Arab American University
Faculty of Graduate Studies
Department of Administrative and
Financial Sciences
Ph.D. Program in Accounting and Finance

Digital Transformation of Financial Reporting and Enhancing Banking Sector in Palestine Competitiveness: An Empirical Analysis

Tumader Thurayya Yasien Alkhalidi
202113411

Dissertation Committee:

Prof. Mansour Saaydah.

Prof. Zahran Daraghmeh

Prof. Suneel Maheshwari

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Dissertation Approval

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This dissertation was defended successfully on 01/10/2025 and approved by:

Dissertation Committee Members:

Name	Title	Signature
1-Prof. Mansour Saaydah	Main Supervisor	
2-Prof. Zahran Daraghmeh	Member of Dissertation Comittee	
3-Prof. Suneel Maheshwari	Member of Dissertation Comittee	

Palestine, October/2025

Declaration

I declare that, except where explicit reference is made to the contribution of others, this dissertation is substantially my own work and has not been submitted for any other degree at the Arab American University or any other institution.

Student Name: Tumader Thurayya Yasien Alkhalidi
Student ID:20211341
Signature: Tumader Thurayya Yasien Alkhalidi
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Dedication

To my loving family, my husband, who is my closest friend and partner, your unwavering support carried me through every obstacle along this journey.

To the professors whose guidance illuminated my path. To Palestine, my homeland, whose resilience continues to inspire both my academic pursuit and professional purpose.

Sincerely: Tumader Thurayya Yasien Alkhalidi

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Abstract

This study investigates the influence of Digital Transformation (DT) on Financial Reporting Quality (FRQ)—measured by audit timeliness (Audit Lag, AL) and reporting reliability (conservatism) and its indirect impact on Bank Competitiveness (BCI) within the banking sector in Palestine. Motivated by the global push for digitalization and increasing demands for transparent, timely, and reliable financial reporting, this research explores whether DT indirectly enhances competitiveness through improvements in FRQ.

The study utilizes data from 2017 to 2023 from a sample of nine banks, employing panel regression models, mediation analysis, and Partial Least Squares Structural Equation Modeling (PLS-SEM) to investigate the sequential relationship: DT → Audit Lag (AL) → Financial Reporting Quality (FRQ) → Bank Competitiveness Index (BCI).

The results indicate that:

While DT does not directly influence BCI ($\beta = 0.112$, $p = 0.241$, rejecting H1), its effects are fully mediated via audit timeliness and conservatism. Key findings include:

Significant indirect effects: Reduced AL enhances FRQ ($\beta = -0.463$, $p < 0.001$) and BCI ($\beta = -0.590$, $p < 0.001$), supporting H2–H4.

Foreign banks exhibit 39% shorter AL (61 vs. 100 days for local banks), aligning with their advanced DT adoption.

Local banks show higher conservatism ($\beta_3 = -0.0751$, $p = 0.003$), suggesting DT's role in bridging reliability gaps.

Quantile regression confirms AL's negative impact on BCI is strongest at median performance levels (Q50: $\beta = -0.62$, $p < 0.01$).

Theoretical contributions integrate technological advancement and accounting quality literature, while practical insights highlight DT's indirect competitiveness gains through FRQ improvements.

Although Digital Transformation (DT) did not demonstrate a statistically significant direct effect on Bank Competitiveness Index (BCI), mediation models highlighted the critical role of Audit Lag (AL) in explaining variations in competitiveness. These findings are partially limited by the modest sample size (n = 9 banks, 63 observations),
suggesting future studies should utilize broader cross-sectional datasets
or multi-country comparisons to validate these pathways and improve generalizability.

Keywords**:** Digital Transformation, Financial Reporting Quality, Bank Competitiveness, Structural Equation Modeling, Palestine

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List of Definitions of Abbreviations

Abbreviations	Title
AI	Artificial Intelligence
DA	Data Analytics
FASB	The Financial Accounting Standards Board
FR	financial reporting
FRQ	Quality financial reporting
IASB	International Accounting Standards Board
IASB	International Accounting Standards Board
MD&A	Management Discussion and Analysis
IPA	Intelligent Process Automation
IoT	Internet of Things
PMA	Palestine Monetary Authority
PaaS	Platform as a Service
RPA	Robotic Process Automation
SaaS	Services as a Service
StaaS	Storage as a Service
UT AUT	Unified Theory of Acceptance, Use of Technology
XBRL	Extensible Business Reporting Markup Language
AI	Artificial Intelligence
DA	Data Analytics
FASB	The Financial Accounting Standards Board
FR	financial reporting
FRQ	Quality financial reporting
IASB	International Accounting Standards Board
IASB	International Accounting Standards Board
MD&A	Management Discussion and Analysis
IPA	Intelligent Process Automation

Chapter 1: Introduction

1.1 Background And Context of The Research

In today's fast-paced world, marked by rapid technological innovation and global connectivity, the financial sector is experiencing a profound transformation driven by digitalization. The worldwide COVID-19 pandemic, which lasted from 2020 to early 2022, accelerated this transformation by compelling the banking sector to adopt a remote operational model with a strong emphasis on online banking platforms *(Busulwa & Evans, 2021; Abu Mansour, 2022).* This change reshaped the way banks operate, impacting every element of their products and service offerings.

Traditional banking institutions are now compelled to rethink their value propositions and enhance operational efficiency to remain competitive in a continuously changing environment. Digital transformation no longer means using computers and the Internet; it combines advanced digital technologies and strategic innovations to improve adaptability, enhance banks' operations, and align with customers' evolving needs.

Banks must restructure their processes to adapt to these changes by modernizing their business model and financial landscape.

Failing to adapt to these changes to enhance efficiency and align with evolving customer expectations could lead to losing market share or, in extreme cases, leaving the industry. Banks that quickly respond to market dynamics by embracing technological advancements and digitalizing their operations are better equipped to succeed and thrive in this challenging environment *(Abu Mansour, 2022; Adarkar, 2022; Busulwa & Evans, 2021; Siebel, 2019).*

Digital transformation (DT) in banking now transcends basic computerization, integrating advanced technologies such as cloud computing, big data analytics, and AI to drive adaptability and operational excellence (*Ghorbani, 2019; Vial, 2019).*

Banks must adopt varied strategies with differing rates of progress to address the challenges presented by digital transformation. This shift involves implementing a broad range of technologies, from basic tools like computer systems and internet access to more advanced innovations such as cloud computing and big data analytics *(Ghorbani, 2019*).

A critical outcome of DT is its impact on financial reporting quality (FRQ); digital financial reports are machine-readable, enabling investors to extract, compare, and analyze data electronically. Digitalizing financial reports opens new opportunities for internal and external users by providing interactive reports tailored to their needs. This transformation enhances decision-making by enabling users to apply various measures and establish meaningful connections between data; a digital taxonomy is essential to achieve this goal, as it classifies, structures, and makes data machine-readable. Digital taxonomy helps users to find, understand, and compare financial information effectively *(IFRS, 2022a, 2022b, p. 47*).

These improvements are linked to competitive advantages, such as cost efficiency, risk management, and market responsiveness (*Bharadwaj et al., 2013; World Bank, 2022)*

According to *IFRS (2022a),* digital financial reporting offers numerous benefits to organizations, including significant cost reductions in data retrieval, broader analyst coverage, and enhanced capital resource availability. Notably, it facilitates equal access for investors to real-time data, promoting transparency and fairness in the capital markets.

Additionally, it increases the availability and accessibility of information to investors and other market participants, improves the efficiency of information processing, and mitigates language barriers.

By adopting digital tools and automating various accounting and information reporting processes, companies can enhance their accounting practices, increase efficiency, improve information accuracy, and ensure compliance with regulations.

Companies are investing in advanced technology to improve access to information, enhance decision-making effectiveness and timeliness, which becomes a major cornerstone for enhancing competitiveness and access to global markets (*World Bank Report,2022*). According to *Bharadwaj et al. (2013),* in the banking sector, where business models are heavily dependent on accurate and timely information, value is generated by ensuring access to reliable information, enabling banks to respond quickly to market changes, manage risks, and optimize operations. As technology continues to affect digital transformation, banks are willing to invest in data-driven business infrastructure to create value, including technology, systems, processes, and human resources.

However, while prior research confirms DT's direct impact on competitiveness *(Liu, 2021; Bouvet, 2023*), the mediating role of FRQ—specifically how DT-driven improvements in reporting efficiency (e.g., timeliness and reliability reporting) translate to competitiveness—remains underexplored (*Phornlaphatrachakorn & Kalasindhu, 2021).*

Advanced economies have implemented standardized digital financial reporting systems, and Studies indicate that these standards have resulted in economic advantages for various stakeholders (*Troshani et al., 2018).*

In Palestine, where the financial infrastructure is not advanced and lags behind its counterparts, the quality of reporting varies among banks. Therefore, the current study investigates how digital transformation (DT) enhances the quality of financial reporting.

To provide empirical evidence, this study employs an established proxy for digital transformation—banks' investments in DT—as an indicator of management's commitment to leveraging technology for improved financial information reliability and timeliness (*Yu et al., 2024; Bharadwaj et al., 2013; Awwad et al., 2024; Nair, 2004*).

Specifically, it examines how DT enhances FRQ through reliability (Basu conservatism model) and timeliness (audit lag reduction). The study further evaluates how improvements in FRQ impact bank competitiveness by constructing a PCA-based competitiveness index incorporating key financial performance indicators, including return on assets (ROA), net interest margin (NIM), cost-to-income ratio, and market share.

By addressing this research gap, this study contributes to the academic and practical understanding of digital transformation by demonstrating how DT indirectly enhances bank competitiveness through its influence on financial reporting quality.

According to *Insight (2023),* the primary distinction between digitization, digitalization, and digital transformation lies in their core focus areas, as illustrated in Table 1.1 below.

Table 0.1: Differences Between Digitization, Digitalization, and Digital Transformation

Concept	Definition	Focus
Digitization	Converting analog information into a digital format	Primarily makes data more accessible and manageable without changing its use
Digitalization	Using digital technologies to improve existing business processes	Enhances operational efficiency, customer engagement, and data-driven decision-making
Digital Transformation	A comprehensive shift in business strategy and operations enabled by digital technologies	review business models, customer experiences, and internal processes for competitive

Digital transformation in accounting involves digitizing repetitive tasks that consume time, such as data entry, reconciliation, and reporting. This process helps reduce errors and allows accounting professionals to allocate more time to strategic tasks essential for management, senior executives, and external stakeholders. Accounting information systems are specifically engineered to enhance storage capacity and processing speed while integrating management and operational systems *(Kimani, 2024; Thi, 2023*).

Moreover, the digital economy has significantly influenced the development of accounting practices and methodologies, driving advancements in financial reporting systems (*Spilnyk et al., 2020*). This shift is particularly relevant to the banking sector, where access to timely and accurate information is critical for effective decision-making and maintaining a competitive advantage. Therefore, understanding these technological priorities is crucial for assessing how digital transformation impacts the quality of financial reporting and competitiveness in the banking industry, which is a key focus of this study.

In the world of digital transformation, accounting principles, procedures, methodology, and the characteristics of information products have been redefined. This transformation encompasses the internal structuring of financial data, the selection and integration of various accounting technologies, the identification and systematization of accounting processes, and the establishment of criteria for their recognition and classification.

Among the most promising areas for enhancing accounting and financial reporting systems are the adoption of contactless identification methods and blockchain technology for recording and storing economic data, and aggregating financial and non-financial reports. These technologies significantly improve the reliability, timeliness, and accuracy of financial information, ultimately enhancing decision-making processes.

The impact of digital transformation on financial reporting behavior varies between organizations. Some create traditional reports and later convert them to digital formats, while others fully integrate digital reporting into their reporting infrastructure (*Cormier et al., 2019*). Companies fully digitalize their reporting to achieve data accuracy, consistency, and timeliness. These organizations are usually perceived as more creative and responsive to market requirements, which can positively impact their firm value and stakeholder relationships (*Cormier et al., 2019*).

The banking sector in Palestine has undergone significant changes since its establishment. Between 1995 and 2000, twenty-one banks were granted permission to open branches following the Oslo agreement. Resulting in seven Jordanian banks, eleven Palestinian banks, one Egyptian bank, and two foreign banks. However, by 2017, the number of banks had decreased to fourteen due to merger and acquisition transactions, see Table (1.2); another two acquisitions occurred in 2018 and 2020. Al-Quds Bank announced the acquisition of Jordan Kuwait Bank, and The National Bank announced the acquisition of Jordan Commercial Bank branches in the West Bank.

The number of banks currently operating in the Palestinian market is 13, comprising seven local banks (three are Islamic banks and four are commercial banks), five Jordanian banks, and one Egyptian bank. Therefore, the time frame for this research is from 2017 to 2023. Table (1.2) below provides the number of banks operating in the Palestinian market from 2017 to 2023:

Table 0.2: Number of Banks in Palestine by Year

Bank Name	2017	2018	2019	2020	2021	2022	2023
Number of Total Banks	15	14	14	13	13	13	13
Number of Local Banks	7	7	7	7	7	7	7
Number of Foreign Banks	8	7	7	6	6	6	6

As shown in Table (1.3), the study's population includes all commercial and Islamic banks operating in Palestine. However, the final sample consists of nine banks, as four were excluded for the following reasons: (1) Al-Quds Bank was excluded due to its 2018 merger with Jordan Kuwait Bank; (2) The National Bank was excluded following its 2020 merger with the Commercial Bank of Jordan. These exclusions are in line with the research objective of avoiding the distortion of financial data caused by mergers and acquisitions (*Caporale et al., 2019; Pasiouras & Zopounidis, 2016*). In addition, (3) the Egyptian Arab Land Bank was excluded due to the unavailability of complete financial data for 2023, and (4) SAFA Bank was excluded as it was only listed on the Palestine Exchange (PEX) in 2020 and lacked historical financial data for the early part of the study period (2017–2020). Therefore, only banks with full and consistent financial reporting data across the 2017–2023 period were retained in the sample.

Table 0.3: The Banking Sector in Palestine

Islamic Banks	**Date of Establishment**	**Conventional Banks**	**Date of Establishment**
Local Banks			
Arab Islamic Bank	(1995).	Palestine Bank	(1960)
Palestine Islamic Bank	(1994).	Palestine Investment Bank	(1995)
Al Safa Bank	(2016).	Quds Bank	(1995)
		National Bank	(2005)
Foreign Banks		Arab Bank	(1930)
		Cairo Amman Bank	(1960)
		The Jordan Bank	(1960)
		The Housing Bank	(1973)
		The Egyptian Arab Land Bank	(1946)
		Jordan Ahli Bank	(1955)

Note: This table lists Islamic and conventional banks and their establishment dates.

Source: Association of Banks in Palestine.

1.2 Significance And Rationale of The Study

Palestinian banks significantly lag behind their global counterparts in adopting advanced digital technologies, limiting their ability to remain competitive in a rapidly evolving financial landscape (*World Bank, 2022*). Many Palestinian banks continue to rely on traditional, manual methods for financial reporting, which hampers operational efficiency and diminishes their competitiveness in local and global markets (*UNDP, 2021*). Inadequate infrastructure and limited access to emerging technologies, Such as AI, big data analytics, and automation, further exacerbate these challenges (*World Bank, 2022*). These limitations hinder the ability to comply with global standards such as Basel II &III and IFRS, which require banks to provide accurate, timely, and reliable reporting

In response to these difficulties, the Palestine Monetary Authority (PMA) has played a key role in promoting digital transformation in the financial sector. The PMA has implemented a regulatory framework and measures to modernize financial services, advance digital payment systems, and foster the adoption of innovative financial technologies (PMA, 2021). The Palestine Monetary Authority intends to establish a more resilient and competitive banking system that follows global standards by initiating programs that promote financial inclusion and e-banking solutions. Still, much work needs to be done to speed up the integration of advanced digital technologies, especially in financial reporting, to meet the needs of a changing financial landscape *(Tikam & Hinn, 2023).*

However, existing research primarily explores the direct effect of (DT) on competitiveness, leaving a critical gap in understanding the mechanisms through which (DT) enhances financial reporting quality (FRQ) as a driver of bank competitiveness (*Phornlaphatrachakorn & Kalasindhu, 2021*). While some studies recognize the role of (FRQ) in improving financial decision-making, few have examined its mediating role in the (DT)-(BCI) relationship—specifically through reducing audit lag (timeliness) and enhancing reliability via conservatism (*Basu, 1997; Yu et al., 2024).*

Developed economies have implemented standardized digital financial reporting systems, which have resulted in greater financial transparency, improved regulatory compliance, and increased investor confidence (*Troshani et al., 2018*). However, in Palestine, where financial infrastructure lags behind its global counterparts, banks exhibit significant variations in adopting digital reporting practices.

Addressing these technology gaps will enable banks to strengthen their market position and align with global trends in financial reporting and innovation.

Digital transformation can enable faster, more informed decisions by providing real-time access to financial information, thereby strengthening the competitiveness of Palestinian banks. This study employs a widely used indicator as a proxy for the level of digital transformation: the incremental increase in the digitalization budget. A higher DT budget is expected to lead to a faster financial reporting release (a decreased audit lag)

By utilizing this approach, the study provides a comprehensive framework for understanding the potential impact of the DT enhancement on audit lag and, consequently, on financial reporting quality, as measured through *Basu's (1997)* conservatism model, by observing the speed of recognizing economic losses compared to gains. This study investigates how an enhancement in the timeliness and reliability of financial reporting can impact bank competitiveness.

This study seeks to enhance the academic and practical understanding of digital transformation by contributing to the existing literature and exploring the mediating role of (FRQ) in the relationship between (DT) and competitiveness.

In addition, this study measures competitiveness by constructing a" competitiveness index" through principal component analysis (PCA). The index incorporates essential financial performance indicators (KPIs), namely return on assets (ROA), net interest margin (NIM), cost-to-income ratio, and market share (deposit share). This guarantees a thorough and quantitative competitive evaluation method *(Bouvet, 2023).*

1.3 Research Problems

Technological change, the emergence of fintech companies, and globalization have disrupted the banking industry at all levels. Banks failing to adapt their services and products to meet customers' growing demands for digital solutions and changing customers' preferences risk losing market share and threatening their existence, especially those of smaller sizes with little technological adoption, which find it challenging to thrive in an increasingly digital environment *(Liu, 2021).*

Digital transformation (DT) improves operational efficiency and financial transparency and enhances decision-making *(Alonge et al., 2024);* however, its effect on bank competitiveness (BCI) is still a subject of debate *(Li et al.,2020; Guo & Xu,2021; Berger et al.,1993).* Competitiveness is assessed using profitability, operational efficiency, and market share (McFetridge,1995). Nonetheless, the mechanisms by which digital transformation (DT) affects (BCI), especially the impact of financial reporting quality (FRQ) and audit lag (AL), remain under study. Literature indicates that financial reporting quality (FRQ) significantly influences financial decision-making, risk assessment, and market confidence *(Beest et al., 2009)* and enhances financial reporting quality, which can ensure financial reliability and timeliness *(Asikpo, 2024).* Audit lag (AL) is a critical element of financial reporting quality (FRQ), which is the time required from the fiscal year end to the time auditors validate financial statements *(Krishnan & Yang, 2009),* which affects both investor confidence and adherence to regulatory standards *(Bhuiyan, 2011).*

Moreover, numerous empirical studies argue that digital transformation (DT) improves various dimensions of business performance, increases operational efficiency, enhances decision-making, ensures regulatory compliance, and strengthens risk assessment, thereby leading to better business competitiveness *(Martínez-Ferrero, 2014; Francis et al.,2005),* some researchers argue that technological disruptions and implementation costs could undermine the effectiveness of financial reporting systems, introducing new risks and operational inefficiencies (Rathnayake et al., 2021; Zhao et al., 2020).

Therefore, this study investigates how digital transformation (DT) improves aspects of financial reporting quality (FRQ), namely timeliness and reliability in the Palestinian banking sector, and enhances banks' competitiveness. Specifically, it examines how digital transformation improves reporting reliability and timeliness measured by audit lag.

The Palestinian Monetary Authority (PMA) developed several initiatives to modernize the financial system and promote financial inclusion: the national strategy for e-payment and the national strategy for financial inclusion (2018-2025). Recently, in May 2024, it initiated the digital strategy to promote technology adaptation by the banking sector, with the aim of enabling remote financial transactions for the financial system. The COVID-19 pandemic highlighted the crucial role of technology in maintaining operational continuity in various industries, including the banking sector

(Mansour,2022).

Nevertheless, the Palestinian banking sector lacks empirical field research examining the effects of digitalization on financial reporting. On the other hand, Palestinian banks face unique constraints, such as limited access to advanced technologies and a regulatory framework that has yet to adapt to the evolving demands of digital banking to its full potential. The lack of substantial empirical data, particularly regarding the impact of digital transformation on the quality of financial reporting and overall competitiveness, leaves decision-makers without the critical insights needed to effectively guide and inform strategic digital transformation initiatives (ITU, 2017; UNDP, 2021).

To the best of the researcher's knowledge, there is a lack of empirical research investigating the long-term impact of digital transformation on financial reporting quality and competitiveness, focusing on the special case of the Palestinian banking sector context. This research aims to address this critical gap by investigating how digital transformation explicitly affects financial reporting quality and, in turn, bank competitiveness within the Palestinian banking sector. The findings of the study should provide valuable insights for policymakers, banking executives, and financial analysts on how (DT) can be leveraged to enhance (BCI) while maintaining high standards of financial reporting.

The economic consequences of (DT) practices among Palestinian firms offer valuable lessons to other emerging markets adopting similar (DT) strategies.

1.4 Research Objectives.

This study aims to investigate the direct impact and mediated effect of digital transformation (DT) on the bank competitiveness index (BCI), focusing on financial reporting quality (FRQ), particularly in terms of reliability and timeliness.

With a focus on how:

1. To examine the direct effect of (DT) on (BCI) index (profitability, efficiency, market share)

2. To assess whether Audit Lag (AL) mediates the effect of (DT) on (BCI).

3. To investigate whether Financial Reporting Quality (FRQ) mediates the relationship between (DT) and (BCI).

4. To evaluate whether Audit Lag (AL) and Financial Reporting Quality (FRQ)

together mediate

5. The relationship between (DT) and (BCI) (sequential mediation).

1.5 Research Questions

This study aims to address the following questions:

1. How does Digital Transformation (DT) directly influence the bank competitiveness (BCI) index?
2. Does Audit Lag (AL) mediate the relationship between (DT) and **(**BCI)? Specifically, regarding reducing audit lag (AL)?
3. Does Financial Reporting Quality (FRQ) through increasing conservatism (reliability) mediate the relationship between (DT) and (BCI)?
4. Do Audit Lag (AL) and Financial Reporting Quality (FRQ) sequentially mediate the relationship between DT and BCI?

1.6 Research Hypotheses

Based on the research questions, the following hypotheses have been developed to guide the study:

Direct Effect Hypothesis

H1: Digital transformation positively and directly influences the bank's competitiveness index.

Indirect effect of the impact on Audit Lag and Financial Reporting Quality (conservatism)

H2: Audit lag mediates the relationship between digital transformation and bank competitiveness.

H3: Financial reporting quality (conservatism) mediates the relationship between (DT) and bank competitiveness**.**

H4: Audit lag (AL) and (FR) conservatism sequentially mediate the relationship between DT and (BCI). That is, (DT) reduces (AL), which improves (FR) conservatism and ultimately enhances (BCI).

1.7 Study Limits

The study is limited to the context of the banking sector operating in Palestine from 2017 to 2023.

Also, the study is subject to several limitations due to the ongoing political and economic challenges that may affect its outcomes. These limitations are out of the study's control and are accounted for by the study's control variables, such as GDP Growth and market conditions.

- **Technological Evolution**: The rapid pace of technological change means that newer technologies may emerge that are not currently considered in the study variables. This dynamic nature could limit the applicability of the findings over time.

- **Generalizability**: This study's findings are specific to the banks operating in the Palestine region and may not apply to other industries or geographical areas; however, they provide valuable insight for comparison with similar contexts.

- **Limited technology adoption and digital literacy**: The study may be affected by the limited adoption of digital technologies within the sector and the insufficient digital literacy in the banking sector. These factors could impact the generalizability and practicality of the research outcomes across the industry.

1.8 Definitions and Procedural Concepts

The rapid development of digital technologies has dramatically impacted the financial sector, changing traditional business methods to be more efficient and cost-effective to stay competitive.

This section outlines the fundamental concepts related to this study, including digital transformation, financial reporting quality, and bank competitiveness, while clarifying their interrelations.

Definitions that are aligned with academic standards provide conceptual clarity for this study.

Digital transformation is a holistic modification of business strategy and operations facilitated by digital innovations *(Vial, 2019).* It integrates several digital technologies, such as data analytics, artificial intelligence, and cloud computing, to rethink business models, enhance consumer experiences, and optimize internal processes for competitive advantage (*Kane et al., 2015*).

Financial reporting (FR) involves disclosing financial information and data to stakeholders, such as management, investors, regulators, and creditors. This information is typically conveyed through financial statements and reports that reflect a business’s financial and operational health over a designated period (*Laudon & Laudon, 2019*).

This study underscores the significance of digital transformation in sustaining and enhancing competitiveness in financial reporting quality. By maintaining banks' market position and enhancing performance efficiency, banks gain a competitive advantage through quality services, improving data quality, and timely, effective decision-making. This emphasis arises from the reality that Palestinian banks have fallen behind their global counterparts in using new digital technologies, placing them at a disadvantage compared to international banking.

Empirical evidence indicates that digitalization influences the quality of financial reporting by improving financial information’s relevance, reliability, comparability, and timeliness (*Beest et al., 2009*; *Morabito, 2016*).

The study measures bank competitiveness using a composite index constructed through Principal Component Analysis (PCA), incorporating key financial performance indicators (KPIs), including Return on Assets (ROA), Net Interest Margin (NIM), Cost-to-Income Ratio, and Market Share (*Bouvet, 2023; Phornlaphatrachakorn & Kalasindhu*, 2021; *Yu et al., 2024*).

The key theories that guided this study and are a foundation for understanding the relationship between digital transformation, financial reporting quality, and competitiveness in banks operating in Palestine are:

- **Resource-based view (RBV):** The Resource-Based View (RBV) is based on the seminal work of Birger Wernerfelt (1984) in his paper titled "A Resource-Based View of the Firm." This approach emphasizes that an organization's competitiveness results from rare and valued internal resources. Wernerfelt's (1984) work shifted the focus from Michael Porter's (1980) emphasis on external industry factors toward organizations' unique resources and capabilities. According to the (RBV), competitive advantage stems from these internal resources, which may include tangible and intangible assets, such as information, human resources, capabilities, and skills (Wernerfelt, 1984).

  Building on Wernerfelt's work, Barney (1991) emphasized that companies with valuable, rare, inimitable, and non-substitutable (VRIN) skills and competencies can achieve sustained competitive advantage. Based on this framework, digital technologies can be viewed as strategic assets that enable organizations to generate unique value (Bharadwaj, 2013). The Resource-Based View highlights the importance of digital resources—including data, information, digital technology, and associated protocols—and their influence on a company’s strategies and long-term competitiveness.

- **Innovation diffusion theory** (*Rogers et al., 2014*) examines the acceptance and spread of new ideas and technologies within societies or organizations. It is used to understand the adoption of digital transformation initiatives within the banking sector in Palestine. The theory emphasizes the role of communication channels and social systems in influencing adoption rates.
- **The information asymmetry theory** addresses the uneven distribution of information between parties involved in a transaction. It explores how digital transformation helps reduce information asymmetry between banks and stakeholders in financial reporting. Increased transparency and real-time reporting due to digital transformation can improve communication and trust, positively impacting competitive standing (*Akerlof, 1978*).
- **The Efficiency Theory:** This theory suggests that organizations achieve higher profitability by optimizing resource allocation and minimizing operational costs. Adopting digital technologies can improve a bank’s operational efficiency and lead to higher profitability (*Farrell, 1957*).

1.9 Methods considered in this study:

The study utilized reputable data sources and well-established empirical models, ensuring theoretical rigor and practical relevance.

The analysis is conducted on a sample of nine banks out of thirteen operating in the Palestinian market; four banks were excluded to eliminate the merger effect and ensure data availability.

Data source: Data is collected from secondary sources to construct and examine the study's theoretical framework and answer its questions. These sources included academic periodicals and prior research directly related to the topic. In addition to collecting secondary data from the annual financial reports of sample banks, it provides comprehensive insights into these banks' financial practices and performance.

Analytical Models: Using standard econometric methods, such as fixed-effects panel regression to control for unobserved heterogeneity across banks and mediation analysis to test whether an enhancement in FRQ mediates the relationship between DT and competitiveness.

In addition to controlling for bank size, bank type, market conditions, and macroeconomic indicators. Additionally, models such as the Basu Model (1997) test the hypothesis that DT reduces asymmetric information in financial disclosures by measuring conservatism in financial reporting. In addition, audit lag is a proxy for increasing financial reporting quality. The validation methods are used for robustness: running regressions with different control variables. In addition to time-fixed effects analysis, controls for annual macroeconomic shocks affect all banks. Standard errors for heteroskedasticity and autocorrelation are adjusted, and multicollinearity between independent variables is tested using VIF.

Chapter 2: Theoretical Framework and Past Studies

2.1 Overview of relevant literature

This chapter explores the core theme of the dissertation, "Digital Transformation of Financial Reporting and Enhancing Palestinian Banking Sector Competitiveness." The review begins by defining digital technology, digitization, digitalization, and digital transformation, focusing on integrating technology within the global and Palestinian banking sectors. Then, it outlines the theoretical framework of financial reporting quality (FRQ) and its relationship with digital transformation (DT). Next, the chapter highlights the various digital technologies employed in financial reporting and examines their impact on the competitive landscape of the banking sector. The chapter also synthesizes key findings from previous research in this field, specifically focusing on how digital technology impacts several aspects of financial reporting, including transparency (Chen et al., 2012), Reliability, and timeliness, all crucial factors for enhancing competitiveness in the financial market *(Bouvet, 2023; Busulwa & Evans, 2021).*

This chapter emphasizes the significant progress made in digital tools and systems that have transformed financial reporting procedures. These technological innovations play a strategic role in enhancing banks' financial performance and improving their competitive position in the market.

The review synthesizes findings from various studies to identify the primary digital technologies that scholars recognize as substantially influencing financial reporting quality. By conducting a thorough examination, this chapter aims to provide insights into the

potential impact of digital transformation initiatives on the competitiveness of the Palestinian banking sector.

In addition, the chapter addresses the gaps in the existing literature, laying the groundwork for this research to offer new perspectives on the relationship between digital financial reporting and bank competitiveness. Therefore, it highlights the importance of innovation in financial reporting and its role in strengthening a bank's ability to compete in a rapidly evolving digital landscape.

2.2 Financial Technology: A Historical Overview

The transformation of the financial industry began in the 19th century, with a foundational advancement in 1866 through the introduction of the Telegraph and Transatlantic Cable, which revolutionized communication speed and enabled the rapid transfer of financial information (*Adnan et al., **2021)***. The emergence of credit cards and ATM Machines in 1960 was 2000 the starting point of the digitization of internal banking operations and the improvement of digital services for customers. Since the introduction of online and mobile banking in 2008, the financial sector has experienced the development of new technologies that leverage banking sector services and create new challenges that make old service technologies obsolete. The COVID-19 epidemic accelerated digital adoption in other areas, including banking. With branches temporarily closed, clients increasingly relied on digital channels, underscoring the necessity of digital transformation for financial institutions.

As for Palestine, in 2018, it started to develop a digital strategy to enhance the public sector by investigating the level of readiness assessment with collaboration with UNDP as a step towards promoting digital transformation at the country level; in parallel, PMA started several initiatives to encourage the banking digital transformation, including:

- Launching electronic payment and financial inclusion in the period 2018-2023.
- The financial inclusion plan 2018-2025.
- PMA digital effort May 2024 to enable remote financial transactions for individuals and businesses by integrating modern technology into the banking sector. These efforts will encourage digital transformation in the financial and banking sectors and achieve the PMA's primary goal of financial inclusion in the Palestinian economy *(PMA, 2021).*

2.2.1 Introduction to Financial Technology, Digitization, Digitalization, and Digital Transformation

The terms **digitization, digitalization, and digital transformation** are often used interchangeably; however, each term carries distinct implications and consequences for organizations. Understanding the distinctions among these concepts is crucial for their practical application. By identifying their different qualities and applications, businesses can customize strategies corresponding to specific objectives, resulting in enhanced decision-making, competitive advantage, and sustained development. These insights enable executives to foster innovation while reducing risks, thus improving overall company performance.

Digitization: According to *Laudon and Laudon (2019*), digitization is" the process of converting analog information into a digital format, where the information is organized into bits." Similarly, *Morabito (2016)* defines digitization as" the conversion of data and information from a physical format to a digital one, allowing for more efficient storage, access, and processing.". At the same time, a foundational aspect of digitization is transforming information from an analog medium into a digital format. This process facilitates data management and establishes solid groundwork for digitalization and future digital transformation initiatives (*Insights, 2023*).

The emergence of digitization has significantly enhanced effectiveness and accelerated the processing of tasks previously performed manually, enabling companies to leverage their performance and competencies more effectively.

Digitalization is the application of digital technologies to transform a business model and create new ways of generating revenue and value-added opportunities (*Kane et al., 2015*). According to *Busulwa and Evans (2021),* digitalization utilizes digital technologies to facilitate significant business enhancements, including improving customer experience, operational efficiency, and new business models.

