# Governance Tensions in MNCs’ Financial Reporting Quality

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*Journal of International Business Studies, 2022*

**Abstract:**

This study investigates how the institutional complexity of a multinational corporation (MNC) impacts its accounting quality. Toward that end, we employ a unique sample of MNCs registering subsidiaries in offshore financial centers (OFCs). Our focus is the tension between external governance mechanisms (i.e., US cross-listing, home-country institutional context) and internal governance mechanisms (OFC subsidiaries). Consistent with the corporate governance bonding hypothesis, we show that cross-listed MNCs exhibit higher accounting quality compared to non-cross-listed MNCs. However, the positive association between cross-listing and accounting quality is negatively moderated by an MNC’s choice of OFC subsidiaries, thereby suggesting that the internal governance mechanisms of MNCs interact with external mechanisms to impact its accounting quality. Moreover, an MNC’s OFC choice negatively moderates the relationship between home-country governance and accounting quality, thus lending further support to corporate governance arbitrage hypothesis. Our study underscores, to regulators and investors concerned about opportunistic earnings management, the importance of enhancing monitoring efforts for MNCs with opaque and complex governance that exhibits international mobility.