitability in 80 regional banks in the Midwest for the period 2015–2018. The independent variables were (a) mature program, (b) new program, (c) and no program, while the dependent variables were (a) ROA, (b) ROE, (c), and NIM. Standard multiple regression was used to test those relationships.

The findings identified that corporate governance and financial reporting does not have a significant role in the bank's profitability. The results did indicate that ROE, ROA, and NIM have a significant role. When one increases, so does the other one. However, these findings showed that corporate governance and financial reporting do not directly affect the profitability of the bank. The greater the ROA was then, the more significant the ROE. The greater the NIM, the greater the ROE and ROA.

In conclusion, the study findings concerning the relationship between corporate governance mechanisms, financial reporting, and profitability were divided into three groups: (a) the significant relationships, (b) the damaging relationships, and (c) the non-significant relationships. There were no corporate governance mechanisms for the first group that had a significant relationship with ROA, ROE, and NIM. For the second group related to negative relationships, corporate governance and financial reporting did not have a negative relationship with ROA, ROE, and NIM. For the third group, corporate

governance and financial reporting had an insignificant relationship with ROE, ROA, and NIM.

Based on the literature review presented in Section 1 and the findings of this study, my recommendations are (a) publicly listed banks should increase the number of their board of directors to at least eight members, (b) banks should use long-term compensation incentives to reward corporate executives and to align the banks' interests with the shareholders financially, (c) regulators should pass a law enforcing companies to hire a larger portion of independent board members to monitor the banks' activities, and (d) regulators should set forth harsh penalties for banks' and bank executives for non-compliance to corporate governance and financial reporting. Implementing these recommendations can improve the banks' financial performance and profitability, which will also create a positive change and increase investor confidence. In return, this would enhance the wealth of the investors and the economy. The results indicate a necessity for future studies in corporate governance using primary data instead of secondary data, external factors instead of internal factors, and different corporate governance mechanisms.

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Appendix A: G*Power Sample Size Determination

Determine Sample Size

Confidence Level:	(•) 95% ( ) 99%
Confidence Interval:	5
Population:	100
Sample size needed:	80