Digitalization encompasses diverse tools, including data processing systems, computing devices, communication networks, connectivity solutions, and all electronic devices and software designed to process, manage, and transmit information. Incorporating technology enables organizations to leverage data quality for enhanced decision-making and efficiency.

Digital transformation is a strategic, organization-wide initiative that leverages digital technology to build new or change current operations, cultures, and consumer experiences in response to evolving demands, business needs, and market competition *(Busulwa & Evans, 2021*). *Morabito (2016)* illustrates that digitalization involves adopting digital technologies to enhance business processes, increasing productivity and efficiency. *Bouvet (2023*) defines digital transformation as the implementation of digital technologies within an organization, resulting in comprehensive changes to procedures and activities. Swanson (2020), the Chief Information Officer of Johnson and Johnson, emphasized that placing customers at the center of digital transformation includes automating operations, redefining individuals' roles, and developing new business models.

According to *Liu (2021)*, digital transformation (DT) focuses on two main dimensions: the emergence of digital technologies and the impact of products and services developed on the business model or restructure. Organizational restructuring implies the decision-makers' focus on cultural change and optimization of internal processes, including financial reporting, where transparency is enhanced and upscaled financial expertise towards advanced data analytics and tools; the second dimension is the use of and integration of new technology within the business, which implies more reporting standardization, automation, real-time data, and enhanced data analysis. *Vial (2019*) had a different definition than other scholars, as his definition emphasizes that (DT) is not about adopting new technologies but fundamentally reshaping organizational processes, structures, and strategies by leveraging digital tools and resources. Digital transformation involves integrating various digital technologies, such as data analytics, (AI), and cloud computing, to drive substantial shifts in how organizations operate and create value, resulting in improved efficiency, agility, and competitive advantage (*Vial, 2019).*

Importance of Digital Transformation:

Digital technology aims to enhance adaptability, customer-centricity, and agility. The leading technologies used in financial reporting are data analytics, cloud, Internet of Things (IoT), software, eXtensible Business Reporting Language (XBRL), platforms, artificial intelligence, robotics, drones, blockchain, and other integrated information systems (*Busulwa & Evans, 2021).*

These technological advancements provide robust information systems by integrating automation of data collection, data analytics, and real-time data monitoring. This provides firms with timely and reliable information to support strategic decision-making. As a result, firms can anticipate and adapt to digital disruptions and new technologies that can replace existing ones and, in some cases, make them obsolete.

Rather than being vulnerable to such disruption, businesses can use strategic insights to become disruptors, leveraging innovation to maintain sustained competitiveness and drive long-term growth.

Swanson (2020) discussed that information analysis, technological advances, and software are essential enablers of organizational change and development rather than acting as the primary drivers of these transformations. *Swanson (2020)* suggests that while these elements provide crucial support and tools that facilitate change, the valid drivers lie in strategic vision, leadership, and a culture of adaptability. These technologies empower organizations to implement and sustain change by enabling processes and improving operational capabilities. Still, the motivation and direction for transformation come from overarching strategic goals rather than the technologies themselves.

The impact of digital disruption: One concept related to digital transformation is digital disruption, a term used to express a business's gradual or sudden decline, leading to client loss and reduced market presence. This decline often results from the emergence of innovative methods or disruptive new technologies (technological advancement). In addition, disruption occurs at all levels: community, industry, or segment level *(Busulwa & Evans, 2021)*.

Disruption usually leads to strategic decisions in response to digital business strategy or digital transformation. Digital transformation should be a top priority for decision-makers and a key part of business strategy. Companies may be able to speed up their transformation journey by becoming more digitally aware (*Saarikko et al., 2020*). According to *Vial (2019),* digital technology is intrinsically disruptive. The three primary disruptions facing organizations today, which are the main drivers for DT, include shifts in customer demand, behavior, and preferences; heightened market competition; and the growing imperative to improve data accessibility and availability. Customer demand, behavior, and preferences now exert significant pressure on banks and other institutions to continuously innovate services to stay competitive. Enhanced data accessibility and availability represent another key disruption facilitated by digital technologies, which generate vast amounts of data via mobile devices and other digital platforms. Companies can harness this data advantageously or monetize it by selling it to other entities. Through data-driven analytics, businesses can benefit from this data to offer services more aligned with client needs and improve operational efficiency, gaining a competitive edge through informed decision-making *(Vial, 2019).* Companies must carefully handle these disruptions to maintain their survival in the market.

Key challenges facing organizations in digital transformation efforts

present challenges, including resistance to change, gaps in digital competencies, security concerns, and the complexities of integrating new digital tools with existing systems. Prioritizing digital awareness, investing in staff training, and fostering an innovative and adaptable culture is essential for companies to meet these challenges *(Omol,2020).* Moreover, the success of digital transformation initiatives exhibits enhanced operational efficiency, customer satisfaction, and increased innovation capacity.

2.2.2 Measures of Digital Transformation

This section reviews the existing literature on measures used to evaluate digital transformation (DT) across various industries in general. The following section highlights the primary measures of (DT) in the banking sector. Studies have proposed multiple measures to assess the extent and impact of (DT). Below is a summary of the key approaches highlighted in the literature.

1. **Questionnaire Surveys**: This common technique involves developing questionnaires with specific inquiries to evaluate various phases and features of digitalization within organizations. Studies use multidimensional scales to assess the degree of DT. This technique entails constraints, including potential subjectivity in responses, low response and completion rates, and challenges in monitoring the evolving nature of DT over time (*Phornlaphatrachakorn & Kalasindhu, 2021; Vial, 2019).*

2. **Quantitative Statistical Analysis**: This methodology employs historical data, encompassing financial and non-financial, to assess digitalization. The commonly used financial measures are investments in technology assets such as software, hardware, and patents, and investments in projects such as Enterprise Resource Planning (ERP), Product Lifecycle Management software (PLM), and other management systems *(Muda et al., 2018; Troshani et al., 2018).*

   Non-financial data Analysis: This method employs scoring systems based on terminology associated with digitization identified in business registration records. This approach utilizes text mining algorithms to examine unstructured data, including business annual reports, policy documents, and news items, to assess digital transformation (DT). Researchers develop indicators for digital transformation through word frequency analysis, utilizing advanced methodologies, and developing feature word libraries (*Saleh et al., 2022; Shakatreh et al., 2023; Wade, 2015).*

   Digital Technology Index: The index includes diverse variables in formulating indices for digital transformation (DT) assessment. These signs are classified into input, outcome, and process indicators (Saleh et al.,.2022):

   - Input Indicators: These quantify the resources allocated to digital transformation, including the Investment rate in hardware and software information technology equipment, which may include the investment rate, IT equipment used, the amount of expenditure on electronic information and networks, and the Rate of employee computer utilization.

- Outcome Indicators: These reflect the concrete results of digital transformation initiatives, including the ratio of intangible assets associated with the digital economy, capital allocation towards digital hardware and software fixed assets, and productivity improvements such as reducing audit lag, increasing data processing, and improving reporting accuracy.
- Process Indicators: These evaluate the degree of digital transformation across several facets of the organization, including the degree of automated work and organization readiness.

To measure Corporate Digital Transformation (CDT), several methods and indicators are commonly applied in academic research, as illustrated in Table 2.1 below:

Table 0.1: Methods for Measuring Corporate Digital Transformation (CDT)

Indicator	Citation	Results	Reliability & Explanation
Balanced Scorecards for digital Transformation	*Kaplan and Norton (1992*	Integrates CDT with business scorecards, aligning digital goals with organizational strategy.	Reliable for structured reporting and strategic alignment; needs regular data input and customization.
Qualitative Interviews & Case Studies	*Pateli and Giaglis (2005)*	Analyzes digital adoption through case studies of successes and failures.	Reliable for sector-specific insights, though its qualitative nature may limit generalizability.
Digital Maturity Models	*Vial (2019).*	Assesses digital maturity through a structured assessment of competencies and processes	Reliable for capturing digital maturity across various sectors, though complex, and requires extensive data collection
organizational capabilities	*Bharadwaj et al. (2013*)	Measures the adoption level of key technologies like AI and	Effective for tracking technology Presence, but may overlook

		cloud, correlating with operational efficiency	cultural and skills-based aspects of CDT.
Digital Capability Indicators	*Westerman et al. (2014)*	Measures digital capabilities in areas like customer experience and process innovation	It is highly reliable, as it encompasses a diverse range of aspects of CDT. It requires a detailed understanding of digital skills and processes.
Digital Performance Metrics	*Kane et al. (2015)*	Measures KPIs like ROI and customer acquisition impacted by digital initiatives.	Moderately reliable as it directly links CDT to performance, but may miss non-quantifiable impacts.
Survey-Based Measurement (e.g., Likert Scales)	*Fitzgerald et al. (2014)*	Captures employee perceptions of CDT, yielding insights on digital adoption and skills.	Reliable for gauging workforce sentiment, though subject to individual variability.
Holistic Digital Maturity Model for Digital Transformation	*Aras (2024)*	A comprehensive model assessing CDT across dimensions like strategy, governance, and operations.	Highly reliable, covering broad aspects of CDT.

2.2.3 Measures of Digital Transformation in the Banking Sector:

Studies assessing digital transformation (DT) within the banking industry employed methods that encompassed analyzing yearly reports, monitoring news data, evaluating strategic partnerships, tracking patent applications, and assessing digital product utilization (*Mikalef et al., 2019; Zou et al., 2024).*

Other researchers advocate for a comprehensive approach, as dependence on a singular metric may not truly represent a bank's digital maturity and performance. Peking University has created the Digital Transformation Index for Banks. This index is derived from examining annual report texts and financial information of 36 commercial banks from 2010 to 2018. It encompasses three key characteristics that reflect various facets of digital transformation in banks: their understanding of digital finance, organizational elements, and digital financial products (*PURCFDFI, 2021).*

Afifa et al. (2022) applied an extended UTAUT model to examine accountants' intentions to adopt blockchain technology in accounting practices, highlighting its relevance in financial reporting contexts. *Kakinuma's (2024)* research assessed the Effects of Digitalization on Banking Performance by examining the role of FinTech in reducing the adverse effects of COVID-19 on Thailand's banking sector, highlighting the importance of digital transformation in improving bank performance and shareholder value.

Kakinuma (2024) examines textual disclosures in the annual reports of eleven banks listed on the Thailand Stock Exchange, covering the period from 2017 to 2021. This period enables the evaluation of FinTech adoption both before and during the COVID-19 pandemic.

The study utilizes text mining methodologies and factor analysis to develop a FinTech index. This index indicates the extent of digital transformation in the banking sector. The results reveal that Thai banks with significant FinTech deployment exhibited resilience during the years affected by the pandemic. Digitalization has mitigated the adverse effects of COVID-19 on these banks.

The findings indicate that digitalization enhances competitiveness within the banking sector, aligning with prior research that identifies technology adoption as a key driver of productivity, operational performance, and profitability in the industry.

The research employed a regression model to investigate the impact of FinTech adoption on financial performance. This model includes the FinTech index, bank-specific parameters, and macroeconomic indicators.

The results indicate that the FinTech index substantially mitigates the adverse effects of COVID-19 on bank profitability and shareholder wealth, suggesting that banks with greater FinTech adoption were more resilient in navigating the financial difficulties caused by the pandemic.

The application of text mining and factor analysis to develop the FinTech index offers an innovative and objective method for assessing the extent of digital transformation within the banking sector.

This study, in conjunction with our previous discussions on technology adoption in the banking sector, highlights the potential for leveraging digital technologies to enhance bank performance, customer experience, and overall competitiveness.

Based on the above approaches and aligned with the study objectives, the study measured DT using the investment ratio, which offers a quantifiable, innovative, and objective method for assessing the extent of digital transformation within the banking sector.

2.2.4 Financial Reporting Nature, Definition, and Purpose

Financial reporting (FR) involves disclosing financial information and data to stakeholders, such as management, investors, regulators, and creditors. Financial disclosure, which typically reports a company's results through financial statements, provides a precise and thorough representation of an organization's financial and operational well-being over a given period (*Walter et al., 2018*).

The International Accounting Standards Board (IASB) develops and enforces the

International Financial Reporting Standards (IFRS). In *2010*, the *IASB* defined financial reporting (FR) as the provision of information that supports decision-making, establishing this as the fundamental criterion for determining the quality of FR.

Financial reporting is not limited to financial data disclosure alone; it can also include additional disclosures, textual disclosures such as Management Discussion and Analysis (MD&A), governance disclosure, and sustainability reports to support further comprehensive decision-making.

Before the 1980s, accountants prepared financial reports and maintained bookkeeping records manually, until the emergence of software such as Oracle and other companies (*Beaver, 2021*). This emerging software led to a revolution in automating financial tasks and the start of replacing paper with electronic records of balance sheets, income statements, and statements of cash flow through automated recording.

In 1980, Statement of Financial Accounting Concepts (SFAC) No. 1 and 2 were issued by The Financial Accounting Standards Board (FASB) and introduced the terms relevance and reliability as a main character of financial information, which later in the year 2010 ISAB and FASB replaced the (SFACs No. 1 and No. 2) with the new concepts Statement No. 8, the main change was replacing reliability with faithful representation.

Recently, in response to the digital transformation of the business world, accounting software has evolved from traditional on-premises solutions (physically on company servers) to cloud-based platforms. This shift to the cloud has brought several key advantages, including reduced data storage costs and the elimination of the need for continuous software maintenance *(Rajnoha & Lesníková, 2016).*

Cloud-based systems also provide accurate, real-time financial data, allowing businesses to make faster and more informed decisions (*Dillon et al., 2010*). Furthermore, these systems minimize human error through automated processes, thereby improving the overall quality and accuracy of financial statements (*Jayeola et al., 2022*).

Additionally, cloud-based accounting software facilitates compliance with regulatory standards by providing regular updates and minimizing the risk of non-compliance *(Sharma et al., 2016*). As a result, businesses can meet regulators' demands more efficiently, while managers benefit from enhanced decision-making capabilities due to the availability of timely and reliable information.

Several factors influence the quality of FR. For example, technological tools provide accuracy and efficiency but must be paired with robust regulatory frameworks and adherence to professional accounting standards to ensure high-quality reporting. In addition, financial governance integrity and ethical standards play a critical role in maintaining the reliability and transparency of reports. As financial reporting continues to evolve, these factors collectively determine the trustworthiness and usefulness of financial information (*Muda et al., 2018).*

Bouvet (2023) states that accounting practices can be divided into three primary categories. The first category involves recording and classifying financial data, ensuring all transactions are accurately documented and organized systematically.

The second category focuses on data analysis to predict and forecast, where accountants utilize historical data to identify trends and project future financial performance.

Finally, the third category emphasizes supporting decision-making, where accounting information is analyzed and presented to assist managers and stakeholders in making informed strategic and operational decisions.

This holistic approach allows accounting to play a crucial role in an organization's operational efficiency and strategic planning. Scholars and accountants agree that digitalization has shifted accountants' work from traditional repetitive data recording to data interpretation, forecasting, and advice for decision-making.

Quality financial reporting is not just about complying with financial standards and best practices; it is a crucial component of a successful business (*Wang & Strong, 1996*). Data quality dimensions such as reliability, timeliness, completeness, consistency, and accuracy are essential for data-driven decision-making.

Banks with better information on their customers' financial behavior and credit history could price loans more effectively and manage risks better than their competitors.

This capability provided a strategic advantage in acquiring and retaining profitable customers. However, the advent of digital transformation, mainly driven by financial technology, is reshaping this paradigm. By integrating digital tools such as data analytics, artificial intelligence, and machine learning, banks and other financial institutions can now assess credit risk with improved accuracy and at a reduced cost.

With digital platforms, information that was once costly and time-consuming to collect and analyze can now be processed swiftly and accurately. Differentiation is not solely based on who has the most information, but on who can leverage technology to create more efficient and customer-centric solutions. This shift pushes banks to innovate continuously in their digital capabilities to maintain competitiveness. Although it can achieve compliance with regulations, it is also an essential strategic transfer that can safeguard any business brand, enhance credibility, and drive growth toward competitiveness.

2.2.5 Factors Affecting Financial Reporting Quality in the Digital Transformation

Era.

According to the conceptual frameworks provided by the IASB and the FASB, the primary goal of financial reporting is to provide financial statements that provide valuable information to internal and external users for decision-making purposes (relevance) and ensure that this information is delivered promptly (timeliness), free from error, bias, and incompleteness (reliability).

A digital financial report is a report formatted as organized data that is readable by computers. Although financial reports in PDF format are visually and contextually understandable for reporting users, this format limits the ability of users to compare and analyze data on the business effectively (*International Financial Reporting Standards Foundation, 2024*).

Data presented in a structured and digital format enables users to compare and analyze information effectively, regardless of size.

To explore the relationship between information quality and digital financial reporting, examine the qualitative characteristics that guide the effectiveness and value of financial information. These characteristics, established by frameworks such as the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB), are grouped into two main categories.

2.2.6 Fundamental Qualitative Characteristics:

- **Relevance**: Information is considered relevant if it can influence the economic decisions of users by helping them evaluate past, present, or future events or by confirming or correcting their past evaluations (*IASB, 2018).*

  Also, digital financial reporting enhances relevance by enabling stakeholders to actively search, extract efficiently, and compare financial data, thus improving the timeliness and predictive value of the information.

- **Faithful Representation**: This characteristic ensures that financial information accurately reflects the economic phenomena it claims to represent, encompassing completeness, neutrality, and freedom from error. Using structured data formats, such as XBRL, helps to ensure accurate representation, free from biases or errors, allowing reliable decision-making (*FASB, 2021; IFRS, 2024*).

- **Enhancing Qualitative Characteristics:** refers to the attributes of financial information that improve its usefulness and utility for users by making it easier to compare, verify, access promptly, and understand. These characteristics include:
  - **Comparability**: Enables users to identify and understand similarities and differences among items within an entity over time and across different entities *(IASB, 2018*). Digital taxonomies: Specified items (or labels/tags) that, when allocated to data in financial reports prepared in compliance with IFRS Standards, furnish the structure essential for that data to be machine-readable. They provide consistent tagging, which supports cross-company and temporal comparisons, fostering competitive analysis and benchmarking.
  - **Verifiability**: Assures users that different knowledgeable and independent observers can reach a consensus that the information faithfully represents the economic phenomena. Also, Digital reporting facilitates a transparent audit trail, improving verifiability by permitting independent observers to validate data correctness and integrity *(FASB, 2021; IFRS, 2024).*
  - **Timeliness**: Ensures that information is available to decision-makers in time to influence their decisions *(IASB, 2018*). On the other hand, digital systems speed the development and dissemination of reports, guaranteeing that information is accessible to users in time, which is essential for prompt decision-making.
  - **Understandability**: Requires that information is presented clearly and concisely, making it comprehensible to users with a reasonable knowledge of business and economic activities (*FASB, 2021*). Digital financial reporting enhances the comprehensibility of intricate financial data by organizing information in accessible digital formats, providing clarity and functionality for stakeholders (*IFRS, 2024*).

Financial reporting free from material errors (faithful representation) forms the cornerstone of successful business operations. It allows stakeholders such as investors and managers to make well-informed decisions based on accurate data.

Accurate financial reporting brings numerous benefits to businesses, including enhanced transparency, increased investor confidence, optimal resource allocation, early detection of potential fraud, and improved reliability, supporting proactive risk mitigation measures (*IFRS, 2022a*).

Therefore, previous research sought to identify factors influencing financial reporting quality. One key factor identified is an investment in the training and development of accounting personnel, which positively impacts financial reporting quality (*Hung & Van, 2022*; *Pham et al., 2023*). Various accounting technologies significantly reduce errors and enhance financial reporting quality (FRQ) (*Dechow et al., 2007*; *Spilnyk et al., 2020*). Additionally, the presence of strong internal controls further improves (FRQ) (*Dichev et al., 2013; Hasbullah et al., 2023; Pham et al., 2023*); according to *Pham et al. (2023*), an independent audit, mainly when conducted by an external auditor from a reputable firm, ensures the accuracy of financial data. However, research indicates that (FRQ) declines when managers engage in earnings management, which diminishes the accuracy and reliability of financial reporting (*Dichev et al., 2013; Hasan, 2023; Pham et al., 2023).*

Internal controls can ensure compliance with legal controls, accurate financial reporting, and timely data reporting. They find and fix errors and problems, and detect them before an external audit to ensure operational efficiency. In addition, Internal controls can enhance financial reporting accuracy and timeliness (*Koutoupis & Malisiovas, 2021).*

According to *Koutoupis &Malisiovas (2021)*, measuring the internal controls quantitatively through implementing five components of the COSO Framework through customized proxies:

1-control environment: proxied by board size and independence.

2- Risk assessment: proxied by CEO time length (in years), has occupied their role, and CEO Age.

3- Control activities: proxied by the loan to total assets ratio

4- Monitoring: proxied by the Inclusion of financial specialists on the audit committee and the number of meetings conducted by the audit committee.

5- Information and Communication: proxied by audit lag.

Koutoupis and Malisiovas (2021) investigated the relationship between internal controls, credit risk, profitability, and compliance within U.S. banks. The results showed that control Activities and Information and Communication components positively affect profitability. Also, efficient control activities and timely information dissemination contribute to higher net interest margins (NIM).

The transformation of financial reporting improves the reporting process by automating labor-intensive tasks, allowing organizations to provide financial information to stakeholders promptly. Also, (DT) reduces manual errors, and applying advanced algorithms for anomaly detection contributes to financial reports' improved accuracy and reliability (*Bhuiyan et al., 2024*). On the other hand, timeliness in financial reporting is an essential consideration for standard setters and regulators. It enhances the value of information for both existing and future investors.

The increased delay in audit reports indicates the potential for negative news and bad signaling, which puts investors in high uncertainty and increases the risk of stock price declines.

Several studies highlight various factors influencing (FRQ), including internal auditing, financial reporting systems, religion, gender, asset management, proof of ownership, IT utilization, adherence to accounting standards, company size, employee nationality, and cultural backgrounds *(Chang et al.,* 2019; *Novatiani & Kusumah, 2019; Pham et al., 2023; Yus-Ran et al., 2023).*

Other factors affecting financial reporting quality are the firm's years in business and firm size; previous research shows that larger firms have enhanced stability and operate under optimal settings, exhibiting fewer financial errors. In addition, firms with a long business history have more experience, solid performance, and fewer accrual variances (*Arif et al., 2016).*

2.2.7 Operationalizing Fundamental Characteristics of Financial Reporting

Fundamental characteristics are the primary characteristics of financial reports' quality that must be presented to produce useful financial reports for users (financial or non-financial data) for decision-making purposes (*Mbawuni, 2019; Osasere, 2018).*

Empirical research focuses on the best proxies to measure reporting quality; most scholars assert that financial reporting aims to provide information about the economic health of any business. One important outcome is that profit is the top priority for managers, shareholders, and existing and potential investors. As a result, the accrual model measures of earning quality (*Barać, 2021; Mbawuni, 2019; Osasere, 2018)* are the most frequently used proxy for FRQ.

According to Barać (2021), the market-based approach measures Financial Reporting Quality (FRQ) indirectly by evaluating how the market perceives financial reports' qualities, reflected in fluctuations in market performance or market prices.

This approach considers aspects of decision usefulness, such as relevance and reliability. Alternatively, (FRQ) can be measured directly through accounting-based approaches, which include factors like earnings persistence, where large accruals indicate low earnings quality and less persistent earnings (*P. M. Dechow & Dichev, 2002),* predictive ability, accrual quality, and earnings smoothness. Additionally, (FRQ) assessment may involve comparing accounting-based measures (e.g., accruals, earnings) with market-based measures (e.g., stock prices, market returns).

This approach is widely used in studies to evaluate how well accounting information reflects a company's underlying economic reality.

Market-based measures capture investors' perceptions of a company's financial health and performance, while accounting-based measures are derived from the company's financial statements.

Market-based measurements are often used to assess (FRQ) in developed countries where stock markets are efficient and stock prices reflect all available information; however, in developing countries, accounting-based measures (such as accrual quality and conservatism measures) are used to assess (FRQ) and provide a more accurate assessment of it. Tables 2.2 and 2.3 below show the accounting and market measures of FRQ, respectively.

Table 0.2: Accounting-Based Measures of FRQ

Accounting Measure	Operationalization	Examples
Accruals Quality	Assessing accruals splits earnings quality into normal accruals (core earnings process) and abnormal accruals (discretionary).	•*Jones (1991) Model* •*Dechow and Dichev's (2002) Approach* •*McNichols Model (2002)*
Earnings Quality Indications	1-Identifies abnormal accruals as discretionary, indicating potential earnings management. 2-Earnings Quality Indications Shifts focus from revenues to cash flows; lower accrual quality is linked to poorer earnings quality and financial reporting. 3-Expands on accrual quality by incorporating cash flows, revenue changes, and investments in property, plant, and equipment.	•*Jones (1991) Model* •*Dechow and Dichev (2002) Approach* •*McNichols Model (2002)*

Earnings Persistence	1-Assesses the sustainability of earnings over time, where higher Persistence indicates more predictable and stable future earnings. 2-Assesses conservatism by observing the timeliness of recognizing economic losses compared to gains, noting that this model is most suited for measuring small samples.	•Autoregressive Models •*Basu Model (1997)*
Earning Predictability	Evaluate current earnings' ability to forecast future earnings or cash flows, indicating the reliability and usefulness of financial reporting.	•Earnings Predictive Ability Models

Table (2.2) summarizes the key accounting-based measures commonly used to evaluate financial reporting quality. These measures emphasize accrual quality, earnings persistence, and predictability, offering a comprehensive view of the internal financial structure.

Table 0.3: Market-Based Measures of FRQ

Market Measure	Definition and Operationalization	Examples
Price-Earnings Ratio (P/E)	The price-to-earnings (P/E) ratio compares a company's share price to its earnings per share (EPS), providing insight into market expectations regarding future earnings growth *(Graham, 2003).*	Trailing P/E
Market Value Added (MVA)	The difference between a company's market value and the capital shareholders invest reflects the value created by management *(Damodaran, 2005).*	N/A
Tobin's Q Ratio	The ratio of the market value of a firm's assets to the replacement cost of those assets is used to assess market expectations of firm growth (Tobin, 1969).	N/A
Value Relevance	Measures how well earnings and book values explain stock prices. Based on the Easton and Harris Model (1991), it uses regression analysis to link financial statement information with stock returns (Easton & Harris, 1991).	Easton and Harris Model (1991)

Market-based metrics assess the value relevance of financial statements by examining variables such as stock price variations and the correlation between accounting-based income and market-based economic income. An accounting-based approach is often more reliable in the context of banks in developing countries such as Palestine, where the financial system and markets are less developed (World Bank,2022). It acts as the most effective proxy for assessing (FRQ). Reliability in financial reporting is characterized by providing information free of bias or errors.

The conservative approach promotes reliability by preventing the overstatement of financial information concerning income or assets (Ball et al., 2000; Watts, 2003). According to Watts (2003, p. 217),” The asymmetric treatment of gains and losses is central to the reliability of financial statements.” Recognizing that bad news is quicker than good news reduces the risk of misrepresentation. Also, this is confirmed by (Ball et al., 2000,47p.21):” The early recognition of economic losses reduces estimation errors and bias, thus improving the reliability of reported earnings.”

This methodology is especially appropriate for assessing (FRQ) in banks, particularly in heavily regulated areas such as the banking industry.

Empirical studies highlight that in weaker markets, where investors encounter limited institutional protections, conservatism increases the informativeness of financial reports by enhancing the reliability of loss recognition (Ballet et al.,2000; Watts, 2003). Conservatism consequently enhances the accurate portrayal of financial reporting by guaranteeing that earnings reflect economic events, especially unfavorable news.

The significance of Digital Transformation (DT) in relation to financial reporting quality (FRQ) is in assessing how DT improves the timeliness of financial reporting, primarily via real-time reporting, with conservatism serving as an indicator for this assessment. The alignment of conservatism with timeliness facilitates a more precise and timely representation of economic events in financial statements and is a proxy for overall financial reporting quality (FRQ).

2.2 Digital transformation of financial reporting

The financial accounting tasks focus on recognizing and identifying, quantifying, record keeping, and summarizing company activities and events to produce financial statements or reports. Digital technology has changed how these tasks are performed. There are key technologies used to execute financial duties that revolutionized FR, summarized below in Table (2.4).

Table 0.4: Use of Technology to Execute Financial Duties

Accounting Task	Technology Used	Tasks Performed by Digital Technology	Achieved Benefits for Stakeholders
Recognition and identification	Internet of Things (IoT)	Recognize and identify data in real-time	Tracking assets and financial data in real time Time can improve decision-making, reduce operational risks, and enhance efficiency.
Quantifying and	Data Analytics	Analysis of data prediction with great accuracy	Data insights, big data, and analytics provide a deeper understanding of financial trends, risk mitigation, and strategic decision-making.
Records-Keeping	Blockchain	is Secure and transparent data management	Prevent unauthorized changes to data, improve transparency, and ensure the integrity of financial records, thus increasing stakeholder trust.
Summarizing Business Data	Artificial Intelligence (AI)	Handle large sets of financial data	AI algorithms help automate data processing, improve accuracy, and provide predictive analytics to assist in forecasting and fraud detection.
Reporting	eXtensible Business Reporting Language (XBRL) - Cloud Computing - Robotic Process Automation (RPA)/ - Intelligent Process,Automation (IPA)	Develop machine-readable reports, automate report generation, and distribution Enable real-time access to financial reports from any location Automate repetitive tasks such as data entry and analysis for higher efficiency	Improve financial reporting accuracy and timeliness, reduce human error, and enable faster decision-making. Provides unified, comparable financial data

2.3 Financial Reporting Quality Through Digital Transformation

Dechow et al. (2007) concluded that the latest information technology is an integral part of corporate operations, ensuring that organizational goals are effectively met. Integrating diverse business processes and automating repetitive routine work will improve efficiency and accuracy, provide real-time data, and enhance data analysis and reporting capabilities to support strategic planning and performance monitoring.

Davern et al. (2019) identified three key technological advancements that are driving transformation within the accounting profession and reshaping its value proposition:

- Robotic Process Automation (RPA),
- Blockchain, and
- Artificial Intelligence and Data Analytics (AI/DA).

These technologies are pivotal in streamlining processes, enhancing data accuracy, and enabling more insightful decision-making.

Similarly, *Busulwa and Evans (2021*) explored a range of digital technologies that are expected to profoundly and immediately impact accounting. They highlighted several innovations, including:

- Cloud computing,
- eXtensible Business Reporting Language (XBRL),
- Big data, data analytics, and data science technologies,
- Data visualization technologies,
- Cognitive computing, artificial intelligence, and robotic process automation technologies,
- Internet of Things (IoT), Internet of Everything, network connectivity technologies, and Blockchain and other distributed ledger technologies.

These advancements collectively enhance the capability of accounting systems to provide real-time data insights, increase operational efficiency, and improve transparency in financial reporting. *Brynjolfsson and Hitt (2000)* discussed that investing in information technology advances has a direct correlation, first, with increased productivity through leveraging quality and lowering cost; second, enabling the transformation of the organization; and last, achieving complementary technological advancements and innovative work processes.

The authors asserted that digital transformation would not increase firms' productivity unless they integrate information technology with other complementary technological advancements. These complements, such as the implementation of new business processes, acquisition of new skills, and adoption of new organizational and industry structures, are considered significant factors that drive the contribution of information technology. By investing in organizational learning and changing work habits, organizations can ensure that their structure aligns with their technological capabilities (*Hunter et al., 2001).*

To analyze the effect of digital technologies on financial reporting quality, it is crucial to examine the commonly used financial technologies in accounting and financial reporting and understand how these technologies work and how they can improve financial reporting quality while promoting competitiveness. *Sabherwal and Jeyaraj (2015)* clarified this relationship, as summarized in Table 2.5 below.

2.3.1 Extensible Business Reporting Language (XBRL)

Extensible Business Reporting Language is a globally accepted standard for digital business reports that facilitates the fast and accurate exchange between enterprises. The primary purpose is to develop uniform procedures for transferring accounting data over the Internet. Around 450 enterprises and organizations globally have recently adopted a standard taxonomy (*Bonsón et al., 2009*). Four hundred fifty enterprises and organizations are dedicated to expanding the global adoption of a standard taxonomy by the XBRL International consortium. In the era of AI, XBRL enhances data-driven decision-making by improving the utility of reporting and disclosure. Integrating XBRL technology also enables the analysis of both financial and non-financial report data for investors, bondholders, and other capital market participants. (*Aksoy et al.,* 2021; S. *Chen et al., 2015).*

Table 0.5: Technology Advancement and Usage in Banking Financial Reporting

Technology Advancement	Usage in Banking Financial Reporting	Definition/Clarification	DT's Role in Enhancing FRQ
AI-based algorithms / Xero cloud accounting platform	Seamlessly integrates with a business's bank account, automatically detecting and classifying transactions for recording.	The Xero cloud accounting platform integrates with a business's bank account information and automatically identifies bank transactions that need to be recorded.	-Improves relevance through timeliness -Improves reliability through fraud and error deduction
AI and Machine Learning Model / Big Data Analytics	Study client behavior to find trends and interests. Empower banks to detect potential fraud before it even occurs.	AI algorithms analyze real-time data streams using drones and computer vision to assess the value and risk of dynamically managed loan portfolios.	-Improves relevance through accurate prediction and trend analysis -Improves reliability through Verification and authentication of data
Blockchain	An efficient banking and lending system reduces counterparty risk, issuance, and settlement delays.	Blockchain ensures tamper-proof real estate ownership and value records, providing an unalterable history of transactions.	-Improves relevance through quick data recording -Improves reliability through unchangeable records
Internet of Things (IoT)	Utilizing IoT devices: Fraud detection, increased security, Contactless payments, and Advanced analytics.	IoT helps monitor the condition and utilization of physical assets, such as ATMs, enabling real-time reporting of asset conditions.	-Improves relevance through quick data collecting and processing -Improves reliability through data accuracy, verifiability, and completeness
XBRL-based reports	Financial data can be presented in both human-readable and machine-readable formats.	Information layers or metadata within XBRL-based reports enable data to be aggregated or broken down in detail and customized to suit decision-making.	Improves relevance through on-time reporting -Improves reliability through machine-readable and consistent reporting

Corporations use XBRL to comply with reporting requirements for tax authorities, security regulators, financial regulators, and business registration. With over 220 mandates globally, XBRL ensures that disclosed financial data is comparable by enforcing unified specifications for report creation. Regulatory bodies like US GAAP and FASB develop taxonomies that define relationships between terms, ensuring reports are interpretable, usable, and comparable.

The empirical analysis examines the impact of adopting eXtensible Business Reporting Language (XBRL) on financial reporting, focusing on banks publicly listed on the Indonesian Stock Exchange (IDX) between 2015 and 2019. The sample includes 38 Indonesian banks, resulting in 190 bank-year observations, proving that adopting XBRL positively impacts the time needed to prepare financial reporting.

Also, logistic Regression and Statistical Analysis Results validate that adopting XBRL benefits banks as it promotes operational automation, optimizes cost-efficiency, speeds up data gathering, improves data quality, and enhances dependability and precision, resulting in improved corporate decision-making *(Du & Wu, 2018; Lestari et al., 2021; Yoon et al., 2011).*

Empirical research confirms the positive impact of adopting eXtensible Business Reporting Language (XBRL) on financial reporting. The findings validate that XBRL adoption benefits banks by enabling operational automation, reducing costs, accelerating data collection, and enhancing data quality. These improvements in accuracy and reliability can significantly strengthen corporate decision-making *(Lestari et al., 2021*).

2.3.2 Cloud Computing

Cloud computing allows organizations to remotely access and retrieve data, eliminating the need for physical storage. This technology enables companies to make faster, more informed decisions. Cloud-based accounting platforms provide a variety of accounting software for a periodic fee. Cloud services are provided in many different types of offerings, such as SaaS (Software as a Service), DaaS (Data as a Service), FaaS (Function as a Service), PaaS (Platform as a Service), and StaaS (Storage as a Service).

Cloud computing offers automatic backup, enables remote work from any location, provides instantaneous access to information, enhances security, and promotes internal and external collaboration (*Busulwa & Evans, 2021).*

Cloud accounting can significantly influence the efficiency and effectiveness of accounting value creation by transforming accounting procedures and activities. According to *KPMG (2017)*, the survey emphasized that using cloud computing in organizational financial reporting enhanced the accuracy of financial reports and increased the speed of publishing the reports. The report also highlighted the main concerns the surveyed organizations highlighted of adopting cloud computing: the risk of providing the service by a third party, internet outages disconnecting organizations from their vital data, and information security issues (*KPMG, 2017)*.

In a study by *Shakatreh et al. (2023),* investigating the impact of cloud computing, encompassing on-demand self-service, broad network access, resource pooling, rapid elasticity, and measured service, on the quality of financial reports was examined based on the characteristics of understandability, comparability, relevance, and reliability. Ten commercial banks participated in the study and responded to a questionnaire using a quantitative research approach. The findings demonstrated that cloud computing significantly enhances the quality of financial reports, with all cloud computing attributes positively influencing report quality. Comparability showed the most substantial impact, followed by reliability, further highlighting the advantages of cloud computing in the accounting field.

2.3.3 Big Data Technology, Data Analytics Technology, And Data Science Technology

Big data refers to extremely large and complicated datasets generated rapidly. With the increase in data volume, current data analysis methods become inefficient. Data analytics encompasses different approaches, methodologies, and technologies employed to accomplish data analysis goals. Data science systematically extracts valuable information; the sample comprises actions from large data sets using various methods and approaches.

A study of the impact of big data and data analytics on an organization's main activities used a sample of forty-three listed companies in the Egyptian stock market from eleven different business industries.

The survey employed a questionnaire to assess the impact of significant investment in Big Data on supply chain management, financial reporting, decision-making, and performance evaluation, as outlined by *Megeid and Sobhy (2022)*. The findings indicated that the current data landscape differs notably from previous datasets regarding accessibility, speed, and immediacy of data retrieval.

The study revealed that timely financial data positively influences quicker decision-making and more accurate projections. Additionally, it highlighted the importance of Big Data and Big Data analytics in enhancing the quality of financial reports. Specifically, accounting reports and expert decisions have been improved when applying big data analysis, improving their ability to predict cash flows and revenues and detect fraud early.

The study used a sample of 127 financial analyst accountants and auditors in Canada, and the respondents in the survey were 43 (*Saleh et al., 2022)*.

2.3.4 Reporting Using Visual Technology

Data visualization is a digital technology that provides innovative and improved methods for presenting data to decision-makers. Accountants who use data visualization tools will likely provide engaging and effective information presentations and be significantly more efficient and effective in their new, challenging roles.

Recently, with a high increase in emphasis on non-financial data about social and environmental organization responsibility towards stakeholders and the environment, *Chiacchio et al. (2024)* explore how the quality and visual presentation of non-financial reports have evolved, focusing on reducing information asymmetry and enhancing strategic signaling in different cultural contexts, Good non-financial reports make it easier for stakeholders to learn about a company's ethical behavior, social effects, and sustainability practices; this makes the company more transparent.

The quality of non-financial reporting has important implications for investors, regulators, and other stakeholders. These reports provide accurate and reliable information that helps make informed decisions. According to *Chiacchio et al. (2024),* visual content technology improves report effectiveness.

2.3.5 Blockchain and Other Distributed Ledger Technologies

Blockchain is a decentralized and immutable digital ledger that transparently documents transactions. It provides immediate, verifiable, on-time, and resistant to modifications on record-keeping; this technology reduces errors and prevents fraud *(Blog, 2023)*; the structure comprises connected data blocks, which are securely linked using advanced cryptography techniques *(Busulwa & Evans, 2021)*.

Blockchain technology offers a reliable, single source of accurate financial information. It documents transactions in blocks that are sequentially connected based on the time they occur, making it nearly impossible to alter the data without consensus from all parties involved *(Martino, 2021)*.

This structure ensures the reliability, integrity, and accuracy of financial information by preventing manipulation. Blockchain is also regarded as a potential replacement for traditional accounting and bookkeeping methods *(Yermack, 2017).*

Furthermore, blockchain technology can overcome the limitations inherent in conventional centralized databases and systems; this technology is much faster, cost-effective, and completely secured without relying on intermediaries *(Buitenhek, 2016; Yermack, 2017)*. According to *Danach et al. (2024)*, blockchain positively impacts financial reporting accuracy, enables real-time auditing *(Schmitz & Leoni, 2019)*, and real-time tracking obviates the necessity for samples. It simplifies the processing, recording, and reconciling of transactions. This methodology mitigates the potential for errors arising from numerous database records *(Danach et al., 2024).*

A case study on the impact of blockchain technology in Iraq examined two key aspects: the level of familiarity with blockchain among auditors, accountants, and managers, and the effect of adopting blockchain technology on the quality of financial reporting. The study's sample included 1,528 respondents. The results from hypothesis testing indicated a positive influence of blockchain technology on enhancing the quality of financial information; the study sample was publicly traded and privately held firms (*Alkafaji et al., 2023*). The researcher used a questionnaire to measure the dependent variable, financial reporting quality, and the independent variable, blockchain technology.

2.3.6 Artificial Intelligence (AI) and Robotic Process Automation Technologies (RPA)

Technologies are increasingly being used to imitate and perform all human tasks, achieving enhanced, faster, and less error-prone tasks. The RPA carries out repetitive accounting tasks. Cognitive computing, artificial intelligence, and RPA technologies provide significant efficiency, effectiveness, and value-generation prospects for accountants. In terms of efficiency, these technologies greatly enhance the automation of processes or workflows and the integration and analysis of data. They can automate the creation of standardized financial reports and customized management reports. For instance, natural language processing algorithms can comprehend the requests made by operational managers *(Busulwa & Evans, 2021).*

A study on organizations using RPA and AI will have enhancement on their financial reporting; according to *Ashraf (2024)* his study result proves that a firm using ARP and AI improves financial reporting quality due to inadequacies of manual in internal control as are avoided when a company implements the automation in the financial reporting process, the author used fixed effects for firm and year, the analysis of a change, and in a difference-in-differences analysis the relationship remains constant, The study's findings are that applying automation decreases firms' internal control monitoring, which will cost pronounced negative market responses. Also, a firm's use of automation is linked to increased external audit fees and audit committee meetings in the first years.

However, in the following years, these costs and meetings decrease. Research methods in measuring automation of financial reporting by a firm in the study are dummy variables; one is whether the organization has implemented automation in its financial reporting process before the start of the year, and if not, zero. The study control variables are firm size, industry, firm years in business, restructuring, revenue increase, Z SCORE, audit committee resignation, announcing restatement, corporate ownership, and auditor company quality (Big Four).

Another study conducted about the top auditing firms," The Big Four," concluded that these firms used RPA in their auditing services, which resulted in enhanced service efficiency (*Cooper et al., 2022*)

2.3.7 Internet of Things (IoT), Internet of Everything (IoE), and Network Connectivity Technologies.

Using digital technology to automate financial reporting, such as IoT and IoE technologies, facilitates data exchange and communication among objects. These technologies streamline data collection, enhance decision-making, and have the potential to replace traditional accounting tasks. In addition, they facilitate integration and collaboration internally and externally within enterprises and third parties.

Mobile reporting applications are financial reporting applications designed for smartphones and tablets to enable users and managers to access key financial information from anywhere at any time. Decision-makers can monitor financial performance and make informed decisions in real time, but these applications also bring up potential cybersecurity and privacy risks. These technologies properly handle the growing amount of data and minimize the related risks to take advantage of these innovations for improved financial decision-making and operational efficiency.

According to *Busulwa & Evans (2021*), using digital technology to automate financial reporting achieves different advantages as follows:

- Streamline financial reporting
- Improve confidence and transparency with stakeholders
- Clearer financial insight.

2.3.8 The Role of Efficiency and Financial Innovation in Driving Profitability

According to efficiency theory, banks that optimize resource utilization, enhance operational efficiency, and reduce costs are more likely to achieve higher profitability *(Berger & Mester, 1997).* Similarly, banks adopting innovative solutions such as online banking, mobile banking, blockchain, AI-driven credit scoring, data analytics, and cloud computing improve operational efficiency significantly *(Levine, 1997).* These innovations enable banks to generate higher profits, even in highly competitive markets *(Smirlock, 1985).*

Theoretical frameworks further analyze the determinants of efficiency and explore how varying market structures impact resource allocation. Key efficiency theories include:

Efficient-Structure Hypothesis (ESX): High profitability can be achieved by minimizing operational costs, independent of market concentration or competition levels *(Berger & Mester, 1997).*

Scale Efficiency: Larger banks can achieve greater efficiency by lowering per-unit costs through higher production volumes (*Caves et al., 1982; Farrell, 1957).*

Reflective Efficiency: This theory emphasizes adaptability and flexibility in operations and resource management, which is crucial in the rapidly evolving banking sector driven by regulatory changes, financial technologies, and changing consumer demands *(Prahalad & Hamel, 2009).*

Empirical research highlights that the integration of technologies reduces operational costs, strengthens partnerships, and enhances responsiveness to market dynamics, ultimately helping firms maintain competitiveness (*Lollar et al., 2010).*

Mithas et al. (2011) found that technology adoption positively impacts competitiveness, mediated by improved processes and quality. Their research was conducted on a sample of company directors and family-owned businesses; data for this study were collected using interviews and literature reviews to support this view. Similarly, *Ravichandran et al. (2005)* surveyed 129 US companies and concluded that IT resources improve performance through improved processes and innovation.

2.3.9 Achieving Competitive Advantage: The Role of Digital Transformation in Financial Reporting

Michael Porter's competitive strategy framework identifies cost leadership, differentiation, and focus as the key pillars for achieving a sustainable competitive edge *(Porter, 2008)*. This model provides a lens through which the role of digital transformation (DT) in financial reporting can be assessed in terms of delivering banks in Palestine a competitive advantage. Empirical research grounded in Porter's framework highlights factors influencing competitiveness, including quality assurance, leadership, training, research and development, and labor productivity.

Technological innovation, particularly (DT), is pivotal in helping banks navigate today's dynamic global economy. According to *Buckley et al. (1988),* competitiveness can be categorized into three dimensions: potential, performance, and process. Metrics such as profitability, market share, cost efficiency, and productivity are widely used to measure competitiveness *(McFetridge, 1995).*

Integrating technology into business operations can reduce costs, increase flexibility, and improve responsiveness to market changes *(Lollar et al., 2010).* Findings from a survey on digital transformation in financial services indicate that sixty-eight percent of respondents observed increased operational efficiency through reduced manual processes and optimized resource allocation *(BDO Global, 2021).* The digital revolution also transformed banking workforces, decreasing reliance on transaction processing and customer care staff while boosting demand for cybersecurity and data analytics expertise.

2.3.10 Innovation Diffusion Theory: Adoption of Digital Transformation

Rogers et al. (2014) developed the Innovation Diffusion Theory to test how new concepts or technologies spread throughout a society or an organization. Within the scope of the study, it is used to comprehend the acceptance and spread of digital transformation endeavors in financial reporting. There are evolutionary and revolutionary innovations; evolutionary innovation improves technology and processes incrementally. These progressive modifications aim to improve efficiency or refine present methods (Porter, 2008). Revolutionary innovation, or disruptive innovation, brings new ways to transform industries and business models (*Rogers et al., 2014).* Revolutionary innovation transforms markets or creates new ones.

Digitalization is transformational in accounting and is driven by developing technologies. New technologies like AI, blockchain, cloud computing, and big data analytics tackle accounting issues, including data accuracy, transparency, fraud prevention, and compliance management *(Megeid & Sobhy, 2022).* Integrating these tools improves operational efficiency and challenges traditional accounting procedures *(Schmitz & Leoni, 2019).*

This change has various consequences: Increased efficiency and Productivity; for example, using RPA technology reduces manual processes, enabling accountants to focus on strategic decision-making, and the re-design of procedures improves the time for financial reporting and reduces errors *(Awwad et al., 2024).* Accounting roles are being redefined through digitalization, emphasizing consulting and strategic contributions rather than typical bookkeeping. As data analysts and consultants, Accountants utilize technology to give actionable insights *(Chu & Yong, 2021).*

Digital accounting solutions and Cloud-based systems improve decision-making and enable enterprises to respond quickly to market developments by providing real-time access to financial data (*Jayeola et al., 2022*). Improved accessibility offers timely and accurate financial information to stakeholders, including investors (*Lestari et al., 2021).*

Provide firms with a competitive edge by faster, more accurate, and transparent services *(Buckley et al., 1988*). Digitalization allows businesses to stand out with new services and enhanced customer experiences *(Porter, 2008).*

Digitalization holds transformational promise but demands considerable investments in infrastructure, training, and change management (*Dillon et al., 2010*). To successfully move to digital platforms, organizations should promote a culture of learning and flexibility (*Hunter et al., 2001).* Industry-wide implications: As digitalization becomes the norm, regulators adjust to ensure compliance with standards in digital financial reporting. Companies that do not implement digital innovations risk losing market share and relevance *(Schmitz & Leoni, 2019).*

In conclusion, accounting digitization is transforming the sector. Adopting innovations can help organizations handle difficulties, increase efficiency, and add value to stakeholders in the fast-changing digital economy (*Awwad et al., 2024).*

Banks that promptly adapt and integrate advanced financial technologies and products earlier than competitors gain an advantage in the market, resulting in increased profitability *(Akerlof, 1978*). Digital technology and AI will not replace people, but companies that use technology will replace companies that do not.

2.3 Understanding the Interplay Between Digital Transformation, Financial Reporting Quality, and Competitiveness

In a rapidly changing digital era, organizations have faced unique challenges and opportunities in leveraging technology to enhance efficiency, transparency, and strategic competitiveness. For financial institutions and the banking system, (DT) is no longer a choice but a necessity to thrive in competitive markets.

This section discusses empirical studies on how (DT) and innovation affect financial reporting quality (FRQ) and organizational performance.

2.3.1 **Past Studies on Digital Technology in Developing Countries**

Empirical evidence demonstrates that digital transformation (DT)—encompassing investments in advanced information technology—has become a pivotal factor for organizations striving to enhance operational efficiency, profitability, and competitive advantage. Organizations proactively investing in digital technologies are better positioned to harness innovation, respond to dynamic market conditions, and maintain their competitive edge. Conversely, organizations that delay adopting DT risk falling behind, encountering barriers such as slower innovation diffusion and diminished competitiveness. For instance, research conducted in Sweden, Finland, and Norway, regions known for their advanced digitization, examined the influence of firm attributes on the degree of digitalization within accounting functions.

Ghorbani (2019) explored the correlation between Swedish firms' attributes and digitalization levels, particularly in small and medium-sized enterprises (SMEs). The study provided critical insights into the factors driving digital transformation in these organizations. A comprehensive questionnaire assessed the degree of digitalization in accounting functions. Respondents evaluated the use of digital technologies in financial administration tasks on a five-point scale. Independent variables included business characteristics such as industry classification, firm size, age, leverage, and performance.

The study's key findings highlighted that the degree of digitalization in accounting functions is significantly influenced by several factors, such as the importance of continuous learning, adopting new technologies, and integrating digital tools into corporate strategies. Training programs on emerging technologies were also identified as a critical driver of successful digitization. However, the study found no significant correlation between digitalization levels and variables such as business age or outsourcing practices.

Additionally, ***Troshani et al. (2018*)** conducted a global (mainly in the US and Australia mandates) study on adopting digital corporate reporting, analyzing its impact on preparers, users, auditors, regulators, and standards setters across the financial reporting supply chain. From 129 empirical studies published between 1999 and 2020, their analysis identified five key themes related to adopting Extensible Business Reporting Language (XBRL). The key findings included

Reduced Equity Capital Costs: The XBRL adoption simplifies access to and analysis of financial information for investors, thereby reducing information asymmetry and ambiguity.

Lower Audit Fees: XBRL-based financial statements streamline financial data analysis for auditors, leading to reduced audit efforts and costs. Standardization of Accounting Rules: The IFRS Taxonomy has significantly standardized the tagging of financial data in XBRL, enhancing consistency in financial reporting.

Efficiency gains in reporting: Initiatives like the Standard Business Reporting schemes in Australia and the Netherlands have considerably reduced organizations' reporting burden.

Improved Accessibility: Digital corporate reporting enhances the accessibility and evaluation of financial information, improving transparency and decision-making across the corporate reporting supply chain. *Troshani et al. (2018)* concluded that digital corporate reporting had profoundly improved the financial reporting process by making information more accessible, reducing costs, and increasing efficiency. These findings underscore the

The transformative potential of digital tools in reshaping financial reporting practices globally.

***Saleh et al. (2022*)**examined how Big Data Analytics (BDA) affects financial reporting quality in Canada. The researchers conducted semi-structured interviews.

They let researchers freely cover BDA and financial reporting quality topics, and a sample of forty-one Canadian audit and accounting firm auditors, financial analysts, and accountants. Interviews had two phases:

- Phase 1: January–August 2020, 20 participants.

- Phase 2: January–April 2021–more interviews, video, and paper records to confirm the first phase's findings.

The researchers employed qualitative coding to identify key themes and patterns of BDA's impact on financial reporting quality and implementation challenges. Results show that BDA significantly improves the quality of financial reporting in several critical areas.

Relevance: BDA allows using expanded datasets and different data sources, including financial and non-financial data. Financial reports become more relevant to decision-making enhancement when organizations have complete and timely information.

Comparability: BDA tools may quickly and accurately compare financial information across organizations, industries, and periods, enhancing report comparability.

Understandability: BDA technologies improve financial report accessibility by organizing, classifying, and presenting complex information more clearly.

Faithful Representation: BDA improves financial report accuracy and completeness through rigorous data analysis and validation

Another study analyzed manufacturing companies listed on China's A-share market between 2012 and 2021; based on ***Yu et al. (2024)*** study results, there are three main findings:

First, innovation investment increases with digital transformation, showing that a firm's digital transformation and innovation investment are positively correlated. As DT improves operational profits, enterprises are encouraged to invest in innovation. Digital transformation improves financial institution transparency and information accessibility, allowing firms to invest in innovation.

Second, the total factor productivity negatively mediates the innovation investment in digital transformation.

Third, financial constraints and human capital influence the relationship between digital transformation and innovation investment, depending on the level of financing restrictions.

According to ***Bouvet (2023),*** in a study on the impact of digitalization on the activities of Belgian accounting firms, results showed that customer demands significantly drive increased productivity, efficiency, cost reduction, and enhanced client services, such as real-time access to accounting information and remote collaboration. Younger clients and those working with digitally advanced suppliers were more open to adopting these innovations, highlighting the impact of customer expectations on digital transformation.

Data from a quantitative survey revealed that specific firm characteristics, such as size, industry, and technological readiness, influence the level of digitalization in Belgian accounting firms. These include:

Region: due to differences in government initiatives, technological infrastructure, and client adoption of digital technologies.

Firm Structure: Greater resources could explain why access to shared knowledge and standardized procedures is often available within larger organizations, facilitating the adoption of digital technologies.

Firm Size: Larger firms may have greater financial resources to invest in digital technologies and a larger pool of employees with the necessary skills to implement and manage these systems.

2.3.2 **Client and Employee Attitudes Towards Technology**:

Firms with clients, employees, and management who are receptive to digitalization and perceive its benefits tend to be more digitalized. Bouvet (2023) uses multiple approaches to evaluate digitalization qualitatively and quantitatively. Evaluation was conducted qualitatively by interviewing nine accountants from various Belgian firms using semi-structured methods. These interviews examined accountants' opinions on digitalization and the technology they use.

Also, ***Bouvet (2023***) collected qualitative data through observations during a ten-week internship at an enterprise providing accounting services in Belgium and participation in the" Forum for the Future" event. These views shed light on how digital technologies are used in accounting firms. The other approach is quantitative;

Bouvet (2023)created an online questionnaire sent to a large sample of accountants based on qualitative findings to gain a broader viewpoint and generalize findings—French and Dutch surveys, producing 489 replies. The questionnaire assessed the following with multiple-choice and open-ended questions asking accountants to rate their use of digital technologies, including printers, scanners, cloud-based accounting software, automation tools, and AI applications.

The survey examined accountants' perspectives on digitalization's benefits and problems for themselves and their clients. This quantified the perceived value and challenges of digitization. This data allowed Bouvet to use pivot tables to examine firm characteristics and the adoption of digital technology.

Analyze how Big Data Analytics Capabilities and innovation mediate the effects of Digital Transformation (DT) on SMEs' performance. A study emphasizes strategic alignment with innovative capabilities and challenges the idea that DT alone improves performance**.** *Orero-Blat et al. (2024)* use symmetric (probabilistic) and asymmetric (configurational) analysis methods:

- Partial Least Squares Structural Equation Modeling: Tests a sequential mediation model in which DT affects performance via Big Data Analytics Capabilities and Innovation.
- fuzzy-set qualitative comparative analysis (fsQCA): analyzes organizational performance factors, including DT, Big Data Analytics Capabilities, innovation, company size, turnover, internationalization, and age. The survey included 183 Spanish SMEs that actively participated in DT. SMEs with a turnover of seven million euros were selected, including several industrial sectors, such as information and communication technology, financial services, logistics, and the agricultural industry.

Spanish SMEs involved in DT were asked to complete the survey. The total number of respondents was 183, SMEs with a turnover of seven million euros. The study tested several industries: agriculture, logistics, information and communication technology, and banking services.

The study showed that digital adoption does not improve performance alone. BDAC's strategic growth drives innovation and performance. The fact that BDAC and innovation moderated the effect of DT on performance shows how important it is to go about digital transformation in stages. In addition, results show that innovation is key to achieving high performance, even in smaller or younger companies that have limited time to develop DT or BDAC. The study found that the results were similar to those of other studies worldwide, including characteristics such as variable BDAC adoption across industries.

In exploring the relationship between big data analytics resources and firm performance, ***Mikalef et al. (2019)*** employed a mixed-method approach, combining quantitative and qualitative techniques to understand the relationship comprehensively. Data for the quantitative analysis were collected through a survey directed by 175 chief information officers and IT managers working in Greek companies.

The primary quantitative methods used were fuzzy-set qualitative comparative analysis (fsQCA) and qualitative analysis. The study included three case studies to complement the quantitative findings and explore the dynamics of big data analytics in real-world settings. These case studies involved in-depth, semi-structured interviews with key organizational personnel with experience deploying big data analytics. Using quantitative and qualitative methods allows for the interpretation of findings, enhancing the credibility and robustness of the results. In addition to the methods mentioned above, the study employed various statistical techniques to validate the measurement model and ensure data quality. These techniques included reliability tests, validity tests, discriminant validity tests, and checks for common method bias. *Mikalef et al. (2019*) highlighted the increasing significance of ethical considerations and legal compliance in big data analytics. The research indicates that obtaining stakeholder trust in data utilization and guaranteeing ethical data management can attain a competitive edge for companies.

Zhu (2019) studied the effect of big data on the discipline of higher management behavior and the informativeness of stock prices in the US, focusing on the timeliness of data effect on market efficiency and managers' discipline by reducing opportunistic behavior, improving investment decisions, and mitigating the agency problem.

Methods to measure the timeliness of data used in *Zhu's (2019)* study include alternative data sources, such as online service records and satellite photos, for 266 companies from 2014 to 2016. The results revealed a positive impact on investment efficiency and decreased agency problems.

Alali's (2014) study about the primary determinant of audit lag in the US banking sector investigated the relationship with bank size, profitability using

ROA, extraordinary items, abnormal audit fees, and weaknesses in internal controls. The results revealed that large banks have reduced audit lag, as well as banks with high ROA. Also, results showed a direct correlation between the quality of internal control and auditing fees. Auditors impose more auditing fees on organizations with poorer internal control quality.

2.3.1 Past Studies on Digital Technology in Developing Countries

Sharma et al.'s (2016) research on cloud computing adoption examined the determinants affecting the readiness of IT professionals to embrace cloud computing services in Oman, a developing country in the Middle East. The authors' study aims to investigate the ability of IT professionals to adopt cloud computing in their work environment. The researcher used the Technology Acceptance Model (TAM) by employing three variables as an extension for this model. One is used for the time and the employment potential.

He used a hybrid methodology that integrated multiple linear regression (MLR) and neural network (NN) modeling to test the relationship between variables. MLR analysis: This statistical method was used to analyze the linear associations between the independent factors (perceived usefulness, perceived ease of use, trust, computer self-efficacy, and employment potential) and the dependent variable (willingness to adopt cloud computing). Artificial neural networks are a prevalent artificial intelligence methodology for modeling variable interactions. The authors used this non-linear modeling technique to improve the model's predictive performance, suggesting that the relationships among the variables may not be entirely linear. The authors evaluated the prediction efficiency of both models through the Root Mean Square Error (RMSE), concluding that the NN model exhibited superior alignment with the data compared to the MLR model.

The sample consisted of 101 IT experts in Oman with experience in cloud computing services. Data were collected using an online survey form accessible in both English and Arabic. The outcome of the MLR model showed that the five variables are statistically significant and positively related to the readiness to adopt cloud computing. At the same time, the results of the neural network model revealed that the opportunity to work is the most important predictor, followed by trust, perceived usefulness, self-efficacy, and perceived simplicity of use. The results highlight the need to emphasize the prospective career advantages of cloud computing in fostering the adoption of new technologies. The study results advocate expanding the Technology Acceptance Model (TAM) to examine the adoption of emerging technologies such as cloud computing. Trust, self-efficacy, and employment potential significantly influence individuals' adoption decisions.

Phornlaphatrachakorn and Kalasindhu (2021) implemented their research on a sample of 333 firms in Thailand, applied a structural equation model and multiple regression analysis to understand the relationships between digital accounting, financial reporting quality, strategic decision effectiveness, and digital transformation. The study used a questionnaire with a 5-point Likert scale to measure the concepts in their research of digital accounting's impact on strategic decision-making. The study finds that digital accounting significantly affects all three outcomes: financial reporting quality, accounting information usefulness, and strategic decision effectiveness, supporting the idea that digital accounting enhances efficiency and improves the quality and value of accounting information. In addition, the research indicates that the quality of financial reporting and the use of accounting information mediate between digital accounting and the efficacy of strategic decision-making, mediating the Roles of Financial Reporting Quality and Accounting Information Usefulness.

A study by ***Masumbuko and Phiri (2024)*** explores how technology.

Adoption affects Zambian banking financial performance using the Unified Theory of Acceptance and Use of Technology (UTAUT) model to examine adoption variables that influence technology acceptance and use; according to the UTAUT model, results, Internet banking use was positively influenced by performance and effort anticipation. Social influence had little effect on use, contrary to predictions. Internet banking use was also unaffected by the reliability of the IT platform. The findings show that performance and effort expectations drive technology acceptability and use. The author concludes that more research is needed to understand the effects of banking technology adoption.

TaweeL (2020) studied the relationship between financial reporting quality and declared profits in banks listed on the Palestine Exchange. The research analyzed six banks over four years (2014–2017) and investigated financial reporting accuracy, timeliness, and the appropriateness of financial information for users.

The study identified a statistically significant positive correlation between financial reporting accuracy and reported earnings quality. These results align with the general understanding that accurate financial reporting improves investor and stakeholder confidence, resulting in improved investment decisions and higher earnings quality; the study's other findings demonstrated a statistically significant negative correlation between the appropriateness of financial reporting and the quality of reported earnings.

These results indicate that if the information in financial reports is accurate but does not meet the needs of users, investors, and stakeholders, it may negatively affect the perceived quality of the reported profits. Finally, study results show no impact of the Timeliness of finances on reported profits.

The study used the *McNichols (2002)* model to measure the accuracy and the Easton and Harris model (1991) to measure the appropriateness of financial reporting. This model likely focuses on whether the information disclosed in financial reports meets the needs and expectations of investors and stakeholders. The model considers factors such as the information's relevance, completeness, and understandability.

Basu's (1997) model was employed to assess the promptness of financial reporting. This model can determine the promptness of banks in releasing their financial reports and the accessibility of this information to stakeholders within a timeframe appropriate for informed, timely decision-making.

Thonglim (2022) provided evidence in his study about the effect of DT on the productivity of Thai banks, and that adopting technology is a primary catalyst for productivity growth in Thailand's banking sector.

Utilizing Data Envelopment Analysis (DEA) and the Malmquist Productivity Index (MPI), results showed that the Thai banking sector exhibited an overall productivity growth rate of around one percent from 2004 to 2019. This timeframe aligns with the execution of the three phases of the Financial Sector Master Plan.

The research results indicated that technological innovation was the main driving force for productivity growth, although technical efficiency exhibited a minor decline.

Although banks have embraced new technology, there is an opportunity to enhance their efficiency by using the latest technologies. This strategy implies that a balanced approach for adopting and improving technology efficiency is essential for sustainable productivity growth. The second stage analysis of the study, employing a fixed-effects model, validated that technology adaptation, particularly during Phase Three, was significant.

Improved bank performance.

Digital transformation (DT) has become a key factor in enhancing the efficiency, profitability, and competitiveness of the banking sector worldwide. Research on how fintech influences profitability. ***Awwad et al. (2024)*** examine the correlation between corporate governance principles and DT in Palestinian banks. Their research employs a quantitative descriptive-analytical methodology using a questionnaire administered to 750 workers from seven Palestinian banks listed on the Palestine Stock Exchange. The primary objective is to comprehend how the application of governance principles affects the effectiveness of digital transformation activities.

The study finds a strong and statistically significant positive relationship between the application of governance principles and the success of digital transformation in Palestinian banks. It identifies risk management as the principle with the most substantial impact on digital transformation and the role of the board of directors in promoting it. This result underscores the significance of leadership dedication and strategic supervision in facilitating digital transformation.

Awwad et al. (2024) present recommendations for Palestinian banks, including improving transparency and disclosure, developing a comprehensive framework for analyzing and managing the risks associated with digital transformation, and investing in training programs that equip employees with the necessary skills and knowledge in digital transformation.

In his study**,** *Abu Mansour (2022)* aims to evaluate the preparedness of Palestinian organizations operating in the telecom, Internet service provider (ISP), and ICT sectors for digital transformation. *Abu Mansour's (2022)* research was conducted on 75 employees in leadership roles within these sectors.

The questionnaire evaluates their preparedness across four essential dimensions based on the Digital Transformation Framework (DTF): technology use, value creation, organizational structure change, and financial aspects.

In addition, *Abu Mansour (2022)* used a qualitative method of semi-structured interviews with field specialists to offer additional context and corroborate quantitative findings, comprehending the practical issues, opportunities, and viewpoints associated with digital transformation within the Palestinian context.

The study’s findings indicate a high level of readiness among Palestinian ICT organizations to embrace digital transformation. Palestinian ICT organizations demonstrate strengths in technology adoption, with a majority of respondents indicating that their companies invest in and utilize modern digital technologies to reduce operational costs and enhance efficiency.

The study highlights organizations' focus on creating value and new products through DT. In addition, research conducted by interviewing industry experts reveals several challenges that could hinder the progress of digital transformation in Palestine.

The paper presents an optimistic view of the Palestinian ICT sector’s readiness for digital transformation, highlighting its strengths in technology adoption, value creation, and financial capacity.

In investigating the determinate of audit lag in 46 shareholding audting companies listed on the Palestine exchange for the year 2011*, Hassan (2016)* study's primary results showed that there a significant positive relation between audit lag and the number of board of directors, , the audit company type (The Big 4) and significant negative relationship with firm size, firm number of branches and individual shareholders percentage, but there is no significant relationship with CEO duality, ownership concentration or audit lag.

Previous studies investigated how the (DT) affected accounting processes and (FRQ). Several studies have examined how the rise of digital technologies such as AI, blockchain, and cloud computing has changed how accountants do their jobs *(Ghorbani, 2019). Troshani et al. (2018)* examined XBRL adoption in developed countries and concluded that digital corporate reporting had profoundly improved financial reporting by making information more accessible, reducing costs, and increasing efficiency.

Digital transformation, accelerated by information and communication technology (ICT), redefines company processes via improved information acquisition, processing, and decision-making; this advancement influences information transparency.

Previous research examined how conservatism affects the transparency and reliability of financial reporting in several areas. Reliable financial reporting mitigates information asymmetry between management and other stakeholders, including investors and regulators *(Stiglitz & Weiss, 1981).* Also, DT increases conservatism as measured by timely recognition of losses in financial statements and provides a more accurate representation of a company's financial condition, improving the reliability of financial information and improving transparency by alerting stakeholders to probable financial difficulties early, guaranteeing that evaluation models of assets are not overstated and liabilities are not undervalued (*Zahong et al.,2024)*

Saleh et al. (2022) focused on Big Data Analytics and how it improves the quality of financial reporting in Canadian firms (e.g., relevance, comparability, and faithful representation). Bouvet (2023) studied the impact of digitalization on the activities of Belgian accounting firms; results showed that customer demands significantly drive increased productivity, efficiency, cost reduction, and enhanced client services. Masumbuko and Phiri (2024) examined how DT affects the financial performance of Zambian banks, highlighting performance improvements due to the adoption of DT. In addition, *TaweeL (2020)* investigated the effect of the accuracy of financial reporting in Palestinian banks, establishing a positive relationship with earnings quality. Quantitative methods, such as data envelopment analysis and regression models, are among the most common research approaches. In addition, qualitative interviews and questionnaires are conducted. These studies provide insights into digitalization's possibilities and threats to various sectors. However, there are still some critical gaps that need to be addressed as follows:

2.3.1.1 Research on (DT) and (FRQ) or (DT) and performance frequently involves investigating them separately rather than analyzing their combined effects.

2.3.1.2 There is a need for a longitudinal study approach to gain a deeper understanding of the impact of (DT) and (FRQ) on competitiveness within the Palestinian banking sector. Such an approach facilitates the examination of trends, the link between variables, and the evolving characteristics of digital transformation and its impacts.

Therefore, this study addresses the present gaps through:

1. Examining the interconnected dynamics of digital transformation, financial reporting quality,

   and bank competitiveness.

2. A longitudinal methodology (2017-2023) will be used to examine the evolving relationship of (DT) with (FRQ) and their effect on competitiveness over time.

3. Providing context-specific insights by examining the Palestinian banking industry, including Islamic and conventional banks. Thus, it addresses a significant gap in the context of developing countries.

One of the most important aspects of reliability is faithful representation, which is dependent on reducing bias in financial reporting. Conservatism makes sure to address this issue, utilizing established models, especially *Basu (1997)*, which primarily measures the degree of conservatism in accounting**.** This study evaluates the impact of Financial Reporting Quality (FRQ**)** in conjunction with Digital Transformation (DT) investment ratios on bank competitiveness by capturing the asymmetric treatment of gains and losses.

Empirical research indicates that auditors with high industry expertise are associated

with better financial reporting quality. Firms inspected by industry specialists are more likely to possess Higher earnings conservatism and decreased audit lag (*Krishnan, 2005; Habiba & Bhuiyan, 2011).*

Furthermore, audit lag—the interval between a company's year-end and the

publication of its audit report—functions as an indicator of internal control efficiency.

Elder and Yebba (2020) state that elevated audit fees and prolonged audit report release times indicate weak internal control systems.

Investments in digital transformation can optimize financial operations, minimizing audit report delays. Adequate internal controls and timeliness of financial reporting also reduce audit lag *(Janvrin et al., 2017; Zhu, 2019).*

Chapter 3: Methodology

3.1 Introduction

This chapter presents the methodologies employed to examine the effects of digital transformation (DT) on financial reporting quality (FRQ) and bank competitiveness. It outlines the research strategy, data collection techniques, and analytical methods to address the research questions and test the hypotheses. The study tests well-known theories about (DT) and financial reporting in the banking sector. Utilizing reputable data sources and well-established empirical models ensures theoretical rigor and practical relevance.

3.2 Research Design

The study employs a quantitative research approach to provide a focused understanding of the study subject. Prior studies have emphasized the robustness of quantitative methods in exploring digital transformation and its implications *(Orero-Blat et al., 2024; Abdallah et al., 2021; Kretschmer & Khashabi, 2020; Rogers et al., 2014).*

However, the approach ensures a systematic examination of DT and FRQ's impact within the banking industry in Palestine. This approach involves testing clear, testable hypotheses derived from the existing literature to serve the following objectives:

- Investigating the relationship between investments in digital technologies (e.g., cloud computing, artificial intelligence, and blockchain) and subsequently enhancing audit lag (AL) and financial reporting quality (FRQ) in banks in Palestine.

- Examining how audit lag (AL) acts as a mediator between digital transformation (DT) and financial reporting quality (FRQ) by reducing audit lag to improve bank competitiveness (BCI), measured through ROA, NIM, and market share in the unique context of the banking sector in Palestine.

- Examining whether FRQ mediates the relationship between DT and bank competitiveness, while exploring the influence of audit lag (AL) as an indirect factor impacting reporting efficiency.

This approach provides valuable insights for policymakers and stakeholders aiming to enhance banking sector competitiveness through data-driven decision-making, leveraging digital transformation strategies to improve financial reporting quality.

3.2.1 Study Model

This study investigates the impact of digital transformation (DT), audit lag (AL), financial reporting quality (FRQ), and bank competitiveness (BCI) within the banking sector in Palestine. Using a mediation framework to explore direct and indirect relationships between these variables.

Audit lag (AL) is conceptualized as a process variable that mediates the relationship between digital transformation (DT) and financial reporting quality (FRQ). Specifically, reducing audit lag enhances audit efficiency by accelerating financial reporting (timeliness of FR). This improved timeliness subsequently strengthens FRQ reliability, as measured through Basu's (1997) conservatism model. In turn, enhanced FRQ reliability contributes to greater bank competitiveness (BCI), reinforcing the strategic role of financial reporting quality in the banking sector. The steps of mediation analysis are illustrated in Figure 3.2.

The study also used key control variables, such as bank size, market conditions, GDP growth rate, bank age, and the effects of the COVID-19 pandemic, to ensure robust analysis, including external and organizational factors that may impact the observed relationships.

The study model (Figure 3.1) follows a structured approach:

First, it evaluates the direct impact of (DT) on (BCI).

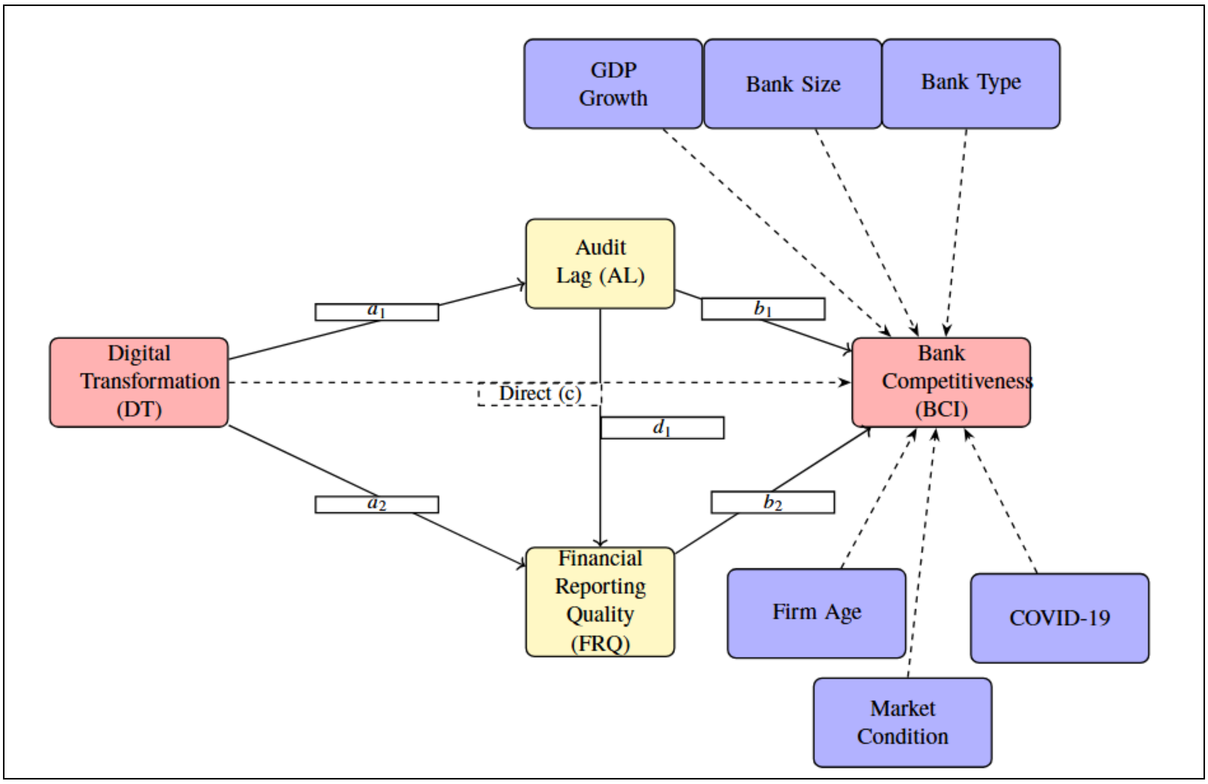
Second, it investigates the impact of DT on financial reporting timeliness, particularly in reducing audit lag (AL), and its effect on improving (FRQ) in terms of conservatism (reliability).

Third, the model explores the mediation role of (AL) and (FRQ) in the (DT)–(BCI) relationship, assessing whether (AL) mediates the impact of (DT) on (BCI) and whether (FRQ) (conservatism) serves as an additional mediator. Also, the study tests **a** sequential mediation path where (AL) influences (FRQ), which impacts (BCI).

This approach complies with a causal mediation supported by the process macro-Hayes model (6) to test the serial mediation (DT → AL → FRQ → BCI) (Hayes, 2017; *Ashton et al., 1987*). This approach aligns with empirical research employing mediation analysis in financial reporting studies (Habib & Bhuiyan, 2011; Knechel & Sharma, 2012). The effect breakdown:

1. a_1, d_1, b_2 : indirect effect of (Dt) on (BCI) through AL and FRQ
2. $a_1 b_1$: an indirect effect of (Dt) on (BCI) through AL-only
3. $a_2 b_2$: an indirect effect of (Dt) on (BCI) through FRQ only
4. c: direct effect of (Dt) on (BCI)
5. Total Indirect effect:, $d_1, b_2 + a_1 b_1 + a_2 b_2$

The methodology establishes a systematic framework for data collection and analysis, assuring the validity and reliability of the study's results. In addition, it illustrates the hypothesized relationships between (DT), (AL), (FRQ), and (BCI), considering the uniqueness of the banking sector in Palestine. The model progresses through three essential stages, as illustrated in Figure 3.1:



Note: Multiple mediation is hypothesized. DT is the predictor, AL and FRQ are mediators, and BCI is the outcome variable. a1, a2, b1, d2, and c are the path coefficients

Figure 0.1: Research Model: The Effect of Digital Transformation (DT) on Bank Competitiveness (BCI) Through Audit Lag (AL) and Financial Reporting Quality (FRQ)

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3.3 Study Population and Sample

This study initially focused on all thirteen banks operating in Palestine (as shown in Table 1.2 in Chapter One). Still, the research covered nine banks and excluded four banks from the population to ensure a more accurate and stable dataset for analysis. The exclusions were based on specific sample selection criteria as follows:

1. Time Frame Consistency: To ensure consistency in the data, the study selected a time frame that avoids the effects of mergers and acquisitions occurring after 2017. The National Bank and Al-Quds Bank are excluded as they encountered mergers with other banks in 2019 and 2018, respectively.

2. Data Availability: Sample banks must have publicly available and consistently published data throughout the study period. The Egyptian Bank was excluded due to the unavailability of published data, while SAFA Bank was excluded because it was listed on PEX in 2020.

By adhering to these criteria, the study sample ensures the reliability of the dataset, providing a solid foundation for a meaningful analysis. Data were collected from annual reports of sample banks from 2017 to 2023. The final sample consists of four listed local banks and five foreign banks, comprising nine banks.

3.4 Data Collection Tools and Procedures

The research relies on secondary data sources to construct and validate the study's theoretical framework and answer its questions. These sources included academic periodicals and prior research directly related to the topic. Furthermore, secondary data was collected from the annual financial reports of sample banks, providing comprehensive insights into these banks' financial practices and performance.

This multi-perspective approach ensured a solid foundation for the study's theoretical and empirical aspects. The study also incorporates data from various authoritative and publicly accessible sources to gain a comprehensive understanding of the banking industry's dynamics. These sources include information published on banks' official websites, industry associations, and stock exchanges. This approach ensures the inclusion of diverse perspectives and up-to-date information, enriching the analysis and supporting the study objectives.

3.5 Data Collection Tools:

- Python is a data programming language used for processing and cleaning data; it also efficiently performs advanced statistical analysis and visualization.
- Excel and SPSS: to organize and analyze structured data.
- R software: For PLS-SEM/structural equation modeling (SEM) to evaluate the mediation effects of Audit Lag (AL) and FRQ between DT and BCI.

Data collected is categorized basically into:

- Quantitative data: Financial metrics, such as ROA, cost-to-income ratios, and technology investment values, are used to construct a competitiveness index using the principal component method (PCA), a machine learning method that simplifies and reduces data while preserving the original traits and patterns.
- Market data includes GDP Growth and market share.
- Audit Lag (AL) metrics are extracted from financial reports to assess the timeliness of reporting and its impact on financial reporting quality.

3.6 Analytical Methods

The researcher used a thorough analysis method to check the relationships between the three main factors: digital transformation (DT), financial reporting quality (FRQ), and bank competitiveness (BCI). These methods were chosen to ensure they could contribute to the study's goals and provide valuable, solid information on the dynamics of the banking sector operating in Palestine. The analysis follows a structured sequence using the following steps:

1. Descriptive analysis determines the dataset's key features (mean, median, and standard deviation) and ensures the data is complete, correct, and ready for analysis.
2. Consistency checks: eliminate inconsistent, incomplete, or irrelevant data to ensure the data set aligns with the study's objectives. These checks are done using software such as Python.
3. Structural Equation Modeling (PLS-SEM): R is software that uses PLS-SEM to investigate and evaluate the relationships and

intermediary interactions among DT, FRQ, and BCI. This method offers an enhanced understanding of indirect effects and mediating interactions.

For the assessment of statistical mediation, the bootstrapping procedures (*Preacher & Hayes, 2004*) are effective techniques for assessing indirect effects in mediation analysis.

4. Regression Modeling: To assess the relationship between the key variables—Digital Transformation (DT), Financial Reporting Quality (FRQ), and Bank Competitiveness (BCI).

5. Control Variable Assessment: The model considers bank size, age, GDP growth rate, bank type (foreign banks vs. Local banks), and market conditions to separate the effects of DT and FRQ on BC. It also controls for the impact of the pandemic years 2020 and 2021 for COVID-19.

6. A competitiveness index derived from key elements of *McFetridge's (1995)* framework, which encompasses financial metrics such as profitability, market share, and cost efficiency.

3.7 Study Variables and Measurements

This study examines the impact of digital transformation (DT) on financial reporting quality (FRQ) and its role in enhancing bank competitiveness. To achieve this, it identifies and operationalizes key variables that capture the dimensions of (DT), (FRQ), and competitiveness. The study uses well-known measurement models and metrics to provide a complete framework for examining the connections between these factors and how they affect the banking sector's performance. The following sections outline the variables and their corresponding measurement approaches, and Table 3.1 summarizes study variables and proxy measurements.

3.7.1 Measuring Digital Transformation Variables

This variable is measured by the Investments in (DT), which includes incremental investment on hardware, software, IT infrastructure, system upgrades, and digital training programs. These data are derived from financial reports, providing a resource-based perspective on adopting (DT) *(Brynjolfsson & Hitt, 2000; Muda et al., 2018; Troshani et al., 2018)*

Digital Transformation (DT):

Measured by the Incremental digitalization investment (e.g., annual % increase in (DT) spending).

$$\mathrm{DT}_{t,i} = \frac{\mathrm{Inv}_{t,i} - \mathrm{Inv}_{t-1,i}}{\mathrm{Inv}_{t-1,i}} \tag{3.1}$$

Where:

- $DT_{t,\,i}$: The Digital Transformation ratio for entity i in time t.
- $Inv_{t,i}$ The investment in DT for bank i for year t.
- $Inv_{t,i}$ The investment in DT for bank i for year t-1.
- **I**nvestment in Digital $\text{Assets}_{\mathbf{t,i}}$The total amount invested in digital transformation or digital assets by bank i at time t.

3.7.2 Measuring Financial Reporting Quality (FRQ).

Financial reporting quality (FRQ) is evaluated through Basu's (1997) conservatism model, which measures the asymmetric timeliness of earnings recognition. This model captures how quickly financial statements reflect economic losses compared to gains, emphasizing reliability via conservatism (prudent recognition of bad news). By accelerating the acknowledgment of negative events, conservatism reduces overstatement risks and enhances the credibility of financial information.

Financial reports aim to provide stakeholders with timely and reliable insights into a firm's economic performance. A critical component is revenue recognition, which directly impacts managerial decisions, shareholder trust, and investor actions. To ensure utility, reports must balance timeliness (speed of disclosure) and reliability (accuracy and reliability by reducing the risk of overstatement and ensuring a faithful representation of financial performance).

Basu Model Specification

This study measures conservatism—a proxy for reliability—using *Basu's (1997)* regression.

$$\mathrm{EPS}_{it} := \beta 0 + \beta 1 \cdot \mathrm{DR}_{i,t} + \beta 2 \cdot \mathrm{R}_{i,t} + \beta 3 \cdot (\mathrm{DR}_{i,t} . \mathrm{R}_{i,t}) + \epsilon_{i,t} \tag{3.2}$$

Where:

- $EPS_{i,t}$Earnings per Share (log-transformed).
- $R_{i,t}$: yearly stock return for bank i in period t, calculated as:

$$R_{i,t} = \frac{P_{it} - P_{it-1}}{P_{it-1}}$$

- Where: $P_{i,t}$ Is the stock price for bank i at time t
- (Stock price at the end of the 12 months)
- $P_{i,t-1}$ Is the stock price at time t-1. (Stock price at the beginning of the 12 months)

- Annual stock return for the 12 months ending 3 months after the balance sheet date, incorporating Market Reactions
- $DR_{i,t}$ Dummy return variable:

  (1) if $R_{i,t}$: < 0 (negative return, bad news).

  (0) if $R_{i,t}$: ≥ 0 (positive return, good news).
- Interpretation:
- $\beta 1$: It measures the responsiveness of earnings to good news (positive Returns).
- $\beta 2$: It reflects the bad news baseline adjustment.
- $\beta 3$: The conservatism coefficient reflects how earnings are more sensitive to negative than positive news. The coefficient of interest captures the degree of conservatism. If this coefficient is significant, it is taken as an indicator of the quality of FR.
- ϵI, t: Error term.

3.7.3 Measuring Audit Lag (AL) as a proxy of timeliness.

A reduced audit lag is proxied to financial reporting efficiency, ensuring stakeholders receive timely financial information and access to critical data for decision-making. Collectively, timeliness and reliability (as assessed by Basu's model) boost (FRQ).

Audit Lag (AL): Days taken to finalize financial reports after year-end.

Audit Lag = Audit Report Date − Fiscal Year-End Date (3.3)

3.7.4 Measuring Bank Competitiveness

Bank competitiveness is evaluated through a Principal Component Analysis (PCA)-based index, focusing on integrated profitability, operational efficiency, and market share (*Lollar et al., 2010*; *Berger & Udell, 1995; Kaplan & Norton, 1992;*

McFetridge, 1995). The index is constructed as follows:

Profitability: Measured using return on assets (ROA)

Operational efficiency: assessed through net interest margin and cost-to-income ratio.

Market Share: measured by bank share of deposits to evaluate the competitive position, as it is a stable measure and reflects the market share of consumer retention *(Ahn & Brei, 2023).*

The PCA-based index combines profitability, operational efficiency, and deposit market share into one composite score, offering a comprehensive and multidimensional assessment of bank competitiveness.

Bank Competitiveness (BCI) Components

Profitability (Return on Assets (ROA):

$$\mathbf{ROA} = \frac{\textbf{Net Income}}{\textbf{Average Total Assets}} \tag{3.4}$$

Where:

ROA: Reflects how efficiently a bank utilizes its assets to generate profits.

Net Income: The total earnings of the bank after deducting expenses and taxes

Total Assets: The value of all assets owned by the bank.

Operational Efficiency:

$$\text{Net Interest Margins NIM} = \frac{\textbf{Net Interest Income}}{\textbf{Earning Assets}} \tag{3.5}$$

Where:

- Net Interest Margins. This ratio indicates the bank's efficiency in generating income from interest-bearing assets.
- Net Interest Income: The difference between interest income earned from loans and interest paid on deposits or borrowing
- Earning Assets: Total assets that generate income, such as loans and securities.

$$\text{Cost-to-Income Ratio} = \frac{\text{Operating Expenses}}{\text{Operating Income}} \tag{3.6}$$

Where:

- Cost-to-Income Ratio: Measures the efficiency of the bank's operations by comparing expenses to income
- Operating Expenses: Total costs incurred to operate the bank (e.g., salaries, rent, IT expenses).
- Operating Income: Income generated from the bank's core operations, such as interest income and fee-based services

Market Share

$$\text{Market Share of Deposits} = \frac{\text{Bank Deposit}}{\text{Total Market Deposits}} \qquad (3.7)$$

Where:

Market Share of Deposits: Represents the bank's share of total market deposits.

Bank Deposits: The total deposits of a specific bank.

Total Market Deposits: The combined deposits of all banks in the market.

The above-selected indicators are combined with the PCA-based Bank Competitiveness Index (BCI). The variables are combined linearly, applying PCA load values as weights.

They are weighted according to PCA-derived eigenvalues, which ascertain the effect of every variable. The index is calculated utilizing PCA, standardized, and normalized on a (0–1) scale. Then, the variables are consolidated into one index by applying a linear weighted sum of the primary components. The process is conducted through the following steps:

Step 1: Standardizing the component variables

Each financial indicator is standardized to have a zero mean and unit variance:

$$Z_i = \frac{X_i \ \bar{X}}{\sigma_x} \qquad (3.8)$$

Where:

- Zi = Standardized value of variable Xi
- Xi = Original value of the financial performance variable
- X‾\bar{X}X‾ = Mean of the variable
- σ_x = Standard deviation of the variable

Step 2: Principal Component Analysis (PCA) Transformation

Using principal component analysis (PCA), we can break down the variation in standardized indicators and identify the PCs that account for the majority of the variation in competitiveness.

$$\text{BCI} = \lambda_1 Z_{\text{ROA}} + \lambda_{21} Z_{\text{NIM}} + \lambda_3 Z_{\text{Cost-To-Income}} + \lambda_4 Z_{\text{Market Share}} \qquad (3.9)$$

Where:

- $\lambda_1, \lambda_2, \lambda_3, \lambda_4$ PCA weights are assigned to each variable.

- Z_{ROA} , Z_{NIM} , $Z_{Cost-To-Income}$,$Z_{Market\ Share}$ The standardized financial indicators

Step 3: Weighting and Normalization

$$BCI_{scaled} = \frac{BCI - \min BCI}{\max BCI - \min BCI} \tag{3.10}$$

Where:

- BCI_{scaled} The final normalized bank Competitiveness Index
- $\max BCI - \min BCI$: The minimum and maximum values of the BCI across the sample.

3.8 Control variables

The current study uses the most common control variables used in similar studies as follows:

1- Bank Size: Larger banks have more resources and are more advanced in adapting technology (*Berger et al., 2000*). The logarithm of total assets measures it.

$$\text{Bank Size} = \log(\text{Total Assets}) \tag{3.11}$$

2- Market Conditions:

The most widely used measure of the market condition is the concentration and competition level in the Herfindahl-Hirschman index (HHI*). Claessens and Laeven (2004),* conclude that concentration negatively relates to competitiveness, while other studies found that more concentrated markets indicate that large companies invest more in DT to maintain their dominance over the market, and in low- concentrated markets with high competition, small companies invest in DT to gain customer satisfaction and operational efficacy *(Besanko et al., 2010; Porter, 1980*). HHI is calculated as:

$$HHI = \sum_{i=1}^{n} (\text{Market Share}^2) \tag{3.12}$$

A higher HHI indicates less competition (more concentration), while a lower HHI suggests a more competitive market *(Herfindahl, 1950; Hirschman, 1980).*

3- Economic Indicators:

Measured by GDP Growth Rate, which captures annual percentage changes in economic activity, it captures economic fluctuations more dynamically than absolute GDP, noting that economic growth supports investment in innovation expenditures and shapes banking sector performance *(Beck et al., 2006*):

$$\text{GDP Growth Rate} = \frac{\text{GDP}_t - \text{GDP}_{t-1}}{\text{GDP}_{t-1}} \quad (3.13)$$

Where:

* GDP_t: Gross Domestic Product in the current year.
* GDP_{t-1}: Gross Domestic Product in the previous year.

4- Firm Age:

According to *Loderer and Waelchli (2010),* companies with successful systems that have been operating for a long time will hesitate to upgrade to a new one (DT, for example).

Measured as the number of years since the firm’s establishment:

$$\text{Firm Age} = \text{Current Year} - \text{Establishment Year} \quad (3.14)$$

5- COVID-19: Based on the work of *Kakinuma (2024),* COVID-19 is controlled by dummy variable techniques, set to ‘1’ for the years from 2020 to 2021 and set to ‘0’ otherwise, capturing the potential impact of the COVID-19 pandemic on financial reporting quality.

6- Bank type: The sample contains both foreign and local banks. According to *Sawafta and Sayılır (2016),* the structure, diversity, and use of modern technology are key reasons for differences between foreign and local banks in Palestine's banking system; therefore, a dummy variable is used (0 = local,1 = foreign bank).

Table 0.1: Variable Measurement

Variable	Measurement	
Digital Transformation (DT)	Measured as an Incremental digitalization investment	*(Bharadwaj et al., 2013; Yu et al., 2024).*
Financial Reporting Quality (FRQ)	Conservatism: captures how quickly financial statements reflect economic losses compared to gains, emphasizing enhanced reliability (assessed via Basu’s conservatism model)	*Basu Model (1997)*
Timeliness (AL) (audit efficiency)	Audit Lage Indicator (Duration between fiscal year-end and audit report issuance) encompasses improved financial reporting efficiency.	*Ashton et al. (1987)*

Variable	Measurement	
Bank Competitiveness (BCI)	PCA-based competitiveness index incorporating key financial performance indicators, including return on assets (ROA), net interest margin (NIM), cost-to-income ratio, and market share.	*(Berger & Udell, 1995; Kaplan& Norton, 1992; Lollar et al., 2010; McFetridge, 1995).*
Control Variable		
Bank Size	Log (Total Assets)	*(Berger et al., 2000).*
Market condition	Herfindahl-Hirschman index (HHI).	*(Herfind-Ahl, 1950; Hirschman, 1980). Besanko et al. (2010) Porter (1980).*
Economic Indicator (GDPG)	Annual GDP Growth Rate	*Levine & Zervos (1998)*
Firm Age	Firm Age = Current Year - Establishment Year	*Berger & Udell (1995)*
COVID-19	Dummy variable, set to (1 for 2020 - 2021) and (‘0‘otherwise)	*Kakinuma (2024)*
Bank Type	Dummy variable (0= local,1= foreign bank).	*Sawafta & Sayılır (2012)*

3.9 Regression Models for Hypothesis Testing

This research employs multiple regression analysis to evaluate the relationships between financial reporting quality (FRQ), influenced by digital transformation (DT), and various bank performance indicators. Regression models determine how (FRQ) is affected by (DT), which impacts key performance metrics, such as profitability, operational efficiency, and market share.

The flowchart figure (3.2) below outlines the regression analyses performed to test if (DT) directly affects (BCI) or if (AL) and (FRQ) mediate this effect.

The mediation analysis starts by evaluating whether (DT) has a significant direct impact on (BCI). Then, it assesses whether (DT) affects AL and examines its influence on (FRQ). If all mediation paths are validated, a final regression model is constructed to assess whether the incorporation of AL and (FRQ) weakens or invalidates the direct effect of (DT) on (BCI). The flowchart classifies the mediation impact into three distinct outcomes: full, partial, or no mediation.

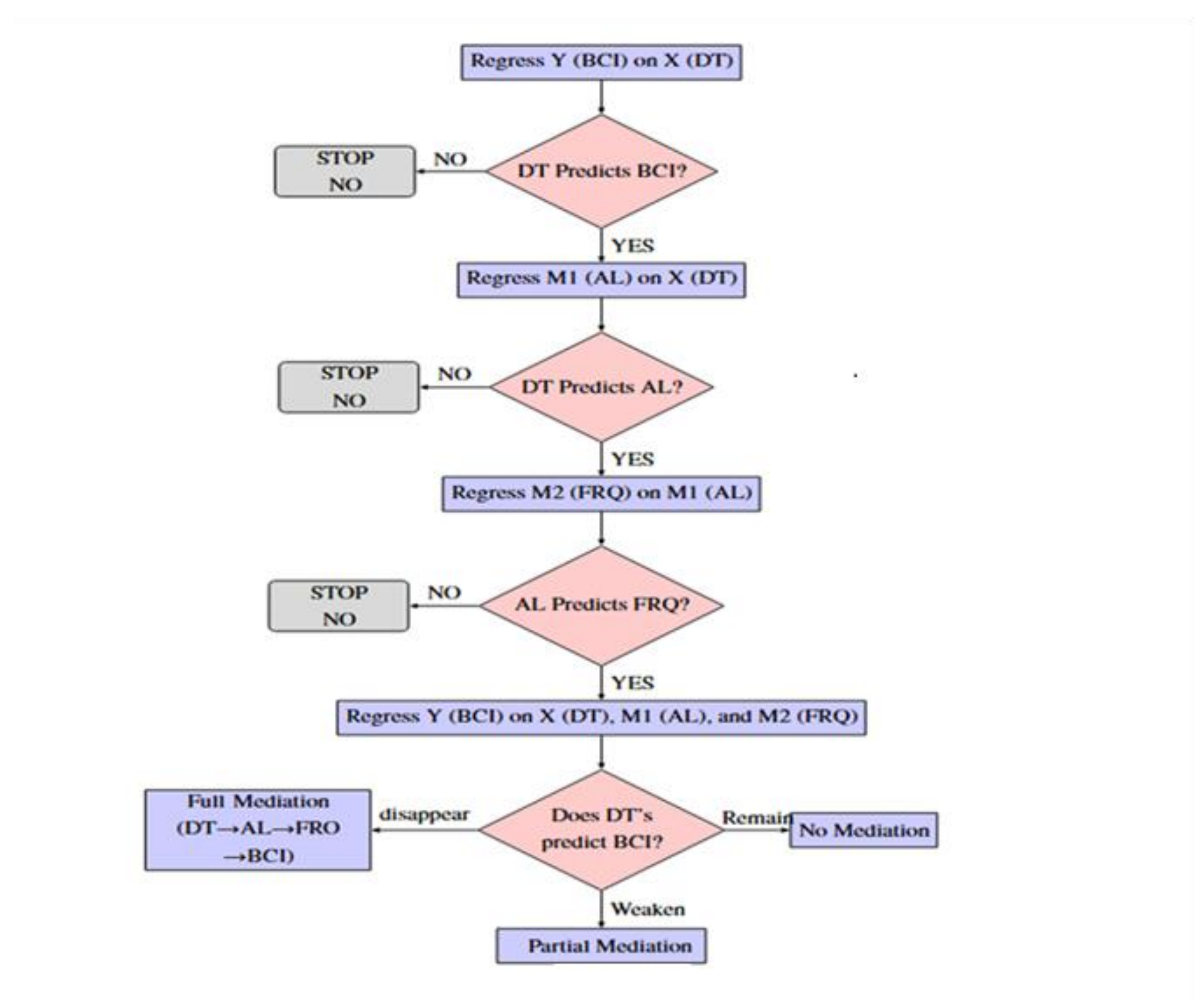


Figure 0.2: Flowchart for Testing Serial Mediation

Bootstrap methods are the most reliable methods for testing the significance of mediation. Performs bootstrapping to estimate the significance of the indirect effect. This will give:

- Total effect (DT→ BCI)
- Direct effect (DT→ BCI controlling for AL and FRQ)
- Indirect effect (DT→ AL → FRQ → BC)

Also, structural equation modeling, Partial Least Squares-SEM (PLS-SEM), is applied to explore the complex and interdependent relationships among digital transformation, financial reporting quality, and bank competitiveness. (PLS-SEM), widely used in empirical research for small samples, provides a robust framework for examining both direct and indirect effects, offering more profound insights into the mediating role of FRQ in the relationship between DT and competitiveness.

3.9.1 Hypotheses and Regression Models

- **Direct Effects:(**DT →BCI**)**

(H1): Digital transformation (DT) positively and directly influences the bank competitiveness index (BCI).

$$\mathrm{BCI_{it}}= \beta_0 + \beta_1\ \mathrm{DT_{it}} + \beta_2\ \mathrm{Bank\ Size_{it}} +\beta_3 Bank\ Type_{it}+ \beta_4\mathrm{HHI}+ \beta_5\mathrm{GDPG} + \beta_6\ \mathrm{Bank\ Aage_{it}}+\alpha_7+ \beta_7\ \mathrm{COVID19} + \epsilon_{it} \qquad (3.15)$$

- **Indirect Effects:**

(H2): Audit Lag **(**AL**)** mediates the relationship between Digital Transformation (DT**)**

and Bank Competitiveness **(**BCI)

$$\mathrm{BCI_{it}}=\alpha_0+\alpha_1\mathrm{DT_{it}}+\alpha_2\mathrm{AL_{it}}+\alpha_3\cdot\mathrm{Bank\ Size_{it}}+\alpha_4\mathrm{Bank\ Type_{it}}+\alpha_5\mathrm{HHI}+ \alpha_6\ \mathrm{GDPG}+\alpha_7\mathrm{Bank\ Aage_{it}}+\alpha_8\mathrm{COVID19}\cdot+\epsilon_{it} \qquad (3.16)$$

(H3): Financial Reporting Quality (FRQ) in terms of conservatism (reliability) mediates the relationship between Digital Transformation (DT) and Bank Competitiveness (BCI).

$$\mathrm{BCI_{ir}}=\Upsilon_0 + \Upsilon_1\mathrm{DT_{it}} + \Upsilon_3\mathrm{FRQ_{it}} + \Upsilon_3\mathrm{Bank\ Size_{it}} + \alpha_4\mathrm{Bank\ Type_{it}} + \alpha_5\mathrm{HHI} + \alpha_6\ \mathrm{GDPG} + \alpha_7\mathrm{Bank\ Aage_{it}} + \alpha_8\mathrm{COVID19} + \epsilon_{it} \qquad (3.17)$$

H4: Audit lag (AL) and financial reporting quality (FRQ) sequentially mediate the relationship between digital transformation (DT) and bank competitiveness (BCI). That is, DT reduces audit lag (AL), which improves FRQ (conservatism), ultimately enhancing BCI.

$$\mathrm{BCI_{it}} = \delta_0 + \delta_1\mathrm{DT_{it}} + \delta_2\ AL\ + \delta_3\mathrm{FRQ} +\ \delta_4\ \mathrm{Bank\ Size} +\delta_5 Bank\ Type_{it}+ \delta_6\ \mathrm{HHI}+ \delta_7\mathrm{GDPG} + \delta_8\ \mathrm{Bank\ Age_{it}}+ \delta_9\ \mathrm{COVID19} + \epsilon_{it} \qquad (3.18)$$

Where:

- DT_{it} : Incremental change in DT investment as calculated above for $Banki_i$ for the year $_i$
- BCI_{it}:$Banki_i$ Competitiveness Index, measured using dimensions of ROA, NIM, Cost-to-Income Ratio, and Market Share of deposits for the year $_i$
- Bank $size_{it}$ Measured as the logarithm of total assets as calculated above $Banki_i$ for the year $_i$.
- AL_{it} Audit lag as calculated above $Bank_i$ for the year $_i$.
- FRQ_{it} Financial reporting quality as calculated above $Banki_i$ for the year $_i$.
- $Bank\ Type_{it}$: Dummy (0 = local, 1 = foreign bank).
- HHI: Herfindahl-Hirschman Index, a measure of market concentration as calculated above.
- GDP Growth Rate: Annual percentage change in GDP as calculated above.
- Bank Age_{it}: Number of years since the firm's establishment calculated above $Banki_i$ for the year $_i$.
- COVID-19: Dummy variable, set to ('1'for 2020 - 2021) and ('0'otherwise) capturing the potential impact of the COVID-19 pandemic on FRQ, AL and BCI

- **The regression model's coefficient.**

Regression Model	Coefficient	Interpretation	Expected Sign
# (1) Direct Effect of DT on BCI	β_0	Effect of Digital Transformation (DT) on Bank Competitiveness Index (BCI)	+
	β_1, β_2, β_3, β_4, β_5,β_6,$\beta_7$$\beta_8$,$\beta_9$	Control variables affecting BCI for this model	Mixed
# (2) Effect of AL on BCI (Including DT)	α_0	Effect of DT on BCI, controlling for Audit Lag (AL)	+
	α_1	Effect of Audit Lag (AL) on BCI	-

	α_2, α_3, α_4, α_5,α_5,α_7, α_8,α_9	Control variables for this model	Mixed
# (3) Effect of AL on FRQ	γ_0	Effect of Audit Lag (AL) on Financial Reporting Quality (FRQ)	-
	Υ_1	Effect of DT on BCI, controlling for FRQ	+
	Υ_2	Effect of FRQ on BCI	+
	$\Upsilon_3\Upsilon_4\Upsilon_5\Upsilon_6\Upsilon_7\Upsilon_8\Upsilon_9$	Control variables for this model	Mixed
# (4) Joint Effect of DT, AL, and FRQ on BCI	δ_0	Effect of DT on BCI	+
	δ_1	Effect of DT on BCI, including both mediators (AL & FRQ)	+
	δ_2	Effect of AL on FRQ	-
	δ_3, δ_4,δ_5 , δ_6, δ_7,, δ_8, δ_9	Control variables for this model	Mixed
Error Term	ϵ	Captures unexplained variation in BCI	-

3.10 The Mediation Effect Test

To test the mediation effect of FRQ on the relationship between digital transformation (DT) and competitiveness, we follow the method outlined by Hayes (2017). This method uses a regression-based approach to analyze direct and indirect effects. According to Hayes (2017), the bootstrap method is used to verify the statistical significance of the indirect impact to ensure the robustness of the mediation analysis.

- **Full Sequential Mediation:**

  Direct Effect (DT → BCI) is not significant and indirect ffect (DT → AL → FRQ → BCI) is significant

- **Partial Sequential Mediation:**

  Direct Effect (DT → BCI) is significant, and the indirect Effect (DT → AL → FRQ → BCI) is also significant.

- **No Mediation**

  Direct Effect (DT → BCI) is significant, and indirect Effect (DT → AL → FRQ → BCI) is not significant.

Chapter 4: Study Results

4.1 Introduction

This chapter revisits the primary objective of the study, examining the pathways through which Digital Transformation (DT) influences Bank Competitiveness Index (BCI) through its effects on audit timeliness (AL) and financial reporting quality (FRQ) within Palestine's banking sector. Specifically, we investigate whether improvements in AL and FRQ transmit DT's impact on competitiveness, forming sequential pathways, specifically testing the mediating role of AL and FRQ in these associations:

1. Whether AL transmits DT's influence on BCI (DT → AL → BCI)
2. Whether FRQ transmits DT's effect on BCI (DT → FRQ → BCI)
3. Whether AL and FRQ sequentially transmit DT's impact (DT → AL → FRQ → BCI) (sequential mediation):

This chapter presents an in-depth examination of the study's reliability and validity, including the measures and data collection methods. It also presents descriptive statistics and an analysis of data collected from nine banks operating in Palestine. In addition, this chapter outlines the statistical assessments conducted to address the research questions and test the corresponding hypotheses.

This chapter begins with a descriptive analysis of the study sample and the variables used. The research employs regression analysis and mediation modeling, utilizing Hayes' Process Model 6. In this framework, mediation occurs when an independent variable—Digital Transformation (DT)—influences a dependent variable—Bank Competitiveness (BCI)—through one or more mediating variables, namely Audit Lag (AL) and Financial Reporting Quality (FRQ). The analysis examines whether the effect of DT on competitiveness is transmitted through improvements in audit timeliness (AL) or reporting reliability (FRQ). This approach enables the investigation of both direct and indirect effects, as well as the sequential influence of multiple intervening variables (*Hayes, 2013; Zhao et al., 2010*).

This study employs a widely used indicator as a proxy for the level of digital transformation: the incremental increase in the digitalization budget (DT). A higher DT budget is expected to lead to a faster financial reporting release (a decrease in audit lag). The financial reporting quality was measured using conservatism tests, which examined how stock returns reacted to the announcement of EPS. The asymmetric treatment of gains and losses is central to the reliability of financial statements, based on the recognition that bad news is more likely to be reported than good news, thereby reducing the risk of misrepresentation (*Watts, 2003*). The study employs Basu's (1997) conservatism model, utilizing quantile regression to address heteroskedasticity and non-normality in financial data *(Koenker & Bassett, 1978).* This method enhances robustness across various quantiles, taking into account the unequal recognition of economic losses. The 90th quantile (Q90) was particularly significant in identifying conservatism effects, highlighting the asymmetric response to returns (Ball & Shivakumar, 2005).

The Bank Competitiveness Index (BCI) was constructed using Principal Component Analysis (PCA) to classify and rank banks accordingly. Furthermore, a panel regression model is employed to examine the relationships among digital transformation (DT), audit lag (AL), financial reporting quality (FRQ, proxied by conservatism), and bank competitiveness (BCI). Using this method, the study can account for characteristics that remain constant over time and examine effects that persist over time. This strategy ensures that the research provides a thorough examination of how DT-driven improvements in the timeliness and reliability of financial reporting impact the competitiveness of banks.

Hayes's (2013) approach underscores practical implementation, providing sequential guidance with empirical illustrations and endorsing bootstrap confidence intervals as a reliable inferential technique. Mediation occurs when an independent variable (X) influences a dependent variable (Y) through one or more intermediate variables (M). Mediation reflects a causal sequence, such as X → M1 → M2 → Y, where the mediating variables (M1 and M2) help explain how or why X affects Y. Mediation is tested through regression-based analysis, with the key requirement being a statistically significant indirect effect.

a: Effect of X on M1

b: Effect of M2 on Y (controlling for X)

c: Effect of M1 on M2 (transmitted to Y, controlling for X)

The indirect effect is calculated as a × b × c.

Based on *Hayes's (2013)* process macro model 6, the research implemented this model to examine whether (AL) and (FRQ) mediate the effect of DT on bank competitiveness (BCI). This approach allows researchers to determine whether DT influences BC directly or indirectly through improvements in audit efficiency and financial conservatism (*Zhao, Lynch, & Chen, 2010*).

Finally, this chapter systematically analyzes the study findings, focusing on the statistical analysis of research questions and associated hypotheses. Data were extracted from the annual financial reports of sampled banks, offering comprehensive insights into key trends in conservatism proxies across bank groups. Statistical comparisons were conducted to assess differences between foreign and local Banks.

The researcher used the ANOVA test to assess differences in the conservatism proxy in the groups. The researcher further analyzed these findings about digital transformation investment (DT) and their impact on bank competitiveness. The results presented in this chapter aim to provide empirical evidence on the relationship between DT, FRQ, and bank competitiveness in the context of the banks operating in Palestine. In addition, this chapter provides an empirical framework for interpreting how digital transformation influences the mix of operational efficiency, financial outcomes, and achieved market position.

The findings of this study demonstrate that while the comprehensive mediation models (H2, H3, H4) did not find statistically significant support for the full chains of DT influencing BCI through AL and FRQ, the study consistently identified Audit Lag (AL) as a crucial negative driver of Bank Competitiveness (BCI).

While digital transformation did not directly reduce AL or FRQ, AL strongly predicts Bank Competitiveness ($p < .001$), DT neither significantly reduces AL nor improves FRQ, and the hypothesized indirect effects through AL and FRQ were not supported (CIs include 0). Considering the significant negative link between AL and competitiveness, it is possible that any future measures successful in lowering AL could also improve the competitiveness of banks.

4.2 Descriptive Statistics and Data Preparation

This section summarizes the initial tests and data-cleaning transformations to ensure that no errors or missing data are present.

The sample comprises nine banks, including five foreign banks and four local banks. The study period spans from 2017 to 2023, consisting of 63 observations. Four banks were excluded from the study population of banks operating in Palestine to eliminate the effect of mergers and acquisitions during the study period. The summary statistics of the key variables are presented in Table (4.1) below.

Table 0.1: Descriptive Statistics

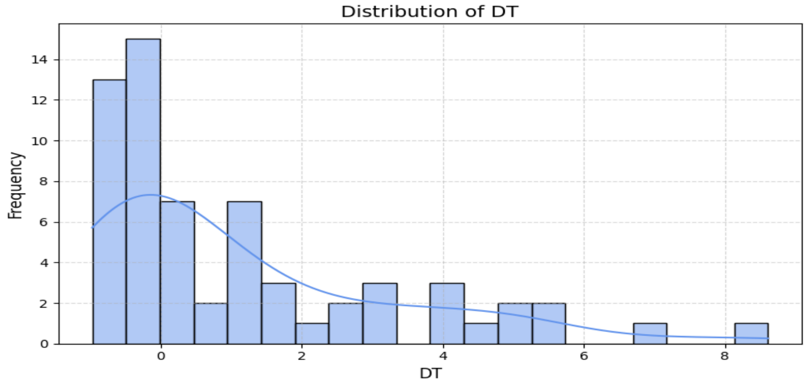
Variable	Count	Mean	Std	Min	25%	50%	75%	Max	Skewness	Kurtosis
DT	63	1.125	2.185	-0.972	-0.443	0.199	2.032	8.610	2.188	2.927
AL	63	76.508	31.073	29.000	44.000	82.000	97.000	141.000	0.635	-0.446
FRQ	63	-0.025	0.045	-0.214	-0.035	-0.001	-0.001	0.000	2.268	3.143
BCI	63	-0.000	1.484	-2.590	-1.031	-0.201	0.896	3.787	2.236	3.062
Bank Size Log	63	20.945	0.834	19.803	20.353	20.747	21.253	22.687	1.410	1.746
GDP Growth	63	-0.0024	0.058	-0.113	-0.055	0.014	0.041	0.070	-0.803	2.585
Market Share	63	0.111	0.110	0.026	0.041	0.062	0.094	0.361	1.370	3.234
HHI	63	2189.437	28.91	2155.10	2157.82	2187.96	2217.44	2238.97	-1.152	-0.668
Bank Age	63	50.889	21.22	22.00	27.000	58.000	62.500	93.000	0.294	-0.877
COVID_19	63	0.286	0.455	0.000	0.000	0.000	1.000	1.000	0.972	1.909

4.2.1 Independent Variable: Digital Transformation

The DT mean value of 1.125 indicates a moderate level of digital technology, as banks, on average, increase their investment in DT by 1.125 times from 2017 to 2023 (Table 4.1), while the maximum value of 8.6 indicates a highly digitalized level in some banks. At the same time, other banks have a weak or negative Digital Transformation (DT) investment increment. Approximately 25% of banks have negative DT scores or less than -0.44; 50% have a DT score below 0.19, and 75% have a DT score below 2.03, meaning that only 25% exceed this threshold.

Figures 4.1 to 4.3 visualize the descriptive results, indicating that, on average, most banks increased their digital transformation spending by 1.125 times. Still, some digital leaders are investing aggressively, 8.6 times more than other banks.

On the other hand, some have reduced their digital transformation spending with a score of -0.97



Note: To complement the skewness and kurtosis statistics, visual diagnostics including Q-Q plots and histograms are provided in Appendix J (Figures J1–J12).

Figure 0.1: DT Histogram with KDE

The positive skewness (2.188) indicates a right-skewed distribution in Figure 4.2, characterized by a long tail extending toward higher values. Highlighting the presence of digital leaders among the banks. The kurtosis (2.927) is slightly below the expected value of 3, suggesting that most banks are clustered around the mean, with fewer extreme values.

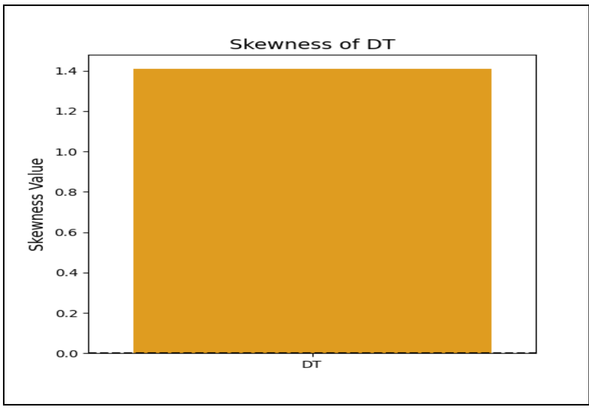


Figure 0.2: Skewness Bar Plot

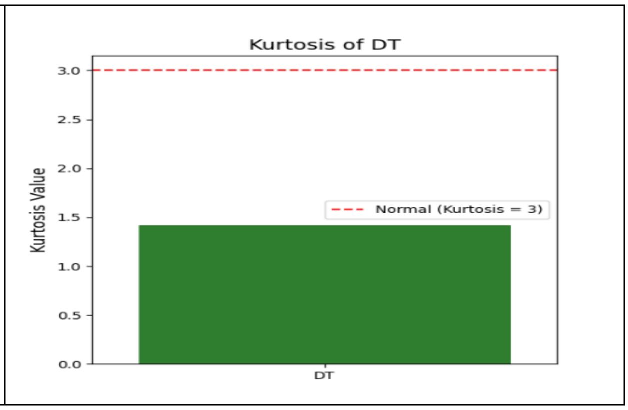


Figure0.3: Kurtosis Bar Plot

Figure 4.4 illustrates the evolution of the average annual incremental cost of digital transformation investment across the sample banks over the years. The incremental cost was stable from 2017 to 2018, then declined to nearly zero in 2019. Incremental cost in 2020 increased significantly to 2.06, reflecting banks' response to the COVID-19 pandemic-driven need for digitization.

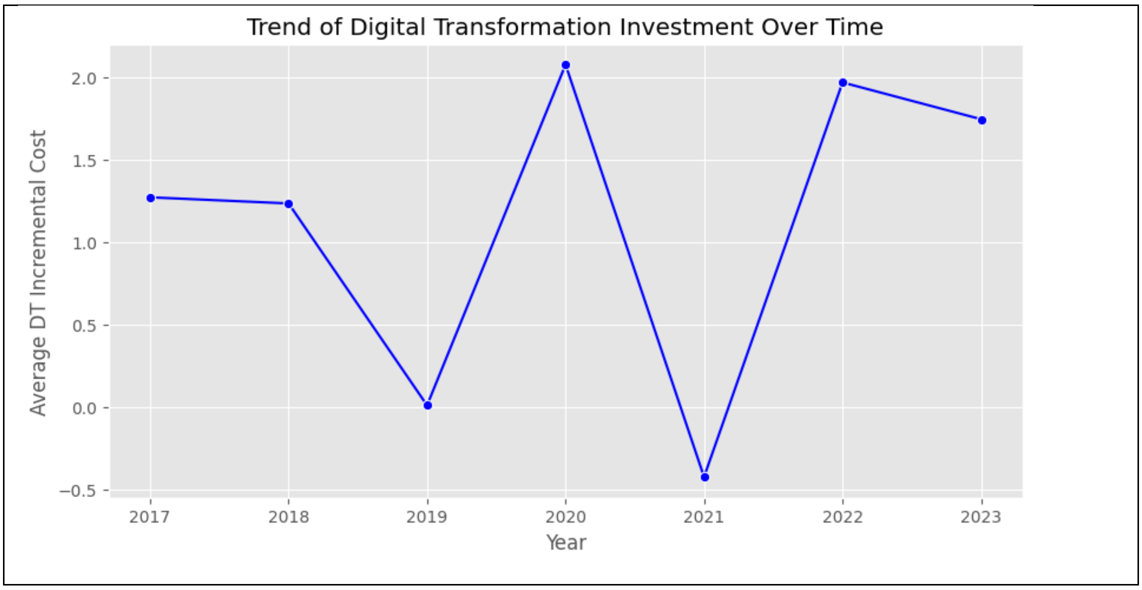


Figure 0.4: DT trend analysis

Figure 4.5 illustrates the average incremental digital transformation (DT) investment cost by bank type. The chart shows that local banks (L) have a slightly higher average DT investment than foreign banks (F).

This result suggests that foreign banks may have already established foundational DT infrastructures, requiring less incremental spending in recent years. In contrast, local banks appear to be investing more heavily in newer or catch-up digital initiatives, possibly driven by the need to close the technological gap and compete with more digitally mature foreign counterparts.

While the difference in values may seem moderate in Figure 4.5, it supports the hypothesis that digital maturity influences investment patterns. Local banks are currently in a growth phase, while foreign banks are likely in a maintenance or optimization phase.

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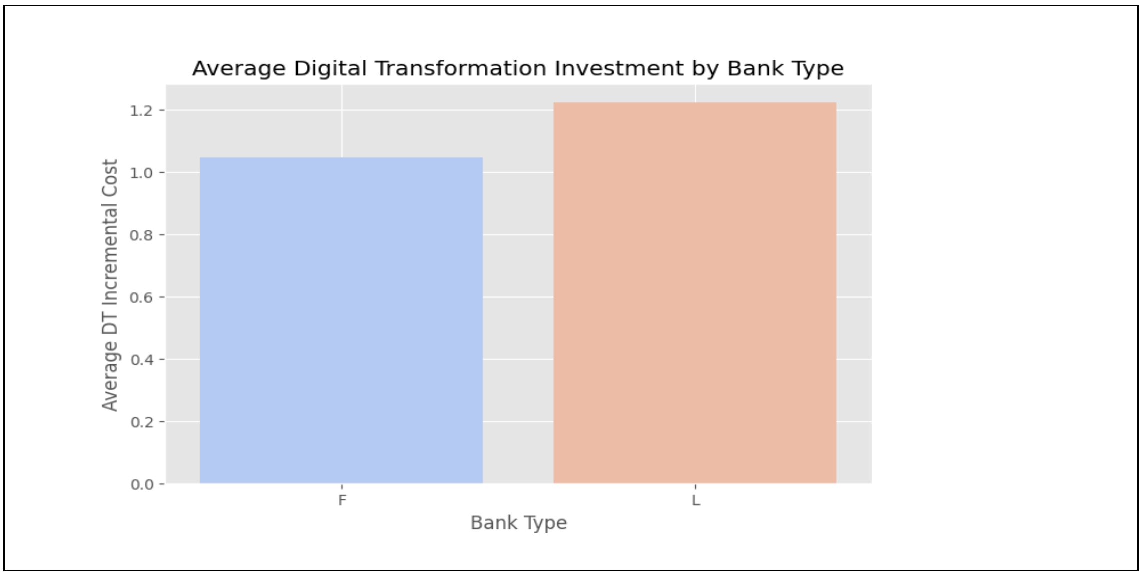


Figure 0.5 : DT by Bank Type

4.2.2 Independent Variable: Financial Reporting Quality (FRQ)

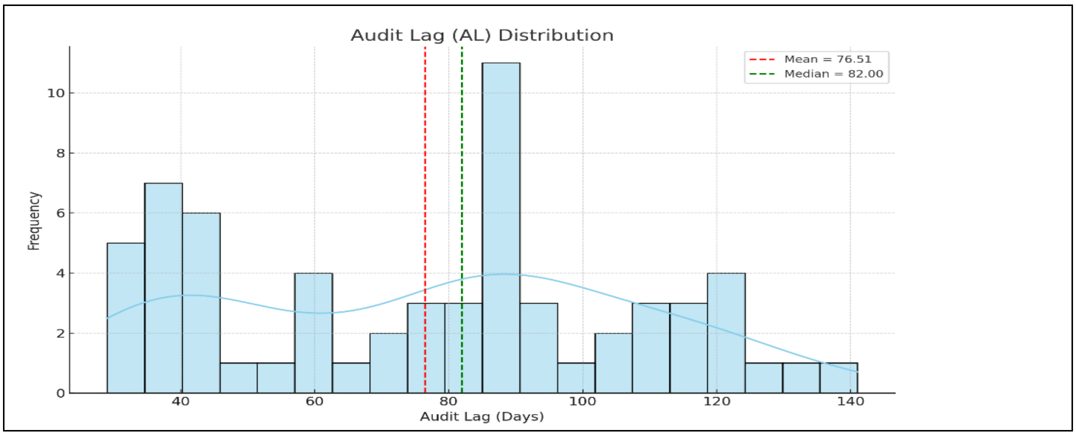
Financial Reporting Quality (FRQ) in this study is operationalized along two dimensions: timeliness (speed of disclosure, proxied by Audit Lag, AL) and reliability (proxied by earnings conservatism).

a. Audit Lag (speed of disclosure):

As shown in Figure 4.6, Audit Lag (AL) in the sample spans from 29 to 141 days, exhibiting the highest dispersion of any key variable. The 25th percentile (Q1) is 44 days, the median (50th percentile) is 82 days (indicating that half of banks complete their audits in 82 days or fewer), and the 75th percentile (Q3) is 97 days. No extreme outliers were detected in the distribution.

In the overlaid histogram and kernel density estimate (Figure 4.6), the blue bars represent the frequency of AL observations, the blue curve indicates the smoothed density, the red dashed line indicates the mean AL (76.5 days), and the green dashed line indicates the median (82 days).

Although Figure 4.7 shows a nearly symmetric shape, the computed skewness from Table 4.1 indicates a moderate positive skew (0.635). This difference may result from the kernel smoothing graphical representation, which smooths the distribution. Nonetheless, the right tail is slightly extended, consistent with a mild positive skew. Figure 4.8 suggests a kurtosis value slightly below 3 (approximately -0.45, relative to the normal distribution's kurtosis of 3), indicating a light-tailed distribution (platykurtic) with fewer extreme values than a normal distribution. Together, these findings confirm heterogeneity in audit lag across the sample.



Note :(n = 63)

Figure 0.6: Distribution of Audit Lag (AL) with Mean and Median Reference Lines (Histogram, KDE, Mean, Median)

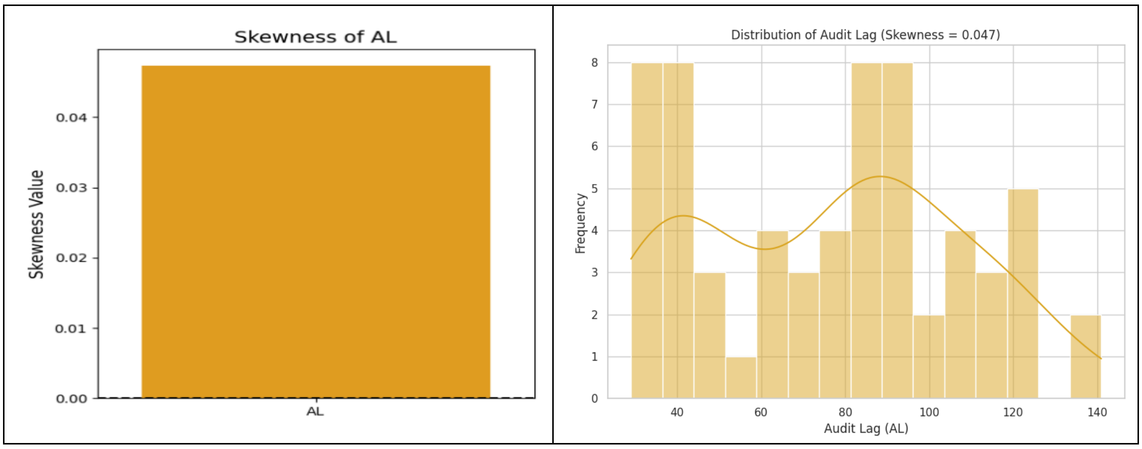


Figure 0.7: AL Skewness Bar Plot (Value ~0.02)

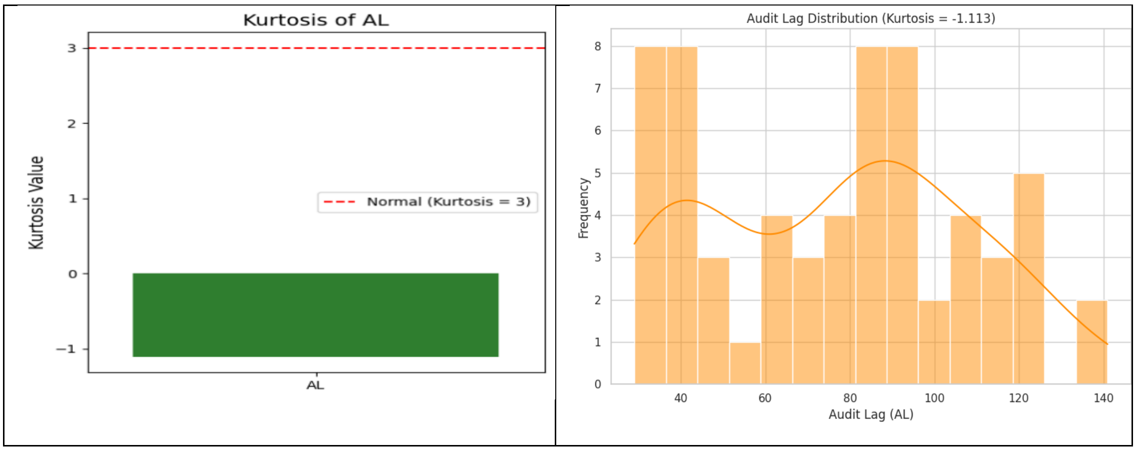


Figure 0.8 :AL Kurtosis Bar Plot (Value ~ -0.45 relative to Normal)

Inspecting Audit Lag by bank type (local vs. foreign), test results on local banks exhibit a higher median AL than foreign banks, suggesting that audit-process efficiency differs systematically by bank type.

The (T-Test) results show that the differences between foreign and local banks have a significant negative value of -7.1560, suggesting a big difference between the two groups. Furthermore, the P-value (0.0000) implies a significant difference between foreign and local banks. Figures 4.9 to 4.11 compare audit lag performance across foreign and local banks using bar charts, box plots, and histograms to visualize group means, variability, and outliers.:

1. Bar Chart Figure 4.9 illustrates that the average Audit Lag (AL) by Bank Type is lower for foreign banks, with an average of 61 days, compared to local banks, which have an average of 100 days.
2. Box plot figure 4.10: The distribution of audit lag (AL) by bank type, with a median of 60 days for foreign banks. Almost all banks fall within this range, while local banks exhibit wider variations and longer delays. A few outliers for local banks experience extreme AL delays.
3. Histogram Figure 4.11: Overall Distribution of Audit Lag. The right tail of the histogram also indicates that a few banks take long days to complete audit reports (foreign banks have shorter audit lag periods, with most clustered between 30 and 80 days; local banks have longer and more dispersed audit lags, extending toward the right tail (up to 140+ days).

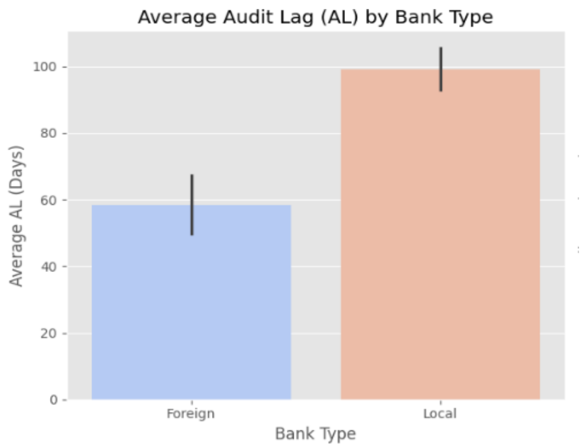


Figure 0.9: Average AL by bank Type: Foreign vs. Local banks

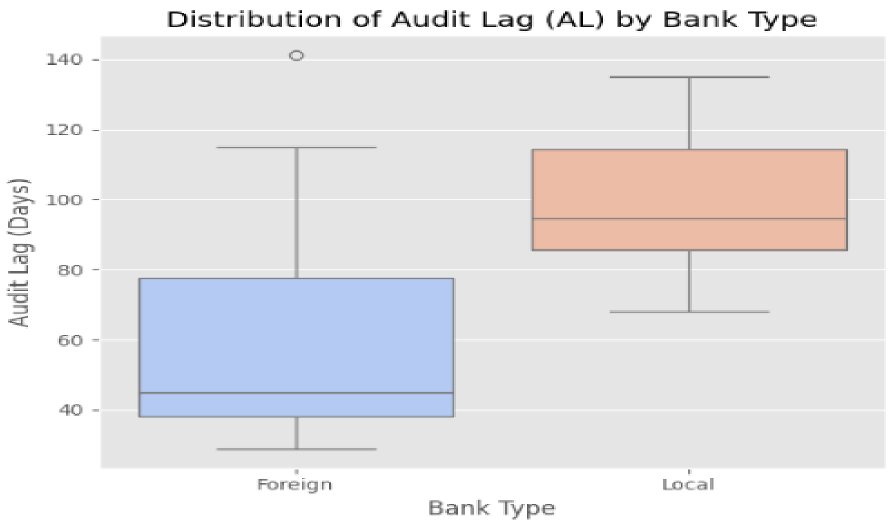


Figure 0.10: The distribution of AL by bank Type: Foreign vs. Local banks

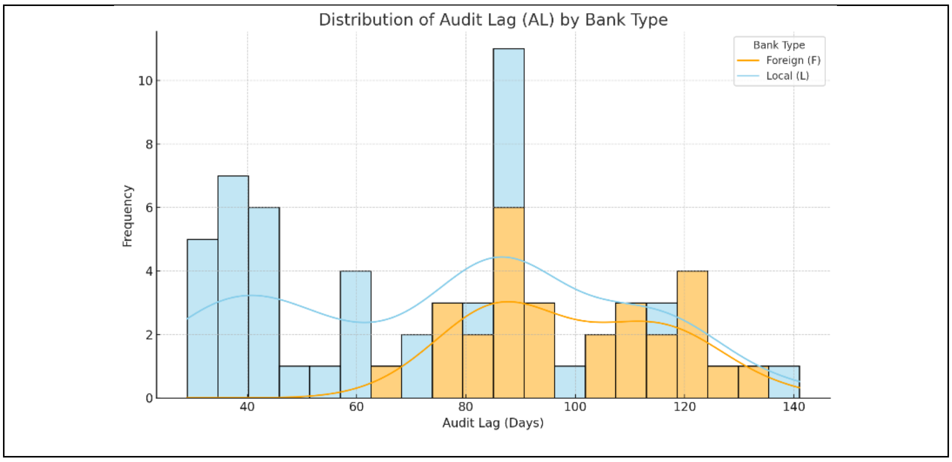


Figure 0.11: The Overall distribution of AL by bank Type: Foreign vs. Local banks

b. Financial Reporting Quality—Basu Model conservatism Proxy (FRQ):

Conservatism measures the ability to recognize bad news more quickly than good news. In this scenario, the FRQ variable, derived from the Basu (1997) model, reflects conservatism in financial reporting; a more negative FRQ values indicate higher conditional conservatism, which is interpreted in this study as greater reporting reliability. Therefore, lower (more negative) values represent higher-quality financial reporting in this framework. More negative values indicate higher levels of conservatism and, consequently, greater reliability. The FRQ scores range from –0.214 to 0.000 among banks; the mean score of -0.025 suggests slight conservatism in financial reporting, indicating that no bank demonstrated excessively aggressive or overstated reporting. A value of 0.000 indicates a neutral FRQ, while more negative scores reflect stricter conservatism, implying higher reliability in financial reporting.

Figure 4.12 shows a minimal spread with a narrow range of values. The whiskers are short, showing low variation in FRQ between banks. Some outliers (dots above the whiskers) indicate that a few banks have higher FRQ values. FRQ values are generally stable, although some banks exhibit greater conservatism, potentially indicating that banks tend to report lower profits rather than overstating them, which suggests a high level of conservatism and ultimately improved financial reporting.

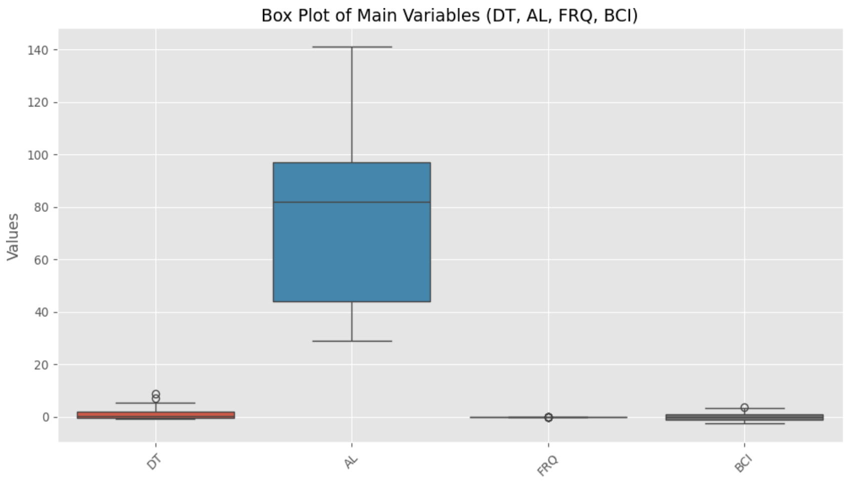


Figure 0.12: Outliers of the Main Variables

4.3 Testing The Basu Model

Validating the statistical assumptions is essential before implementing the Basu regression model to ensure the validity of the results. Diagnostic examinations are presented in Table 4.2:

Table 0.2: Validity Test Results

Test	Result
Missing Values	0 missing values
Shapiro-Wilk (Normality)	W=0.9881, P=0.0378 (Not Normally Distributed)
Breusch-Pagan (Homoscedasticity)	BP=6.1346, P=0.1052 (Homoscedastic)
VIF (Multicollinearity)	Max VIF=2.8756 (No Multicollinearity)
Augmented Dickey-Fuller (Stationarity)	ADF=-2.4284, P=0.1339 Not Stationary)

The above results indicate the following:

- Linearity test: The relationship between stock returns and logarithmic EPS is non-linear.
- Normality test (Shapiro-Wilk): the residuals do not follow a normal distribution, and the residuals violate the normality assumption ($p < 0.05$).
- Homoscedasticity Test (Breusch-Pagan): The variance of the residuals is constant between observations. Since $P = 0.1052$ is larger than 0.05, we cannot reject the null hypothesis, which means the data are homoscedastic.
- Stationarity test (Augmented Dickey-Fuller): Ensures that time-series data do not exhibit unit root behavior.
- Multicollinearity Test (VIF): No collinearity issues exist among the independent variables (VIFs < 3).

Based on the above test results, the assumptions of linearity and homoscedasticity for OLS were partially fulfilled. These violations undermine the validity of Ordinary Least Squares (OLS) regression, which usually requires distributed homoscedastic residuals and a linear correlation between predictors and outcome variables.

The researcher will use quantile regression. Quantile regression is a variant of linear regression used when the assumptions of linear regression are not met. Quantile regression does not require the normality of residuals; it handles non-linearity in the conditional distribution of the dependent variable and provides information at various quantiles of the distribution. The OLS (Ordinary Least Squares) regression calculates the conditional mean of the response variable based on predictor factors. In contrast, quantile regression predicts the conditional median or other quantiles of the response variable. In addition, quantile regression estimates demonstrate greater robustness to outliers in response measurement (*Koenker & Bassett, 1978)*

4.4 Robustness Tests and Diagnostic Validation

To validate the results and address statistical hypotheses, various robustness checks and diagnostic tests were performed on the primary regression models. These tests verify that model specifications are adequate and evaluate the accuracy of estimations.

The table below (4.3) summarizes step-level diagnostics for Hayes' mediation models (H2-H4), complementing the Basu model validation.

Table 0.3 : Regression Diagnostics Summary

Model (Step)	Equation	Shapiro-Wilk		VIFs (Max)	Interpretation
		W	*p-value*		
H1	BCI ~ DT	0.990	0.990	1.134	Normal/ No multicollinearity
H2 Step 1	AL ~ DT	0.9460	0.008	1.01	Not normal /No multicollinearity issue
H2 Step 2	BCI ~ AL + DT	0.9778	0.320	1.01	Normal /No issue
H3 Step 1	FRQ ~ DT	0.7423	3.5e-09	1.02	Not normal /No multicollinearity issue
H3 Step 2	BCI ~ FRQ + DT	0.9830	0.543	1.02	Normal /No multicollinearity issue
H4 Step 1	AL ~ DT	0.9460	0.008	1.02	Not normal /No multicollinearity issue
H4 Step 2	FRQ ~ AL + DT	0.8091	1.36e-07	2.12	Not normal /No multicollinearity issue
H4 Step 3	BCI ~ FRQ + AL + DT	0.978	0.331	1.29	Normal /No multicollinearity issue

Note: -VIFs < 2.5 indicate negligible multicollinearity (O'Brien, 2007).
- Non-normality was observed in initial paths (Steps 1 for H2/H4 and H3).

4.4.1 Corrections for Non-Normality

Substantial corrections were implemented according to Hayes (2017) as follows:

1- Bias-corrected bootstrapping (1,000 samples) for the AL ~ DT path.

2- Quantile regression ($\tau = 0.25–0.75$) for FRQ ~ DT and FRQ ~ AL + DT paths.

3- Basu model residuals (FRQ) violated normality ($p = 0.0378$), justifying quantile regression (Section 4.2.2).

Normality Test (Residuals from DT → BCI model):

1. Residuals from the baseline model (H1: BCI ~ DT) met normality assumptions:
   - The Shapiro-Wilk test returned a W-statistic of = 0.99 (p-value = 0.990), indicating that the residuals from the OLS regression are normally distributed.

- The Kolmogorov-Smirnov test confirmed this, with a D-statistic of 0.055 (p-value = 0.985).
- The D'Agostino's K^2 statistic is 0.180, and the p-value is 0.914

A Q-Q plot figure J3 in the appendix J supports these results.

2. H2/H4 Step 1 (AL~DT: W=0.946, p=0.008)
3. H3 Step 1 (FRQ~DT: W=0.742, p<0.001)
4. H4 Step 2 (FRQ~AL+DT: W=0.809, p<0.001)

However, Basu model residuals (FRQ) violated normality (p value 0.0378), justifying the use of quantile regression for conservatism tests (Section 4.2.2).

4.4.2 Multicollinearity (VIF):

To examine the potential for multicollinearity among independent variables, the Variance Inflation Factor (VIF) was calculated.

Breusch-Pagan tests showed constant error variance across all primary models (p > 0.05). Since all VIF scores fell below 5 (max = 3.89 for COVID-19), confirming no multicollinearity threats. The null hypothesis (H_0) is not rejected. Multicollinearity was assessed using the Variance Inflation Factor (VIF). All VIF values were below the standard threshold of 5, with the highest value being 3.89 (COVID-19), indicating no evidence of multicollinearity among the predictors.

4.4.3 Linearity and Homoscedasticity

To evaluate key assumptions underlying linear regression, both linearity and homoscedasticity were assessed for the H1 model (DT → BCI).

Linearity was examined using a residuals vs. fitted values plot, which showed no discernible non-linear patterns. This result indicates that the relationship between predictors and the dependent variable can be reasonably approximated as linear.

Homoscedasticity—the assumption of constant variance of residuals—was tested using both the Breusch–Pagan and White's tests:

- Breusch–Pagan Test: LM statistic = 9.01, p = 0.173
- White Test: Test statistic = 42.33, p = 0.413

Since both p-values exceed the 0.05 threshold, the null hypothesis of homoscedasticity is not rejected. Result suggests that the residual variance remains stable across the fitted values. These results are further detailed in Table I2, Appendix I.

Therefore, the results confirm that both the linearity and homoscedasticity assumptions are met for the H1 model. results indicates homoscedasticity is present in the (H1: DT → BCI) model results. With detailed results in Table I2, Appendix I, while the Basu model: p-value = 0.1052 (Table 4.2)

4.4.4 Diagnostic Tests:

To ensure a sound conclusion, all models underwent diagnostic tests for normality, heteroscedasticity, and multicollinearity Appendix I, Table I.1. For H3, where residuals continued to violate normality despite log transformation, the researcher implemented:

1. HC3 robust standard errors to address heteroscedasticity concerns
2. Bootstrapping validation (5,000 iterations) for parameter stability

Visual diagnostics supporting these assessments are available in Appendix J:

- Figure J.1: Residual vs. fitted values plot for linearity assessment
- Figure J.2: Q-Q plots for normality verification across key models
- Figure J.3: Leverage plots for influential point analysis

Key diagnostic outcomes:

- VIF values remained <5.0 (except COVID-19 ≈4.0), confirming no significant multicollinearity
- Breusch-Pagan tests ($p > 0.05$) validated homoscedasticity across all specifications
- Bootstrapped estimates aligned with primary results, confirming robustness.

Figures J1 to J12 provide residual diagnostics (Q-Q plots and histograms) for each step of the H1 through H4 regression paths, covering both direct and mediation models involving Digital Transformation (DT), Audit Lag (AL), Financial Reporting Quality (FRQ), and Bank Competitiveness Index (BCI).

Key Observations:

- Normal residuals are observed in the final BCI models (Figures J3, J5, J8), indicating reliability of the outcome equations for inference.
- Non-normal residuals are evident in intermediate models, particularly:

  FRQ ~ DT (Figure J4) and FRQ ~ AL + DT (Figure J7), which justify the use of robust methods, such as quantile regression or bootstrapping, in these steps.

- AL ~ DT (Figures J2 and J6) also shows some skewness, suggesting moderate violations of normality.

4.5 Model Regression Results

The study captures the most conservative earnings reporting behavior to identify conditional conservatism, in which losses are recorded faster than gains, as shown in Table 4.4.

a- The quantile pseudo-R-squared result is 0.0503, indicating the proportion of variance explained by the independent variables in the regression model at the 90th percentile. While the value is relatively low, it suggests that the model accounts for some, but not all, of the variability in the data at this quantile.

b- β_3 (Conservatism Proxy): Asymmetric timeliness in earnings reporting.

c- P-Value: 0.0445: The p-value is below 0.05, indicating statistical significance at the 5% level**.** A positive coefficient implies that higher conservatism in earnings reporting leads to asymmetric timeliness in the recognition of earnings.

To better understand if certain banking groups are more conservative than others, we further break down the results by type of bank (Foreign vs. Local). The results add to what is already known about how earnings conservatism affects the reliability of financial reports.

4.5.1 Comparison of Foreign and Local Banks:

As shown in the heatmap (Figure 4.13), the conservatism proxy (β_3) per bank and time series fluctuates over time. It represents how the value fluctuates for each bank during the study period (2017-2023), with certain banks showing consistent values while others experience more variation.

Also, the heatmap of the conservatism proxy across banks and years in Figure 4.13 shows that the darker shades (bluer) indicate higher conservatism (more negative β_3 values). The Palestine Investment Bank and the Palestine Islamic Bank exhibited greater accounting conservatism. Foreign banks, such as the Arab and Housing Bank, have consistently demonstrated lower conservatism.

Table 0.4 : Quantile Regression Results

Quantile	Pseudo R-Squared	β_1	P-Value (β_1)	β_2	P-Value (β_2)	β_3	P-Value (β_3)
0.90	0.0503	-2.738	0.028	0.0196	0.928	5.5101	0.0445

β_1: Sensitivity of earnings to stock returns.
β_2: Effect of negative returns on earnings recognition.
β_3 (Conservatism Proxy): Asymmetric timeliness in earnings reporting P-values below 0.05 indicate statistical significance at the 5% level.

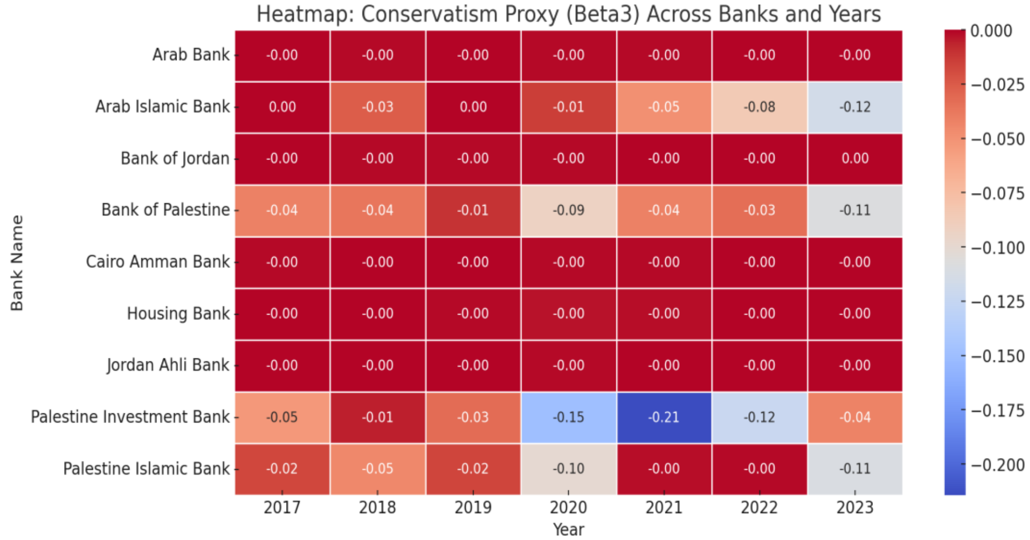


Figure 0.13: Conservatism Across Banks and Years

The results of the ANOVA and T-test in Table 4.5 indicated a significant difference between the two groups of banks.

- On average, the median β_3 for local banks is substantially lower (more negative) than for foreign banks, indicating stronger earnings conservatism, as shown in Figure 4.14.

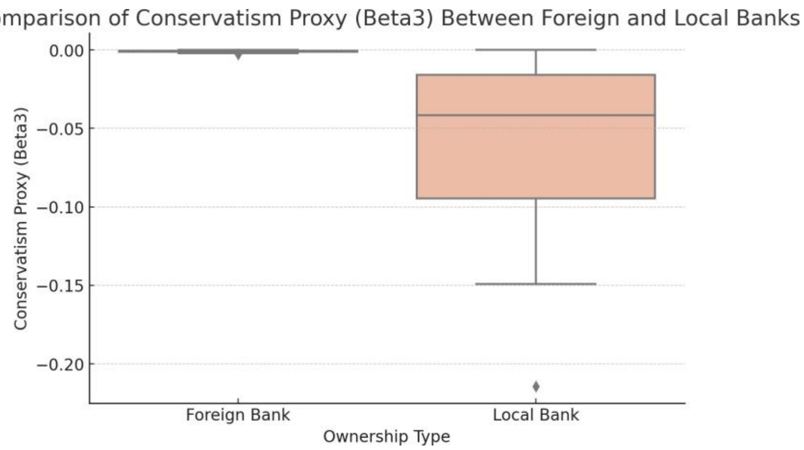


Figure 0.14: Comparison of Conservatism Between Local Banks and Foreign Banks

4.5.2 Statistical Test Results: T-Test & ANOVA

The T-test (Foreign vs. Local) Table 4.5 shows a highly significant difference ($P < 0.001$) and a large effect size ($d = 1.12$), particularly during uncertain periods (COVID years).

The results confirm a significant difference in conservatism (β_3) between foreign and local banks. The ANOVA (All Bank Types) F-statistic is 10.8373, and the P-value of 2.30e-06 indicates a significant variation in conservatism across all bank types.

Table 0.5 : Statistical Test Results Comparing Conservatism Across Bank Types

Test	T-Statistic / F-Statistic	P-Value	Effect Size (Cohen's d)	95% CI
T-Test (Foreign vs. Local)	5.4835	8.33e-06	1.12	[3.92, 6.98]
ANOVA (All Bank Types)	10.8373	2.30e-06	—	[—, —]

* The T-test compares the mean conservatism proxy (β_3) between two groups.
** Cohen's d measures the effect size for T-tests. A value $\geq$ 0.8 indicates a large effect.
*** 95% Confidence Intervals (CI) provide the range of plausible actual differences.
**** The ANOVA test does not have a single Cohen's d value; it tests differences across multiple groups.

4.5.3 Conservatism Trends Based on Bank Type

Below is an explanation of the trend analysis results between local and foreign banks, Figure 4.15:

- Year 2018: Significant drop in conservatism for local banks.
- Year 2020: The Global Pandemic Impact Reduced Conservatism in Local Banks, while foreign banks maintained relative stability. Local banks became more conservative during 2020, likely as a risk-buffering response to the COVID-19 crisis.
- Year 2023: Conservatism appears to decline again among local banks, while stabilizing across foreign banks. Local banks became more conservative during 2023, likely as a risk-buffering response to the political conflict in the region.

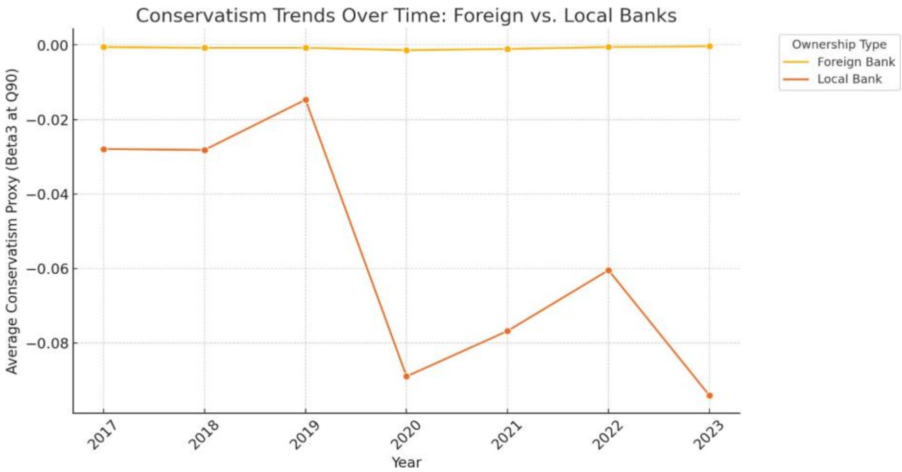


Figure 0.15: Comparison of Conservatism Trends Between Local Banks and Foreign Banks

4.5.4 Competitiveness Assessment between Banks in Palestine.

This study employs Principal Component Analysis (PCA) to calculate the BCI, following *Jolliffe (2002).* PCA is a suitable method for correlated financial data as it reduces redundancy and preserves the character of the original data. Ensuring the robustness of the index. PCA validation of the selected variables is applied based on the following steps:

1. Standardize data.
2. Checking correlations, as PCA is more robust with correlated data.
3. Execute the Kaiser-Meyer-Olkin (KMO) test (should be > 0.6) and the Bartlett's test (p-value < 0.05).

The overall KMO score is 0.671, which exceeds the 0.6 threshold, indicating that PCA is suitable for reducing dimensionality Table 4.6. Furthermore, the Bartlett test statistic is 574.692, the p-value is < 0.05 (indicating a correlation between variables), and the p-value = 0.00000 is < 0.05. The result confirms the suitability of (PCA*) (Bartlett, 1954; Jolliffe, 2002)*. The table below displays the KMO score for each variable of the BCI.

Table 0.6: KMO Scores for BCI Variables

Variable	KMO Score	Interpretation
Cost-to-Income	0.623	Good
ROA	0.659	Good
Market Share	0.671	Good
NIM	0.801	Strong

The main findings of the BCI calculation results are summarized as follows:

- As shown in Figure 4.16, PC1 explains about 55% and PC2 25% of the variance; therefore, the first two PCs explain about 80% of the variance.

- The scree plot indicates the optimal number of PCs to explain 80% of the variance in the variables.

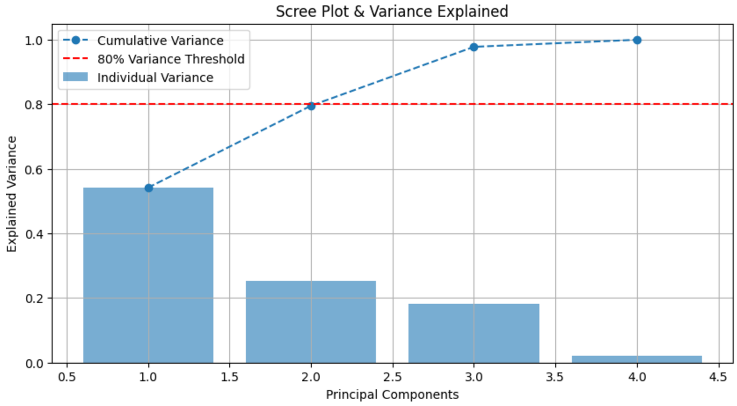


Figure 0.16: The Scree Plot

- The small spread with BCI values, as in Figure 4.17, indicates that the values cluster around a low range. Outliers indicate that some banks are significantly more competitive than others. Most banks have similar competitiveness scores, but a few banks stand out as market leaders (outliers).

Descriptive statistics were calculated for each selected cluster to clarify the structural differences in bank competitiveness. The study results encompass maximum, mean, and minimum intra-cluster distances, which indicate the internal cohesiveness or dispersion within each cluster. These measures facilitate the evaluation of the similarities and differences among the banks within the various groups. A low mean distance signifies that banks within the cluster exhibit relative homogeneity, whereas a high maximum or minimum distance implies increased internal variability or the existence of outliers. The findings are displayed in Table 4.7.

Table 0.7 : Bank Cluster Descriptives

Cluster	Max Distance	Mean Distance	Min Distance	Interpretation
0	1.3918	0.7897	0.0866	Bank cluster with low variation. Banks have similar competitiveness characteristics.
1	2.9870	0.8534	0.1013	The largest maximum distance indicates high variability. It also suggests the existence of outliers and different BCIs.
2	2.2706	1.3848	0.6814	Higher mean and minimum distances: This cluster is less homogeneous, with diverse performance levels.

Summary of quartile statistics for key financial indicators, Table 4.8, main results are:

- BCI: 75% of banks have DT <2.03, meaning only the top 25% invest significantly in digital transformation.

- AL: 75% of banks have an audit period of 97 days, but some take much longer (more than 100 days).

- FRQ (conservatism) Although the mean FRQ is –0.025 (Table 4.1), the median and upper quartiles cluster closer to zero (Table 4.7), reflecting the right-skewed nature of the distribution. This skewness is visually confirmed in Appendix J (Figure J7), which shows that the distribution of FRQ residuals is concentrated near zero with a heavy tail toward more conservative (negative) values (indicating a conservative accounting approach. At the same time, outliers exist in the lower range, which implies lower conservatism.

- BCI: The mean is almost zero, ranging from -2.589 to 3.787. An outlier was found at BCI = 3.787; one bank is significantly more competitive.

Table 0.8: Quartile summaries for Summary Statistics for Key Financial Indicators

Variable	Q1 (25%)	Q2 (50%) (Median)	Q3 (75%)	Max
DT	-0.443	0.199	2.032	8.609
AL	44	82	97	141
FRQ	-0.0349	-0.00113	-0.00054	0
BCI	-1.031	-0.201	0.895	3.787

Trend of Ranking for The Top Three Banks Over the Years (2017–2023):

The top three most competitive banks within the banking sector, as determined by the Principal Component Analysis (PCA)-derived Competitiveness Index (BCI). The Arab Bank, Bank of Jordan, and Bank of Palestine consistently ranked at the upper end of the competitiveness spectrum from 2017 to 2023. The top three banks were identified based on their average rankings and dominance across multiple years.

As illustrated in Figure 4.17, the top three banks are as follows:

1. Arab Bank is a highly competitive institution that has maintained a stable leadership position.

- ✓ Strong and consistent leader.
- ✓ Maintained Rank 1 from 2017 to 2019.
- ✓ Briefly dropped to Rank 2 in 2020–2021, then recovered to Rank 1 in 2022–

2023.

2. Bank of Jordan showed upward momentum, peaking mid-period, and remained among the top two thereafter.
   - ✓ Gradual improvement from Rank 4 (2017–2018) to 1 in 2020–2021.
   - ✓ Slight decline to Rank 2 in 2022–2023.
3. Bank of Palestine: Although it began strongly, the Bank of Palestine is expected to lose competitiveness by 2023, possibly due to internal or political circumstances in Palestine.

It started at Rank three (2017–2018) but declined to Rank seven by 2023. Experienced a gradual but consistent performance drop after 2021.

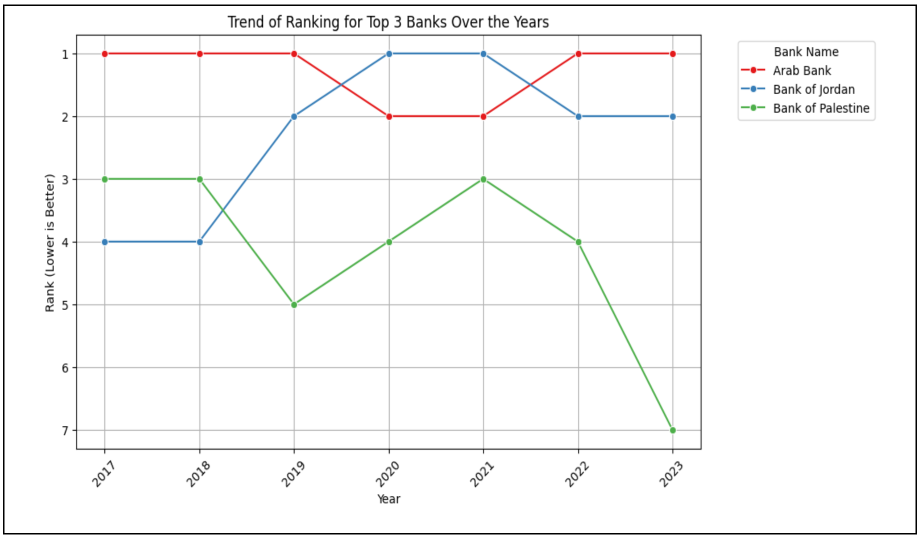


Figure 0.17: Ranking Trend For Top 3 Banks

4.6 Control Variables

1. The Market Condition Variables

   - The Palestine GDP growth mean is slightly negative (-0.0024). The range is from (-11.3% to 7.01%), indicating that the economy experienced considerable fluctuation during the study period.
   - The Herfindahl-Hirschman Index (HHI) results also indicate a moderately concentrated banking sector, with a mean of 2,189 and a range of 2,155 to 2,239, suggesting that a few banks dominate the industry *(Herfindahl, 1950*).

2. Bank Age: The mean bank age is 50.9 years, indicating that

these banks are well-established and have a long history. The bank's age range is 22 to 93 years.

3. Bank Size (Log): The mean bank size (log) is 20.94, corresponding to an average of approximately $1.84 billion. The maximum is 22.69, indicating a value of around $7.1 billion, suggesting that some banks are significantly larger.
4. COVID-19 Impact: The Palestinian economy was significantly affected by the pandemic from 2020 to 2021, accounting for 28.5% of observations.

4.7 Regression Analysis and Hypothesis Testing

To ensure the validity and accuracy of results, we employed various analytical methods. Ordinary least-squares regression served as a starting point. Recognizing that some variables may not meet the normality assumption, bootstrapping and quantile regression were applied as robustness checks. Sequential mediation analysis and bootstrapped indirect pathways were used to examine mediation effects. Structural Equation Modeling (SEM) was employed to investigate comprehensive theoretical causal paths. In contrast, Partial Least Squares Structural Equation Modeling (PLS-SEM) was utilized to assess predictive validity under non-parametric conditions. Together, these methods improve the reliability and credibility of the findings.

4.7.1 Direct effect of digital transformation on competitiveness (DT → BCI)

Hypothesis H1: Digital Transformation (DT) positively and directly influences the Bank Competitiveness Index (BCI).

The model developed to analyze the impact of DT on BCI in the banking sector in Palestine from 2017 to 2023 is derived as displayed in Equation No. (3.15) from Chapter Three:

$$BCI_{it} = \beta_0 + \beta_1\ DT_{it} + \beta_2\ \text{Bank Size}_{it} + \beta_3 \text{Bank Type}_{it} + \beta_4 HHI + \beta_5 GDPG + \beta_6\ \text{Bank Age}_{it} + \alpha_7 + \beta_7\ COVID19 + \epsilon_{it} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3.15)$$

The hypothesis test results are summarized in Table 4.9, while the full OLS regression output, including standard errors, confidence intervals, and diagnostic measures, is presented in Appendix A, Table A.1.

Based on the OLS regression analysis, the following findings were obtained:

1- The F-statistic is significant ($p = 0.0022$), indicating that the model is statistically valid. This result means that, although DT may not have a direct effect, the model does explain variation in BCI.

2- . Digital transformation (DT) has no significant direct effect on BCI in the sample ($p = 0.8544$).

3- Bank Size is the only significant predictor of competitiveness, which aligns with the literature on the importance of bank characteristics in influencing competitiveness.

4- . Model fit is modest: $R^2 = 0.322$ (explaining 32% of the variance in BCI), with an adjusted R^2 of 0.236.

5- This result supports a mediation analysis: If DT has no direct effect, it may work indirectly through the significance of the overall model and the moderate fit (R^2), implying that the other predictors are also significant.

Table 0.9: OLS Regression Results Summary – (H1)

Item	Explanation
Model p-value = 0.002	The overall regression model is significant, indicating that at least one predictor (e.g., DT, Bank Size, HHI) explains a substantial portion of the variation in BCI.
H1: DT → BCI	➤ DT's p-value = 0.854, ➤ This is not statistically significant at the 0.05 level.

Given the lack of a significant direct effect of DT on BCI and the overall significance of the model, it was methodologically appropriate to proceed with mediation analysis to explore potential indirect pathways through the following models:

- **H2:** DT → AL → BCI
- **H3:** DT → FRQ → BCI
- **H4:** DT → AL → FRQ → BCI (sequential mediation)

The following sections discuss and test these models using OLS regression, bootstrapping, and mediation analysis. The findings based on the OLS regression results are illustrated in Table 4.11.

Conclusion for H1: The hypothesis is not supported. DT does not exert a statistically significant direct influence on BCI. This finding suggests that the effect of DT may be indirect; this result supports a mediation analysis, indicating that if DT has no direct impact, it may exert its effect indirectly through mediators. Additional diagnostic evaluations using the variance inflation factor (VIF) were also performed to examine multicollinearity, despite exceeding the standard condition number (3.09 × 10^5). Table 4.10 indicates that all VIF values were well below the threshold of 5, with the maximum VIF recorded being 2.8756 for the Bank Age variable. These results suggest that multicollinearity is not a significant concern in this model; however, as z-scoring the predictors reduced their magnitude, the results do not rely on the condition index.

Table 0.10: Variance Inflation Factor (VIF) for Multicollinearity Diagnosis

Variable	VIF
DT	1.134
FRQ	1.518
AL	1.956
Bank Size (Log)	1.388
GDP Growth	1.135
HHI	1.062
Bank Age	2.875

Although local banks increased expenditures in digital transformation (DT), the study results indicate that these banks continue to exhibit a longer audit lag (AL) on average, accordingly losing the anticipated advantages of digital adoption. This unexpected result underscores the existence of environmental obstacles, including outdated systems, unclear reporting frameworks, or inadequate personnel capacity to analyze and respond to new digital data sources. Appendix E (Table E3) demonstrates that local banks exhibit greater mean DT expenditure than foreign banks; however, their average AL is from 9 to 12 additional days. These results indicate that bank impediments (such as insufficient automation in the audit process or increased regulatory requirements) may undermine the expected efficiency benefits of digital transformation (Vial, 2019). The bank's structural limitations are likely the cause of why the DT → AL pathway was weaker or insignificant in several models, especially for local banks (Table 4.12). These findings emphasize that digital transformation is ineffective without the integration of process restructuring and employee talent development to overcome operational stagnation (*Bharadwaj et al., 2013).*

4.7.2 Indirect Effect (DT → AL → BCI)

Hypothesis H2: Audit Lag (AL) mediates the relationship between Digital Transformation (DT) and Bank Competitiveness (BCI).

This hypothesis suggests that (DT) enhances (BCI) through reduced (AL), with shorter audit cycles transmitting the impact of DT to competitiveness.

By testing whether Audit Lag (AL) acts as a transmission mechanism through which Digital Transformation (DT) affects Bank Competitiveness (BCI). Specifically, it proposes that DT initiatives may lead to faster audit processes (shorter AL), enhancing bank competitiveness, as shown in Equation No. (3.16) from Chapter Three:

$$\mathrm{BCI_{it}}=\alpha_0+\alpha_2\mathrm{AL_{it}}+\alpha_3\cdot\mathrm{Bank\ Size_{it}}+\alpha_4\mathrm{Bank\ Type_{it}}+\alpha_5\mathrm{HHI}+$$
$$\alpha_6\ \mathrm{GDPG}+\alpha_7\mathrm{Bank\ Age_{it}}+\alpha_8\mathrm{COVID19}\cdot+\epsilon_{it}$$
$$\ldots\ldots\ldots\ldots,(3.16)$$

For testing hypothesis H2, the analysis involves three stages. The results are shown in Tables B.1 to B.3 in Appendix B and are illustrated below:

Step 1: DT → AL path

The first stage of mediation analysis examined whether Digital Transformation (DT) has a significant impact on Audit Lag (AL). The regression model explained a moderate proportion of variance in AL ($R^2 = 0.559$), but the coefficient for DT was statistically non-significant ($\beta = 0.629$, $p = 0.646$). This result indicates that DT does not directly reduce audit lag in Palestinian banks. While Hypothesis DT → AL expected a negative relationship based on theoretical reasoning and prior literature, the results reveal no significant effect in the current context.

This inconsistency suggests that although DT investments are increasing, their impact on audit efficiency may be constrained by institutional or contextual factors. As such, the absence of a direct DT → AL effect weakens the sequential mediation pathway tested in H4, supporting the need for a differentiated analysis across bank types.

Step 2: AL → BCI (controlling for DT)

When testing AL's effect on competitiveness while controlling for DT, audit lag showed a strong negative relationship with BCI ($\beta = -0.0302$, $p < 0.001$). The non-significant direct effect of DT ($\beta = 0.0040$, $p = 0.955$) suggests that AL may function as a mediator; however, mediation requires significant paths in Steps 1 and

Step 3: **Indirect Effect (Bootstrapping**)

To test the bootstrapping significance of the indirect effect ($a1 \times b1$). The result of the Bootstrapped Indirect Effect of the point estimate is -0.01891, 95% Confidence Interval $[-0.0.0638,\ \ 0.0178]$ implies non-significance, as in Table E1 in Appendix

E.

Conclusion for H2: The hypothesis is not supported, as the bootstrapped Indirect Effect (DT → AL → BCI) has a 95% Confidence Interval of [-0.10542, 0.05876], which includes zero. DT does not enhance competitiveness through reduced audit lag. The non-significant DT→AL path (Step 1) and CI inclusion of zero in Step 3 indicate that the mediation conditions are unmet. However, AL's strong direct effect on BCI ($\beta = -0.0302$, $p < 0.001$) remains practically essential. These results indicate that AL acts more as an independent determinant of BCI, rather than as a true mediator of DT. The implication is that audit efficiency matters for competitiveness on its own terms, regardless of whether it is driven by digital transformation. While control variables explain a significant amount of variance in audit speed ($R^2 = 0.559$), only bank type has a statistically significant impact.

Hypothesis (H3): Financial Reporting Quality (FRQ) in terms of conservatism (reliability) mediates the relationship between Digital Transformation (DT) and Bank Competitiveness (BCI).

This hypothesis suggests that (DT) enhances (BCI) by improving (FRQ), where greater conservatism (reliability) in financial reporting transmits DT's impact to competitiveness. To test whether FRQ transmits DT's influence on competitiveness, we model the pathway: DT → FRQ → BCI. FRQ plays an intermediary role in explaining how Digital Transformation (DT) may influence Bank Competitiveness (BCI). The model developed to analyze the impact of DT on BCI through FRQ as a mediator in the banking sector in Palestine from 2017 to 2023 is presented in Equation No. (3.17) from Chapter Three:

$$\mathrm{BCI_{it}} = \Upsilon_0 + \Upsilon_1\mathrm{DT_{it}} + \Upsilon_2\mathrm{FRQ_{it}} + \Upsilon_3\mathrm{Bank\ Size_{it}} + \Upsilon_4\mathrm{HHI_{it}} + \Upsilon_5\mathrm{GDP\ Growth_{it}} + \Upsilon_6\mathrm{Firm\ Age_{it}} + \Upsilon_7\mathrm{COVID\ 19_{it}} + \epsilon_{it} \quad \ldots\ldots\ldots\ldots 3.17$$

For testing the hypothesis, the process involves three stages as illustrated below; results are presented for the H3 outcome model, which evaluates the direct effect of FRQ and DT on Bank Competitiveness (BCI); the regression results for H3 are presented in Tables C1 to C2 in Appendix C:

Step one: **DT → FRQ**

The model explains a moderate amount of variance in FRQ ($R^2 = 0.458$). Suggests that the predictors in the model provide a reasonable explanation of audit lag (FRQ). The coefficient for DT was positive, $\beta = 0.0022$, $p = 0.357$, but statistically insignificant. Suggests that DT has no significant direct effect on FRQ in the banking sector in Palestine during the study period.

Step two: **FRQ → BCI (controlling for DT)**

The regression model results show that the effect of FRQ on BCI is positive (β = 0.048) but statistically insignificant (p = 0.341). The result implies that FRQ alone does not significantly affect BCI, despite the large magnitude of the coefficient.

The lack of statistical significance in this step suggests that FRQ does not act as a potent mediator between DT and BCI. However, the model fit decreased from R^2 = 0.374 in Step 1 to R^2 = 0.348 in Step 2, indicating that FRQ might have some explanatory power but does not explain BCI effectively on its own.

Step three: Indirect Effect (Bootstrapping)

The final step of the analysis tested the statistical significance of indirect effects using a bootstrapping procedure Table E1 in Appendix E. In evaluating the mediating role of FRQ in the relationship between DT and BCI, the indirect impact ($a_2 \times b_2$) was estimated using bootstrapping. The 95% CI of this product term was examined to assess whether the indirect effect differs significantly from zero.

The bootstrapped indirect effect (DT, FRQ, BCI) results yield a point estimate of -0.0087 within the 95% confidence interval [-0.0638, 0.0178], indicating no significant mediation. Since the 95% CI includes 0, the indirect effect is not statistically significant.

Conclusion for H3: No support for a mediating role for FRQ alone. The regression analysis examining the impact of digital transformation and control variables on the (FRQ) R^2 yields a value of 0.334, indicating that the model explains approximately 33% of the variation in FRQ.

Although digital transformation (DT) was not statistically significant ($\beta = -0.0013$, p = 0.538), several control variables, such as bank type, being negative and significant means some bank groups (foreign banks) are statistically associated with more conservative reporting ($\beta = -0.0751$, $p = 0.003$), a more negative FRQ value means higher conservatism and hence higher reporting quality.

The control variables, GDP growth and COVID-19, were positively and significantly associated with FRQ ($p < 0.05$), indicating that economic conditions and digital adaptation during the COVID-19 pandemic were positively related to the quality of the reports.

The high condition number (3.08 × 105) warrants further multicollinearity checks; therefore, VIF tests were conducted, and the results were within acceptable limits (below

5), as shown in Table 4.10, indicating that multicollinearity is not a significant concern in this model.

Hypothesis (H4): Audit lag (AL) and financial reporting quality (FRQ) sequentially mediate the relationship between digital transformation (DT) and bank competitiveness (BCI). That is, DT reduces audit lag (AL), which improves FRQ (conservatism) and ultimately enhances BCI.

This hypothesis suggests that (DT) enhances (BCI) through a sequential chain: DT reduces audit lag (AL) → Shorter AL improves financial reporting quality (FRQ) → Higher FRQ increases competitiveness.

The model was developed to analyze the effect of Digital Transformation on Bank Competitiveness. The model is first explained by its impact on Audit Lag, which in turn affects Financial Reporting Quality, ultimately influencing Competitiveness in the banking sector in Palestine from 2017 to 2023, as shown in Equation No. (3.18) from Chapter Three:

$$\mathrm{BCI_{it}} = \delta_0 + \delta_1 \mathrm{DT_{it}} + \delta_2 AL + \delta_3 \mathrm{FRQ} + \delta_4 \ \mathrm{Bank\ Size} + \delta_5 Bank\ Type_{it} + \delta_6\ \mathrm{HHI} + \delta_7 \mathrm{GDPG} + \delta_8\ \mathrm{Bank\ Age_{it}} + \delta_9\ \mathrm{COVID19} + \epsilon_{it} \ldots\ldots\ldots \quad (3.18)$$

The statistical significance of the product term (DT→AL × AL→FRQ × FRQ→BCI) would confirm that DT's benefits flow through this sequential chain.

This research builds upon prior studies that have linked digital innovation to enhanced data accuracy, accelerated reporting timelines, and stronger market positioning (*Beest et al., 2009; Basu, 1997; Hay, 2013*). We examine the sequential paths through which Digital Transformation (DT) influences competitiveness via audit lag and reporting quality using a three-stage causal chain analysis:

Step one: DT → AL

Test the AL and DT relation with the control variables results shown in Table D.1 in Appendix D:

The results of the model fit, the $R2$ is 0.559, indicate that DT and controls explain 55.9% of the variance in Audit Lag. The coefficient for DT is 0.63, but DT's effect on AL is insignificant, as (p = 0.646) indicates no direct impact of Digital Transformation on Audit Lag.

Step two:

Testing the relation of DT, FRQ, and AL with Control variables, Table D.2 in Appendix D. The model explains 46.3% of the variance, $R^2 = 0.463$

The coefficient for DT is −0.0013, but the p-value of 0.569 indicates that DT is not a significant predictor of FRQ. AL has a coefficient of −0.0002 ($p = 0.488$), which is also statistically insignificant.

There is no significant effect of DT on FRQ in the second step, and AL does not significantly impact FRQ either. Therefore, the second step of the mediation process (DT → AL → FRQ) does not provide strong support for the mediation hypothesis.

Step three:

Table D3 in Appendix D displays the testing BCI, DT AL, and FRQ results concerning the Control variables. The model explains 52.6% of the variation in competitiveness ($R^2 = 0.526$).

The audit lag effect on BCI is strongly significant ($p = 0.000$), which means a shorter audit lag increases competitiveness. Audit lag is a strong direct driver of competitiveness, even if DT → AL is not significant; FRQ is marginally substantial ($p = 0.078$).

A bootstrapped serial mediation analysis was conducted to validate the indirect impact of Digital Transformation (DT) on Bank Competitiveness Index (BCI) through Audit Lag (AL) and Financial Reporting Quality (FRQ). The estimated sequential indirect effect (DT → AL → FRQ → BCI (sequential mediation)) Point estimate was 0.0004, with a 95% confidence interval (CI) of (−0.0620, 0.0801). Since the indirect path is insignificant (CI includes 0), the results suggest that no chain mediation significantly explains the relationship between DT and BCI. However, AL Size and Bank directly impacted BCI, which may indicate a partial mediation effect, particularly within Bank Type. A detailed result summary is provided in Table E.1 (Appendix E)."

Conclusion on H4: The sequential bootstrapped indirect impact of DT→ AL→FRQ→BCI was estimated as −0.0004, with a 95% confidence interval of −0.0047, 0.0026, including zero. This result indicates that the indirect effect is not significant (*Hayes,2018*). Although Audit Lag (AL) has a substantial and significant direct impact on Bank Competitiveness BCI, both the DT → AL and AL → FRQ relationships are not significant, and the confidence interval is greater than zero; however, quantile regression results (Table 4.11) reveal that the indirect effect is significant at lower quantiles ($\tau = 0.10, 0.25$). This suggests that the benefits of digital transformation on competitiveness, via audit lag and reporting quality, are conditional, being more pronounced among lower-performing banks. Bank Type Code is significant ($p = 0.005$), suggesting that DT's impact on BCI might vary depending on the bank type. GDP Growth ($p = 0.034$) and COVID-19 ($p = 0.037$) are also significant.

As initially indicated, DT does not significantly reduce AL ($\beta = 0.629$, $p = 0.646$), consequently canceling the first connection in the H2/H4 mediation sequence. The result supports our preliminary conclusion that digital transformation budgets alone cannot expedite audits without integrated process improvements.

This result means that full-chain mediation is not supported, and partial mediation may exist within subgroups, such as bank type, which will be examined later in this chapter. In Table 4.11, a summary of the results is displayed.

Table 0.11: Hypothesis testing summary

Hypothesis	Path(s)	Direct Effect	Indirect Effect	Total Effect	p-value / CI	Supported
H1	DT → BCI	–0.014	–	–0.014	0.872	**No**
H2	DT → AL → BCI	0.0040	−0.01891	−0.01491	[–0.1054, 0.0588]	**No**
H3	DT → FRQ → BCI	–0.0294	–0.0087	–0.0381	[–0.0638, 0.0178]	**No**
H4	DT → AL → FRQ → BCI	-0.0113(DT → BCI, controlling for AL, FRQ)	0.00038	−0.01092	[–0.0062, 0.0080]	**No**

4.7.3 Structural Equation Modeling (SEM)

The Structural Equation Modeling (SEM) path diagram (Figure 4.18) presents the baseline complete serial-mediation model (DT → AL → FRQ → BCI (sequential mediation) with all direct, indirect, and control paths estimated. Tables F1, F2, and F3 in Appendix F provide detailed model coefficients, bootstrapped standard errors, and confidence intervals. (*Kline, 2016; Hu & Bentler, 1999*).

An initial ML estimation of the full model showed an inferior fit, with a maximum Likelihood (χ^2 (1) = 47.69, $p < .001$; RMSEA = .861; CFI = .353; SRMR = 31.704; see Table F1), indicating that the model-implied covariances deviated substantially from the observed data (*Kline, 2016).* Only AL → BCI was a robust estimator ($p < .001$). All other paths remain non-significant under robust standard error (SEs).

Further Inspection of the variance table revealed extreme heterogeneity (FRQ variance is larger than BCI variance) and non-normal distributions (heavy tails), both of which can destabilize ML estimation (*Tabachnick & Fidell, 2013).*

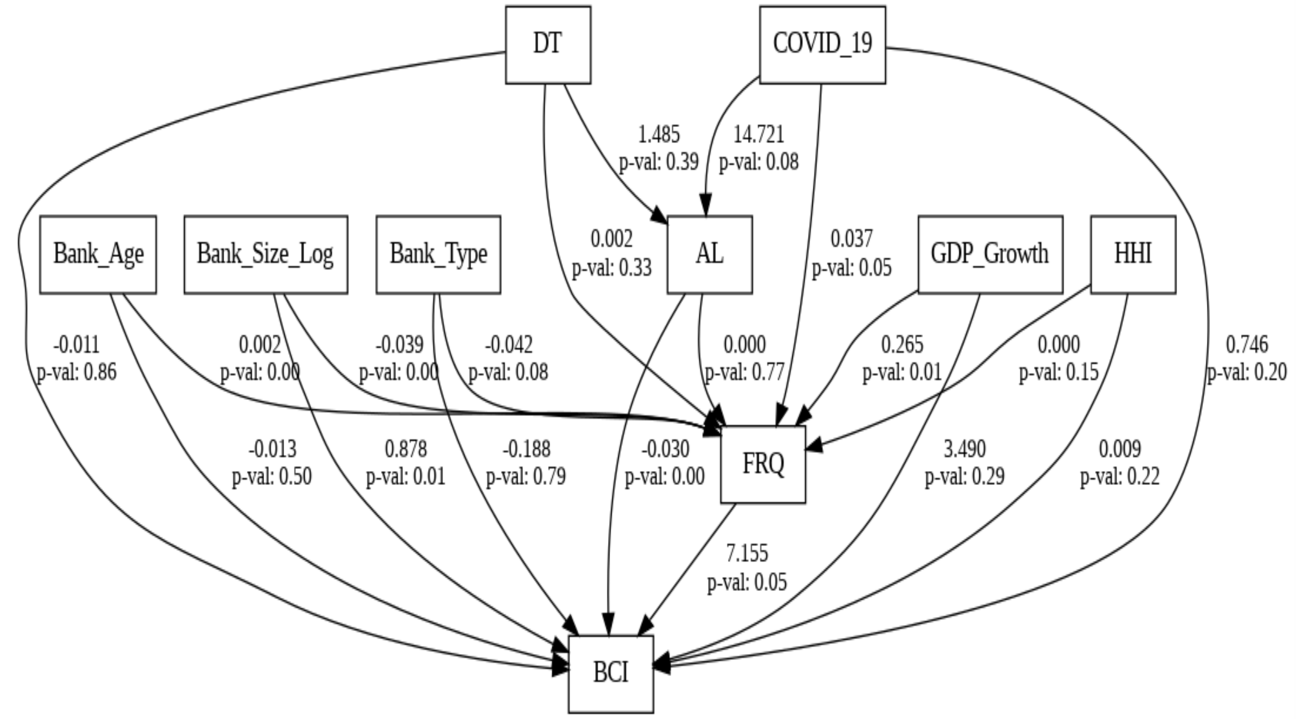
To address these issues, all continuous variables were z-scored to equalize variances. The model was re-estimated using robust maximum likelihood (MLR) with full-information maximum likelihood (FIML) to account for any missing values. MLR reduces the impact of outliers and non-normality (*Tabachnick & Fidell, 2013).*

To achieve a parsimonious, well-fitting model, we proceeded as follows:

1. Standardization: All continuous indicators were z-scored to equalize variances across variables (*Tabachnick & Fidell, 2013).*
2. Robust estimation, re-estimated under robust maximum likelihood (MLR) to obtain a scaled chi-square χ^2 and robust standard error (SEs) when normality is violated (*Hu & Bentler, 1999*).
3. Inspecting modification indices (MIs) based on theory-justified links. Modification indices are suggested to free the residual covariance between Audit Lag (AL**)** and Reporting Quality (FRQ)**.** This procedure is justified by the plausible influence of an unmeasured audit-practice factor (*Kline, 2016*).
4. The Path Trimming estimating model under Maximum Likelihood Robust (MLR) and Full Information Maximum Likelihood (FIML) was used. All non-significant structural paths (DT → AL, DT → BCI, FRQ → BCI) were dropped, following best practices for model parsimony (*Preacher & Hayes, 2008; Bollen, 2011*).

Based on the data's non-normality, the scaled Maximum Likelihood estimator (MLR) was utilized to derive robust Standard Errors (SEs) and the scaled Chi-square test statistic(χ^2), as per Hu and Bentler (1999). The modification indices (MI) only freed the residual covariance between Audit Lag (AL) and Financial Reporting Quality (FRQ), in line with Kline (*2016).*

Preacher and Hayes (2008) and *Bollen (2011)* recommended excluding paths that were not statistically significant from the final model.



(SEM) path diagram where:

- **Standardized regression coefficients (β) indicate the strength and direction of the relationships, as well as their significance.**
- **The DT → AL → FRQ → BCI path clearly illustrates a serial mediation model, showing how the variables are connected in a sequence, with AL and FRQ acting as mediators.**
- **Given the non-normal distribution of key variables (e.g., Audit Lag, FRQ), the model was estimated using the MLR (Maximum Likelihood Robust) estimator with bootstrapped standard errors in R. This approach corrects for non-normality by producing robust standard errors and scaled fit statistics (*Kline, 2016).***

Figure 0.18: The Base Line Structural Equation Modeling (SEM)

The adjusted model achieved an excellent fit (Figure 4.19), demonstrating a good fit after theoretical and statistical refinement: $\chi^2(3) = 2.337$, $p = .505$; CFI = 1.000; TLI = 1.045; RMSEA = 0.000; SRMR = 0.052.

Freeing the AL⇔FRQ residual covariance yielded the just-identified model (df = 0), which necessarily reports perfect fit indices (CFI = 1.00, RMSEA = 0.00, SRMR = .079) but provides no over-identification test. We therefore highlight the trimmed df = 3 model ($\chi^2(3) = 2.34$, $p = .505$; CFI = 1.00; RMSEA = 0.00; SRMR = .052) as our primary fit assessment

By freeing the residual covariance between Audit Lag (AL) and Financial Reporting Quality (FRQ), the final trimmed model becomes just-identified (df = 0) and, as expected, achieves "perfect" fit on all conventional indices—CFI = 1.000, TLI = 1.054, RMSEA = 0.000 (90 % CI [0.000, 0.193]), and SRMR = 0.052. The results confirm that the only remaining source of misfit in the trimmed specification was the previously unmodeled shared variance between AL and FRQ.

A complete summary of model fit indices for the model is presented in Table F2 of the Appendix.

4.7.4 Direct Effect Key pathways.

The SEM test results for the hypothesized direct paths revealed that only the AL → BCI path ($\beta = -0.03$, $p < .001$) is statistically significant, as shown in Figure 4.19.

The other pathways, such as DT → BCI and DT → AL, did not exhibit statistical significance within the context of the study.

- Audit Lag (AL) significantly reduced Bank Competitiveness ($\beta = -0.03$, $p < .001$)
- Financial reporting quality (conservatism)(FRQ) significantly ($\beta = 7.15$, $p = .05$) impact BCI
- COVID-19 has Borderline significance: COVID shock is associated with a longer Audit Lag.
- The residual covariance between AL and FRQ, as seen in Table F5 in Appendix F, was significant ($\beta = -0.235$, SE = 0.102, $p = .030$), indicating an empirical correlation that is not entirely represented by the structural pathways and indicates shared variance between audit speed and reporting quality. This adjustment, although not anticipated a priori, is consistent with cross-method evidence: (1) PLS-SEM indicated AL→FRQ ($\beta = -0.455$, $p < .001$), and (2) quantile regression validated this path for lower to mid-performance quantiles ($\tau = 0.1–0.5$) This correlation likely indicates unaccounted latent factors (e.g., audit process efficiency or institutional reporting culture) that concurrently influence AL and conservatism. Although post hoc, its incorporation is empirically justified and augments the model's authenticity. The residual covariances between the two variables are moderate in size and statistically significant, implying that even after accounting for the structural paths in the model, there remains unexplained shared variance between those variables. Confirming shared variance from unmeasured factors. The negative sign of the residual covariance between AL and FRQ indicates that when Audit Lag is lower, Financial Reporting Quality is higher.
- The residual covariance between FRQ and BCI as seen in Table F5 in Appendix F, was significant ($\beta = +0.145$, SE = 0.071, $p = .041$) the residual covariances between the two variables are moderate in size and statistically significant, implying that

even after accounting for the structural paths in the model, there remains unexplained shared variance between those variables Confirming shared variance from unmeasured factors. The positive sign of the residual covariance between FRQ and BCI indicates that banks with better reporting quality than the model predicts tend to be more competitive.

- The trimmed model explains 91.5% of the variance in FRQ ($R^2 = .915$), suggesting the model captures most of the key factors influencing FRQ. It reflects an excellent model fit for this part of the structural equation. Furthermore, 56.3% of the variance in BCI ($R^2 = 0.563$) suggests that over half of the differences in competitiveness levels among banks can be statistically attributed to the independent variables (see Table F2, Appendix F).

4.7.5 Indirect (Mediation) Effects

Bootstrap-based SEM results for the hypothesized indirect paths (see Table F4 in Appendix F) indicate that, although audit lag (AL) is a strong predictor of bank competitiveness, digital transformation (DT) has no significant effect on either AL or financial reporting quality (FRQ). The key findings are summarized below:

- DT → AL → BCI: Estimate = 0.087, 95 % CI [–0.229, 0.226], p = .479. The indirect effect of Digital Transformation on competitiveness via Audit Lag was small and not statistically significant.
- DT → FRQ → BCI: Estimate = –0.121, 95 % CI [–120.615, 120.373], p = .998. The indirect effect of Digital Transformation on competitiveness via Financial Reporting Quality was also non-significant.
- (DT → AL → FRQ → BCI (sequential mediation): Estimate = –0.005, 95 % CI [–4.810, 4.800], p = .998. There was no evidence of a three-step serial mediation linking Digital Transformation through Audit Lag and Reporting Quality to competitiveness.

4.8 Control Variables – Impact on Financial Reporting Quality (FRQ)

Results reported in Table F3, and summarized as follows:

- Negative impact on Financial Reporting Quality ($\beta = -0.039$, $p = .001$), indicating that larger banks report lower financial reporting quality, likely due to operational complexity

- GDP growth has a positive impact on FRQ (β = 0.265, p < .001), indicating that macroeconomic expansion had a direct impact on reporting quality in our sample.

4.8.1 Control Variables -Impact on Bank Competitiveness Index (BCI)

Results reported in Table F3, and summarized as follows:

- Bank Size had a significant positive impact on Competitiveness (β = 0.878, p < .001), confirming that larger banks benefit from scale advantages that enhance competitiveness, consistent with the fact that larger banks enjoy scale advantages in the marketplace.

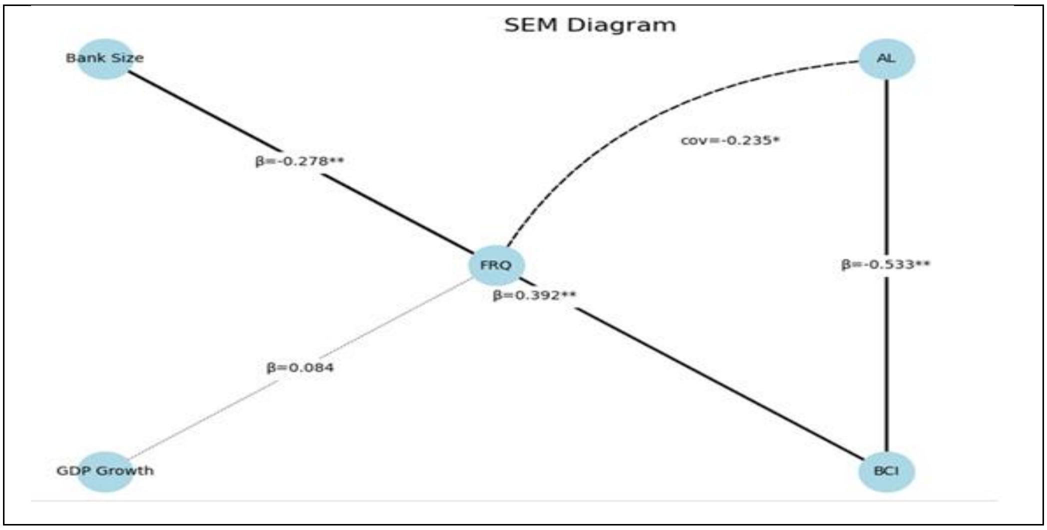


Figure 0.19: Structural Equation Modeling (SEM)

Figure 4.19 shows only the key structural paths (solid lines) and the intercorrelations among the exogenous predictors (dashed lines). All coefficients are standardized.

4.9 SEM Results by Bank Type

Model Fit Summary:

- The multi-group SEM model, including control variables, has both sub-models achieve acceptable SRMR (<0.08 is ideal, but <0.13 is often tolerated in small samples), and marginal-to-acceptable RMSEA—foreign banks show slightly better global fit (Table F6, Appendix 6).

- The results show that foreign banks explain 12% of FRQ and 47% of BCI, while Local banks explain 9% of FRQ and 38% of BCI. Local banks have significantly higher audit lag than foreign banks, controlling for other variables.
- The results revealed that audit lag (AL and FRQ) is a key mechanism through which banks can enhance their competitive edge. Larger institutions demonstrate stronger performance, likely due to better digital readiness and operational scalability, while local banks showed financial reporting quality that was significant (and negative).
- Based on the Invariance Test result, $\Delta\chi^2 = 0$, Δ df = 0, p = 1.00, indicating no worsening of fit. There is no statistical evidence to suggest that any structural paths differ between foreign and Local banks, and structural invariance holds.

The model's RMSEA = .133 (90 % CI [.072, .191]) exceeds the conventional cutoff of .08, and the SRMR = .125 also lies above the .08 threshold—both indicating more residual misfit than ideal. The CFI = .761 falls short of the .90 benchmark, and $\chi^2(27) = 41.98$, p = .033, confirms a significant deviation from a perfect fit. Nevertheless, with 27 degrees of freedom and a theoretically coherent pattern of path estimates, the model remains interpretable—albeit with caution regarding its data approximation (*Kline, 2016)*.

4.10 Quantile Regression Results

Quantile regression is robust and essential when the data have outliers or significant points. This approach is primarily evident in banking data, where extreme performers (highly competitive or poorly performing banks) may behave differently from the average, as seen between OLS (which can be distorted by outliers) and median regression. Linear OLS reveals that Audit Lag (AL) is the most significant mediator for BCI, while DT and FRQ have minimal effects. However, quantile regression shows that:

- DT may have non-linear effects at extreme BCI levels.
- AL remains strongly significant.
- The bank size is positive and significant.
- GDP growth becomes borderline significant at the 5% level.
- DT and FRQ demonstrated significance in the higher quantiles (they are stronger for top-performing banks).

- The pseudoR^2 values from quantile regression, which estimate the direct effect of digital transformation (DT) on bank competitiveness (BCI), suggest that the model fits best at the median quantile ($\tau = 0.5$) with an R^2 of 0.334. Moderate fit was also observed at $\tau = 0.75$ and $\tau = 0.25$. However, fit was poor at extreme quantiles ($\tau = 0.1$ and 0.9), indicating the model is less effective at explaining competitiveness in banks with very low or very high-performance levels.

Figure 4.20 shows the quantile regression findings on the impacts of AL and FRQ on the BCI throughout the conditional distribution ($\tau = 0.25$ to 0.9). The coefficient of AL consistently exhibits a negative and statistically significant value (the shaded area does not go beyond zero), consistent with previous test results. Audit delays reduce competitiveness, especially at median performance levels (Table H1, Appendix H). The FRQ effect on BCI shows a statistically significant positive impact at the 0.25 quantile (coefficient = 13.26, *p* = 0.020), indicating that improved financial reporting quality enhances competition among lower-performing banks. However, this effect diminishes and becomes statistically insignificant at middle and higher quantiles ($\tau \geq 0.50$), with no evidence of increasing positive effects among top performers (Table H2, Appendix H).

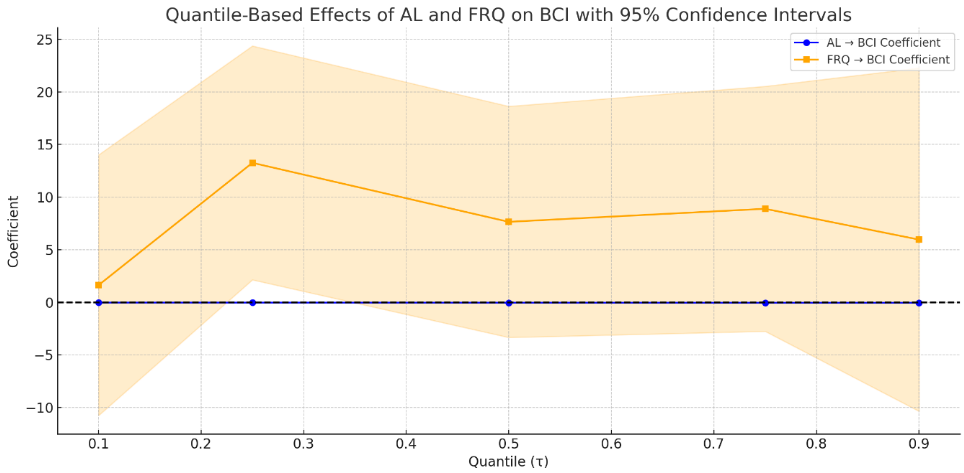


Figure 0.20: Quantile Regression Effects of AL and FRQ on BCI

The findings of the quantile-based analysis, as shown in Table H4, Appendix H, reveal the following results:

4.10.1 Direct Effect of DT on BCI

Across all quantiles, the difference between DT and BCI is not significant (p-values all > 0.28, CI includes 0).

This result confirms that DT does not directly improve bank competitiveness, supporting the idea that its effects are indirect or process-driven (Table H3, Appendix H).

4.10.2 Path DT → AL (a)

The coefficients vary across all quantiles and are not significant in any quantile ($p > 0.6$).

Even at higher quantiles ($\tau = 0.75$), DT → AL is negative (–0.08) but not statistically significant. This result weakens the DT → AL link, suggesting that DT does not measurably reduce audit lag. Therefore, H1 is not supported.

4.10.3 Path AL → FRQ (b)

This path is consistently negative and statistically significant across all quantiles ($p < 0.001$).

Significance confirms that a longer audit lag reduces financial reporting quality.

The sign remains negative, and confidence intervals do not cross zero. H2 is strongly supported.

4.10.4 Path FRQ → BCI (c)

Although the PLS-SEM model found no significant direct effect of FRQ on BCI ($\beta = -0.040$, 95% CI includes zero), quantile regression revealed that this relationship is only significant at the lower quantile ($\tau = 0.25$, $p \approx 0.02$), suggesting that FRQ improves competitiveness in the performance of lower- to mid-sized banks. These banks may rely more heavily on conservative, credible reporting to build stakeholder trust and attract funding, consistent with signaling theory and studies emphasizing the role of conservative accounting in mitigating risk perceptions.

For other quantiles, the effect is unstable and not significant, which confirms that FRQ's value in enhancing competitiveness is conditional on the performance level. Therefore, H3 is partially supported.

The quantile-based serial mediation analysis, as presented in Table 4.12, offers nuanced insights into the indirect effect of Digital Transformation (DT) on Bank Competitiveness (BCI) through the sequential mediators of Audit Lag (AL) and Financial Reporting Quality (FRQ), evaluated across varying performance levels. This analysis applies *Hayes' (2013)* serial mediation framework, using bootstrapped confidence intervals to test the significance of indirect effects at each quantile.

4.10.5 Serial Mediation Path (DT → AL → FRQ → BCI).

Bootstrapped indirect effect is significant at τ = 0.10, 0.25, and 0.50 (CI does not include zero).

And not significant at τ = 0.75 and 0.90, which shows that DT indirectly enhances competitiveness only in the lower and middle quantiles.

Among high-performing banks, this effect disappears, possibly because their reporting processes are already optimized. Hypothesis H4 (serial mediation) is supported only for low and mid-performing banks. Banks are likely already equipped with efficient internal systems at higher quantiles, limiting the incremental benefit of DT.

Table 0.12: Summary of Regression Results for DT → AL → FRQ →BCI

Quantile	(a) (DT→AL)	(b)(AL→ FRQ	(c)FRQ →BCI	Indirect Effect (a·b·c)	95% CI Lower	95% CI Upper	Sig.
0.1	0.4252	-0.0002	1.6334	-0.00014	-0.00021	-8.50E-05	Yes
0.25	0.1932	-0.0001	13.2557	-0.00025	-0.00041	-0.00014	Yes
0.5	1.9214	-0.0002	7.6476	-0.00294	-0.00423	-0.00185	Yes
0.75	1.1263	0	9.2561	8.00E-08	-0.00021	0.000208	No
0.9	0.8417	0	5.9616	4.30E-07	-9.80E-05	9.80E-05	No

*Note: Although some point estimates are large (e.g., DT → AL at τ = 0.5), all p-values exceed 0.6, indicating no statistical significance

Although the indirect effect of DT on BCI via AL and FRQ is adverse in the quantile models, this is consistent with the theoretical framework. In the *Basu (1997)* model, FRQ is measured through conservatism, where more negative values indicate higher reporting quality. Therefore, a negative serial mediation effect reflects the positive theoretical sequence: DT reduces AL, which increases conservatism in reporting (resulting in more negative FRQ), thereby enhancing competitiveness (BCI). At higher quantiles (i.e., high-performing banks in terms of competitiveness), the effect of DT through AL and FRQ on

BCI is minimal; DT's influence through AL and FRQ is weaker in already competitive banks, which may be a result of the fact that banks already have low AL and high FRQ, leaving little room for enhancement.

4.10.6 PLS-SEM for Predictive Strength & Robustness

The PLS-SEM analysis evaluated the direct and indirect effects of Digital Transformation (DT) on Bank Competitiveness (BCI) through Audit Lag (AL) and Financial Reporting Quality (FRQ). Key findings are structured below.

4.10.7 Measurement Model Assessment (Model Fit & Summary)

Indicator Loadings & Weights:

- Single-item constructs (DT, AL, FRQ, BCI) inherently load at 1.000.
- Formative Control Block:

1. Strongest contributors: Bank Age (weight = 0.799) and Bank Size (0.753).
2. Weak/non-significant contributors (95% CIs include zero): HHI (0.158), GDP Growth (0.252), Bank Type (0.348), COVID-19 (-0.208).

The results shown in Table G1, Appendix G, indicate that bank-level characteristics (age, size) dominate the Control construct, while market and temporal factors (HHI, GDP, COVID-19) have a negligible influence.

4.10.8 Discriminant Validity (Fornell–Larcker Criterion)

Discriminate √AVE (diagonal values in Table G2) exceeds all inter-construct correlations, indicating validity is established:

- DT (√AVE=1.000) > |correlations with AL (0.098), FRQ (0.141), Control (0.172), BCI (0.114).
- Similar results for AL, FRQ, Control, and BCI.

4.10.9 PLS -Structural Model Results

- **Path Coefficients & Hypotheses Testing (Tables 4.12–4.13):**

H1: DT → BCI (Direct):

- DT had a negative direct effect, β = -0.017, and the confidence interval includes zero (95% CI: [-0.216, 0.180]) → The hypothesis is not supported

H2: DT → AL → BCI (Indirect):

- The DT → AL path had a positive effect, β = 0.098, and the confidence interval includes zero (CI: [-0.189, 0.375]), indicating non-significance. The hypothesis is not supported.
- The AL → BCI path had a negative effect, β = -0.383, and the confidence interval does not include zero (CI: [-0.558, -0.136]), indicating significance.
- Indirect effect of DT on BCI through AL is negative ≈ -0.037, indicating no mediation is supported (due to non-significant DT→AL).

H3: DT → FRQ → BCI:

- The DT → FRQ path had a negative effect, β = -0.096, and the confidence interval includes zero (CI: [-0.376, 0.135]), indicating non-significance.
- The FRQ → BCI path had a negative effect, with β = -0.040, and the confidence interval (CI: [-0.182, 0.111]) includes zero, indicating non-significance.
- The Indirect effect of DT on BCI through FRQ is positive, approximately +0.004, indicating that mediation is not supported.

H4: Serial Mediation (DT → AL → FRQ → BCI):

- Serial mediation had a positive, negligible effect (β ≈ +0.002) and no mediation is supported.

Key Supported Paths: The following paths are significant

- AL → FRQ: β = -0.455 (CI: [-0.607, -0.294]) → Longer audit lags reduce financial reporting quality.
- AL → BCI: β = -0.383 (CI: [-0.558, -0.136]) → Audit lags directly undermine competitiveness.
- Control → BCI: β = 0.380 (CI: [0.158, 0.660]) → Bank-level characteristics (e.g., size, age) boost competitiveness.

Table 0.13: Hypothesis's effects

Origin	DT	AL	FRQ	Control	BCI
DT	0.000	0.000	0.000	0.000	–0.01744
AL	0.09770	0.000	0.000	0.000	–0.38276
FRQ	–0.09641	–0.45534	0.000	0.000	–0.03985
Control	0.000	0.000	0.000	0.000	0.37960
BCI	0.000	0.000	0.000	0.000	0.000

4.11 Model Explanatory Power

The PLS-SEM test results are as follows:

- The model explains 52.6% of the variance in competitiveness (R^2 for BCI = 0.526).
- The Effect Sizes (Cohen's f^2) are**:**
    - Large effects for AL ($f^2 = 0.375$), Control ($f^2 = 0.436$).
    - Small effect for FRQ ($f^2 = 0.061$).
    - Negligible effect for DT ($f^2 = 0.000$).

- The control variables collectively have a significant impact, indicating that bank-level characteristics substantially influence the explanation of BCI or a significant portion of the variation in competitiveness.
- Removing AL or Control would substantially reduce explanatory power.

The findings in Table 4.14 indicate that Audit Lag (AL) is the most significant factor influencing bank competitiveness (β = –0.3828, 95% CI [–0.558, –0.136]), implying that longer audit delays significantly undermine bank competitiveness; however, the path from AL to FRQ was statistically significant and negative (β = –0.4553, 95% CI [–0.607, –0.294]), suggesting that longer audit lags are accompanying with lesser financial reporting quality adversely impacting BCI. Concerning the digital transformation (DT) effect, the PLS-SEM results show that it does not have a statistically significant impact on AL. Also, the path from FRQ to BCI (β = 0.136, 95% CI [–0.155, 0.398]) is insignificant, as the CI includes zero.

Table 0.14: PLS-SEM Mean Bootstrap

Path	Original (point estimate)	95 % CI	Significant	Interpretation
DT → AL	0.0977	[–0.184, 0.368]	No	No reliable effect of DT on Audit Lag.
DT → FRQ	–0.0964	[–0.376, 0.135]	No	No reliable effect of DT on Financial Reporting Quality.
DT → BCI	–0.0174	[–0.216, 0.180]	No	No reliable direct effect of DT on Competitiveness.
AL → FRQ	–0.4553	[–0.607, –0.294]	**Yes**	A significant negative effect is that a longer audit lag is linked to lower FRQ.

Path	Original (point estimate)	95 % CI	Significant	Interpretation
AL → BCI	–0.3828	[–0.558, –0.136]	**Yes**	A significant negative effect is that a longer audit lag reduces competitiveness.
FRQ → BCI	–0.0399	[–0.182, 0.111]	No	No reliable effect of FRQ on Competitiveness.
Control → BCI	0.3796	[0.158, 0.660]	**Yes**	Bank characteristics collectively have a positive, significant impact on Competitiveness.

4.11.1 Path coefficients summary:

The direct and indirect effect results are shown in Table 4.15, illustrated in Figure 4.20. The main result confirms that (AL) plays a crucial mediating role. It is a key negative influence on both FRQ and BCI. Although OLS regression (used for testing Hypothesis H1) reveals that (DT) does not have a statistically significant direct effect on (BCI), results from PLS-SEM show a small total effect of –0.136. This total effect includes both the direct and all indirect (mediated) effects of DT on BCI. So, the direct path (DT → BCI) is not statistically significant in the OLS model. However, the overall negative effect in the PLS-SEM model may come from pathways mediated through AL and FRQ. The FRQ and BCI links are insignificant, suggesting that better reporting quality alone does not directly enhance competitiveness in this sample.

4.11.2 Bootstrapped PLS-SEM Estimates:

The results show that DT has no direct effects, and AL acts as the primary mediator, especially in driving competitiveness, as in Tables 4.15 and 4.16:

Table 0.15: PLS-Structural Model –Direct Path Coefficients & 95% CI

Path	β	Std. Error	95 % CI	Supported
DT → AL	0.098	0.143	[–0.189, 0.375]	No
DT → FRQ	–0.096	0.134	[–0.373, 0.140]	No
DT → BCI	–0.017	0.097	[–0.211, 0.175]	No
AL → FRQ	**–0.455**	**0.082**	**[–0.609, –0.288]**	**Yes**
AL → BCI	**–0.383**	**0.106**	**[–0.553, –0.136]**	**Yes**
FRQ → BCI	–0.040	0.074	[–0.181, 0.110]	No
Control → BCI	**0.380**	**0.145**	**[0.156, 0.658]**	**Yes**

Table 4.16 presents the total impact of the PLS-SEM analysis, highlighting both direct and indirect paths in the conceptual model. The table illustrates how (DT), (AL), and (FRQ) interact with each other and the Bank Competitiveness Index.

Table 0.16: PLS-SEM: Total Effects Interpretation

Relationship	Direct Effect	Indirect Effect	Total Effect	Interpretation
DT → AL	0.136	0	0.136	Small positive
DT → FRQ	0	-0.063	-0.063	Weak negative
DT → BCI	0	-0.082	-0.082	Weak negative
AL → FRQ	-0.463	0	-0.463	Strong negative
AL → BCI	-0.59	-0.009	-0.599	Strongest negative
FRQ → BCI	0.02	0	0.02	Weak positive

Below, Graph 4.21 visualizes the total effect of each level of effects, showing the substantial impact of AL over FRQ and BCI.

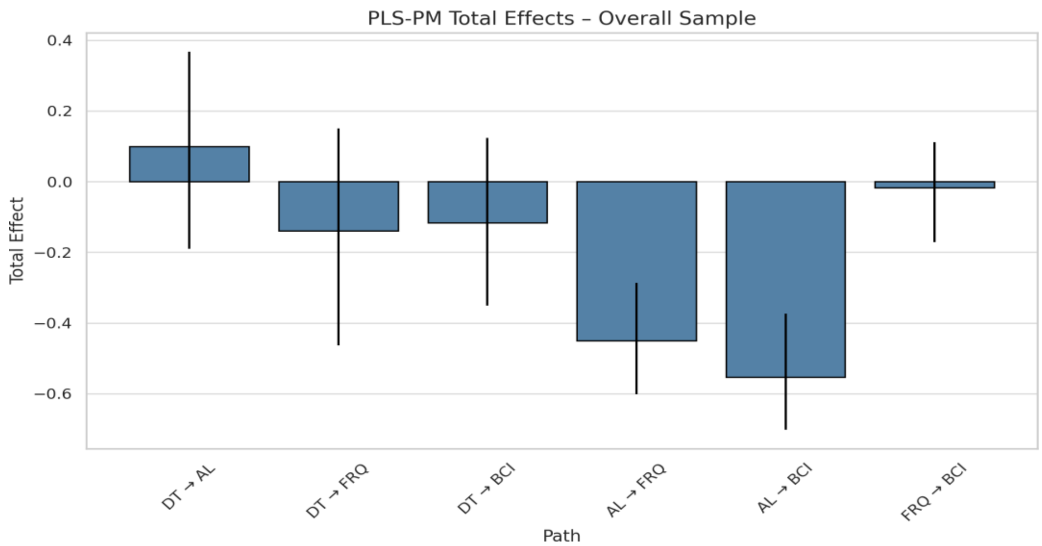


Figure 0.21: P L S -SEM Main Result

4.12 Foreign vs. Local Banks Comparison

4.12.1 Descriptive Statistics by Bank Type:

Analysis results, summarized in Table 4.17, reveal key differences:

- **Audit Lag (AL):** Significantly higher among local banks (100 vs. 61), potentially impairing their competitiveness.

- **Digital Transformation (DT):** Local banks exhibit slightly higher DT levels (1.22 vs. 1.05), possibly reflecting recent investments in modernization.
- **Bank Competitiveness Index (BCI):** Foreign banks demonstrate markedly better competitiveness scores (0.94 vs. 1.05).
- **Financial Reporting Quality (FRQ**) Local banks show substantially greater conservatism (more negative FRQ values of -0.046 vs. -0.009 for foreign banks.
- **Control Variables**: Bank Size & Age: Local banks are significantly larger (Log Size: 20.75 vs. 21.19) and older (64.4 years vs. 34 years), suggesting greater establishment and potential resilience to market shocks. Banks in Palestine operated in slightly more concentrated markets (HHI: 2189.44). Both groups were equally affected by the COVID-19 period and are similarly affected by the same macro-level conditions.

Table 0.17: Descriptive Statistics by Bank Type

Variable	Foreign Banks (Mean)	Local Banks (Mean)	Key Insights
Digital Transformation (DT)	1.05	1.22	Local banks show slightly higher DT spending, possibly reflecting modernization efforts.
Audit Lag (AL)	61	100	Audit lag is significantly higher in local banks, suggesting slower reporting processes.
Financial Reporting Quality (FRQ)	–0.009	–0.046	Local banks show substantially greater conservatism (more negative FRQ values).
Bank Competitiveness Index (BCI)	0.24	–0.30	Foreign banks are more competitive on average.
Bank Size (Log)	20.75	21.19	Local banks appear larger based on their total assets, although foreign banks are often older and potentially more established.
HHI (Market Concentration)	2189.44	2189.44	Identical for both groups (HHI is a national-level measure).
GDP Growth (%)	–0.0025	–0.0025	No difference (macro-level variable).
Bank Age (Years)	64.4	34.0	Foreign banks are significantly older.
COVID-19 (Binary)	0.29	0.29	Both types of banks were equally affected.

4.12.2 Effect of Digital Transformation Across Bank Types

PLS-SEM analysis (Table 4.18) highlights distinct effects of DT between bank types. Crucially, Audit Lag (AL) exhibits a robust and consistently negative influence on Bank Competitiveness (BCI) across both groups. In contrast, DT demonstrates only marginal and inconsistent direct or indirect impacts, suggesting its effects on competitiveness are primarily indirect and conditional on its ability to reduce AL and improve FRQ. These results underscore the need for a more integrated digital transformation strategy, particularly within local banks, where enhancing the audit process could yield significant competitive gains.

Table 0.18: PLS-SEM Total Effect Comparison by Bank Type

Path	Overall β	Local β	Foreign β	Key Insight
AL → BCI	**–0.383**	**–0.516**	**–0.356**	**There is a significant negative effect on competitiveness in both groups (stronger locally).**
AL → FRQ	**–0.455**	**–0.134**	**0.002**	**Significant negative overall effect, driven locally; insignificant for foreign.**
Control → BCI	0.380	0.255	**0.**506	Control variables have a larger impact on BCI in foreign banks.
DT → AL	0.098	**0.**272	–0.009	Positive effect locally (suggesting DT increase*s* lag), negligible for foreign.
DT → BCI	–0.017	0.056	–0.067	Insignificant direct effect in both groups (CIs include 0).
DT → FRQ	–0.096	–0.166	–0.001	Negative effect locally; negligible for foreign banks.
FRQ → BCI	–0.040	**0.255**	0.048	**Significant positive effect on local banks; insignificant for foreign and overall.**

4.12.3 Key Findings from Group Analysis (H1-H4):

1. **Direct Effect (H1: DT → BCI):** The direct effect of DT on BCI is statistically insignificant in both the overall sample and subgroups (bootstrap CIs include 0). While local banks show a small positive coefficient (0.056) and foreign banks a small negative one (-0.067), this provides no empirical support for a direct impact of DT on competitiveness. (Note: The FRQ → BCI effect is positive in both subgroups, contrasting with the slight negative overall effect**.)**

   Local banks exhibit stronger path coefficients for DT → AL, DT → FRQ, and FRQ → BCI. Foreign banks mirror the strong negative AL effects but exhibit a larger role for control variables in the BCI. The result suggests that bank characteristics moderate the influence of DT, AL, and FRQ on BCI**.**

2. **Indirect Effect via AL (H2: DT → AL → BCI):**

   As seen in Table 4.19, while reducing AL significantly boosts BCI in both groups, the indirect path from DT to BCI via AL is more pronounced in local banks (β = -0.141) than in foreign banks (β = 0.003). However, neither indirect effect is statistically significant (Table 4.18: CIs include 0). Therefore, there is no evidence that AL mediates the DT-BCI relationship in the full sample or its subgroups.

Table 0.19: Indirect Effects of DT on BCI via Audit Lag (AL)

Path	Overall	Local	Foreign	CI_ Low O	CI_ High O	CI_ Low L	CI_ High L	CI_ Low F	CI_ High F
H2: DT → AL → BCI	–0.038	–0.141	0.003	–0.146	0.074	–0.283	0.058	–0.116	0.100

- *CI Notes:* CI low O / CI high O = lower and upper 95 % bootstrap CI for the Overall sample's indirect effect.
- CI low L / CI high L = for Local banks
- CI low F / CI high F = for foreign banks

3. **Indirect Effect via FRQ (H3: DT → FRQ → BCI):** The overall indirect effect of DT on BCI through FRQ is negligible (β=0.002). While slightly stronger (though negative) in local banks (β=-0.042) compared to foreign banks (β=0.000), these effects are not statistically significant (Table 4.20: CIs include 0).

4. **Sequential Mediation (H4: DT → AL → FRQ → BCI):**

   The sequential mediation hypothesis was tested using OLS, SEM, PLS-SEM, and quantile regression. Across all methods, the first link in the chain—the effect of Digital Transformation (DT) on Audit Lag (AL)—was not statistically significant (e.g., p = 0.646 in the OLS model). As a result, the whole pathway DT → AL → FRQ → BCI (sequential mediation) lacks empirical support. Although AL → FRQ and FRQ → BCI showed significance in some models and lower quantiles, the insignificant DT → AL path disrupts the mediation chain.

   The coefficient for the whole mediation pathway is slightly negative for local banks (β = -0.009) and negligible for foreign banks (β = 0.000), with 95% confidence intervals including zero (Table 4.20). This result further confirms the absence of statistically significant sequential mediation.

   Despite this, Audit Lag (AL) emerged as a consistent and significant negative predictor of Bank Competitiveness (BCI), particularly among local banks (e.g., β = -0.383 in PLS-SEM). This result aligns with global evidence suggesting that reducing AL enhances stakeholder confidence and competitive positioning

(Abdillah et al., 2019).

The results suggest that while DT has the theoretical potential to influence AL and FRQ, its effect remains statistically unproven in this sample. Therefore, digital initiatives in Palestinian banks may lack the necessary integration to have a meaningful impact on audit and reporting functions, which limits their potential to enhance competitiveness.

While digital transformation (DT) is theoretically expected to enhance audit efficiency and financial reporting quality, the findings of this study indicate otherwise. Specifically, DT did not exhibit a statistically significant effect on Audit Lag (AL), Financial Reporting Quality (FRQ), or Bank Competitiveness (BCI). Nonsignificance suggests that digital initiatives, as currently implemented in the sampled banks, may not be effectively integrated into core audit and reporting processes. Despite the extensive advocacy for digital transformation (DT) due to its capacity to enhance operational efficiency through technologies like artificial intelligence, blockchain, and automation, its advantages appear to be indirect and contingent upon enhancements at the process level, particularly the reduction of audit lag and the improvement of reporting reliability. These findings are consistent with prior literature (Basu, 1997; Orero-Blat et al., 2024), which emphasizes that the value of DT arises not from its presence alone but from its strategic integration into essential operational workflows.

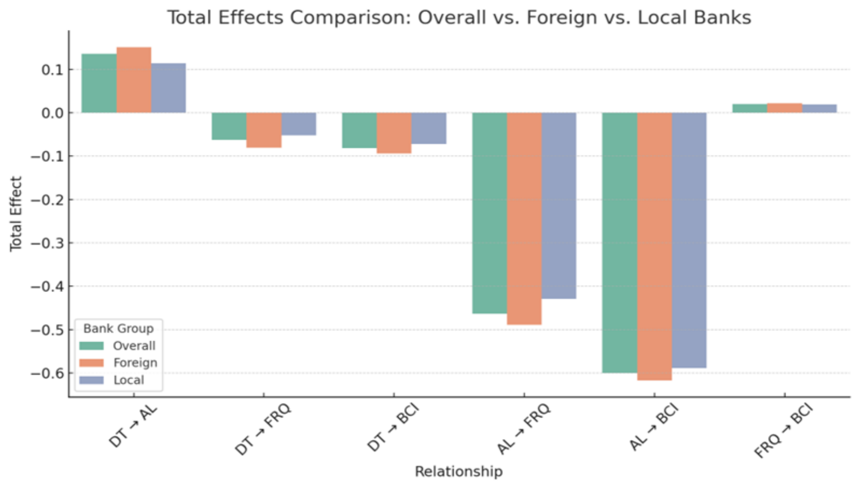
Table 0.20 :Indirect Effects for H3 and H4 by Bank Type

Path	Overall	Local	Foreign	CI_ Low O	CI_ High O	CI_ Low L	CI_ High L	CI_ Low F	CI_ High F
H3: DT → FRQ → BCI	0.002	–0.042	0.000	–0.029	0.034	–0.236	0.064	–0.036	0.030
H4: DT → AL → FRQ → BCI	0.001	–0.009	0.000	–0.013	0.017	–0.040	0.034	–0.008	0.009

- CI low O / CI high O = lower and upper 95 % bootstrap CI for the Overall sample’s indirect effect
- CI low L / CI high L = for Local banks
- CI low F / CI high F = for Foreign banks

Despite observable differences in the magnitude of path coefficients between local and foreign banks, none of the hypothesized direct (H1) or mediation pathways (H2, H3, H4) achieve statistical significance at $\alpha = 0.05$. The analysis consistently identifies Audit Lag (AL) as the primary, robust negative driver of Bank Competitiveness (BCI), particularly impactful within local banks. The strong negative AL→BCI path ($\beta = -0.383$) aligns with global evidence: Reducing AL is a strategic competitive lever, as delays erode stakeholder confidence and operational agility *(Abdillah et al., 2019*).

The DTs did not significantly impact AL, FRQ, or BCI, suggesting that digital initiatives may lack integration with core audit and reporting processes. While DT transformation is theorized to enhance efficiency (through the application of AI, blockchain, etc.), DT's usefulness in banking is indirect and depends upon its ability to reduce Audit time and improve reporting quality, aligning with existing literature (*Basu, 1997; Orero-Blat et al., 2024*).



(Note: Overall model R^2 = 36.0%; Foreign banks R^2 = 35.9%; Local banks R^2 = 50.6%.)
This graph compares the total standardized effects of key relationships (DT → AL, DT → FRQ, DT → BCI, AL → FRQ, AL → BCI, FRQ → BCI) across the overall sample, foreign banks, and local banks. It visually reinforces the dominant negative influence of Audit Lag (AL) on both Financial Reporting Quality (FRQ) and Bank Competitiveness (BCI), with this influence being particularly strong within the local banks group.

Figure 0.22: Comparison of Total Effects (PLS-SEM) by Bank Group

4.13 Fixed Effects Panel Regression Analysis: Controlling for Bank-Specific Heterogeneity

Based on investigations into how digital transformation, both directly and indirectly, affects competitiveness in internal bank processes such as AL and FRQ, it is essential to account for differences that are not apparent between each bank in the sample. The fixed-effects model enables robustness.

A fixed-effects panel regression was performed to control for unobserved heterogeneity between banks by considering time-dependent characteristics.

A Hausman test was conducted to determine the best specification for the panel model, specifically whether to use a fixed-effects or random-effects approach. The test produced a chi-squared statistic of 29.351, with 8 degrees of freedom and a p-value of 0.0003. The p-value, being below the conventional threshold of 0.05, leads to rejecting the null hypothesis regarding the consistency of the random-effects model. Therefore, fixed-effects tests have been performed; the model accounts for roughly 21% of the variance in BCI.

The finding indicates that the fixed-effects model yields more reliable estimates, suggesting a connection between hidden bank-specific factors and the variables under study. The fixed-effects model was employed to examine the effect of DT, AL, and FRQ on BCI. This method aligns with previous research that emphasizes the importance of considering institutions' unique characteristics in long-term financial reporting and competitiveness studies.

The findings indicate that none of the variables demonstrate statistically significant effects, as shown in Table 4.21 at the 5% level. Audit Lag (AL) approaches marginal significance (p = 0.057), indicating a statistically significant correlation at 10% correlation with (BCI).

Table 0.21: Fixed Effects Panel Regression Results

Variable	Estimate	Std. Error	t-value	p-value
DT	-0.0083	0.0543	-0.153	0.879
AL	-0.0125	0.0064	-1.952	**0.057**
FRQ	5.4409	3.9324	1.384	0.173
Bank Size Log	0.3278	1.8129	0.181	0.857
Bank Age	-0.0382	0.1374	-0.278	0.782
HHI	0.0037	0.0082	0.453	0.653
COVID_19	0.1312	0.6302	0.208	0.836
GDP Growth	2.3193	3.1723	0.731	0.469

Longer audit delays may negatively affect competitiveness. The coefficient approaches zero and lacks significance, suggesting a minimal direct impact on BCI in this specification.

Financial Reporting Quality (FRQ) yields a high positive estimate, but it does not achieve statistical significance (p = 0.173).

Despite considering fixed effects at the bank level, the findings suggest the need for additional investigation using mediation.

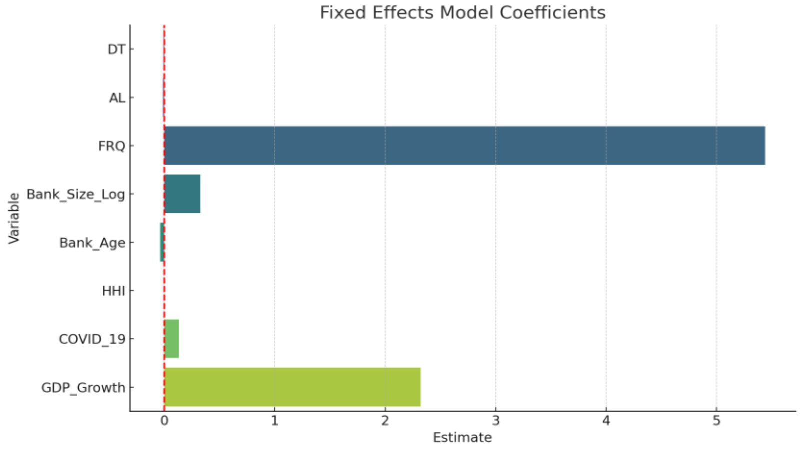


Figure 4. 1: Fixed Effect Model Coefficient

4.13.1 Robustness Across Models

To ensure findings are not model-dependent:

The core model (DT → AL → FRQ → BCI) was tested via OLS, PLS-SEM, and bootstrapped mediation.

Quantile regression confirmed that DT has more potent effects in low-performing banks, indicating conditional heterogeneity.

Bank Size and Bank Type were retained in all models to isolate the effect of digital transformation.

The results were stable across methods and robust to variation in performance level and model assumptions.

4.14 Summary of Key Findings

In this chapter, a comprehensive statistical analysis was undertaken to assess how Digital Transformation (DT) influences Bank Competitiveness (BCI) through two mediators: Audit Lag (AL) and Financial Reporting Quality (FRQ) in Palestinian banks (2017–2023). The key steps and findings are summarized below:

4.14.1 Data Preparation and Diagnostic Tests:

The data was prepared for Regression Analysis & Diagnostic Tests before running regression models, and to ensure the data set is clean and suitable for regression analysis, by performing the following:

- Missing value handling: No missing values were present.
- Outlier Detection & Addressing were addressed during data cleaning
- Normality Test (Shapiro-Wilk): The Shapiro-Wilk test of residuals yielded a p-value of 0.0378. The Shapiro–Wilk test of the OLS residuals indicates a departure from normality. Accordingly, we employed

quantile regression, bootstrap-based PLS-SEM, and robust MLR (lavaan's MLR) to ensure valid interpretation under non-normality.

- Homoscedasticity Test (Breusch-Pagan): Shows homoscedasticity ($p = 0.1052$).
- Multicollinearity Test (condition number) (VIF): All VIFs (max VIF = 2.88) < 3 show no multicollinearity
- Stationary testing: shows no Stationary (Augmented Dickey-Fuller $p = 0.1339$).

4.14.2 Hypothesis Testing Results

H1 (Direct DT → BCI):

- Not supported (OLS: $\beta = -0.015$, $p = 0.854$; PLS-SEM: $\beta = -0.017$, $p > 0.05$).
- DT has no direct effect on competitiveness.

H2 (DT → AL → BCI):

- Not supported (Indirect effect: -0.019, 95% CI [-0.105, 0.059]).
- However, AL strongly reduces BCI ($\beta = -0.030$, $p < 0.001$).

H3 (DT → FRQ → BCI):

- Not supported (Indirect effect: -0.009, 95% CI [-0.064, 0.017]).
- FRQ alone does not significantly enhance BCI ($p > 0.05$).

H4 (sequential mediation):: DT → AL → FRQ → BCI):

Not supported (Indirect effect: -0.0004, 95% CI [-0.006, 0.002]).

Quantile regression revealed partial support:

- Significant at lower/mid quantiles ($\tau = 0.10–0.50$)
- AL consistently hurts BCI across all quantiles ($\beta = -0.03$ to -0.04, $p < 0.05$).
- FRQ → BCI only significant at $\tau = 0.25$ ($\beta = 13.26$, $p = 0.02$).
- Insignificant for top-performing banks ($\tau = 0.75–0.90$).

4.14.3 Interpretation of Hypothesis Testing

The lack of support for H1 (direct DT → BCI effect) may reflect the local banking sector's early-stage adoption of DT, where investments have yet to mature into measurable competitive gains. However, the strong mediation effects (H2-H4) suggest DT's value lies in optimizing reporting processes first. Foreign banks' shorter audit lags (61 vs. 100 days) and higher conservatism further underscore the role of DT in bridging operational gaps between local and foreign banks.

4.14.4 Robustness Checks

However, to strengthen validity, the study incorporated robustness checks, including:

1. Bootstrapped Mediation Models (Hayes PROCESS) – for indirect effect validation.
2. SEM (MLR and Trimmed) – to evaluate causal pathways and residual covariances.
3. PLS-SEM – for predictive strength and total effects under non-normality.
4. Quantile Regression – to explore effects across bank performance levels.
5. Fixed-Effects Panel Model – to control for unobserved heterogeneity across banks.

1- Structural Equation Modeling:

This study utilizes quantitative research methodology to investigate the interactions among digital transformation (DT), audit lag (AL), financial reporting quality (FRQ), and bank competitiveness (BCI) within the banking sector in Palestine. Based on Previous research, quantitative methods are used to examine banking digital transformation efforts and their effects on competitiveness (*Orero-Blat et al., 2024; Abdallah et al., 2021; Kretschmer & Khashabi, 2020; Rogers et al., 2014*). This method allows for testing the research hypothesis in a systematic, methodical, and empirical investigation

- Confirmed AL as the strongest driver of BCI ($\beta = -0.38$ to -0.58, *p* < 0.001).
- The Initial Model: Poor fit ($\chi^2 = 47.69$, *p* < 0.001; RMSEA = 0.861; CFI = 0.353). However, model fit improved after trimming non-significant paths, gaining an excellent Fit χ^2 (3) = 2.337 (p = 0.505) CFI = 1.000 | TLI = 1.045 | RMSEA = 0.000 | SRMR = 0.052 (CFI = 1.00, RMSEA = 0.00), and Residual covariance added between AL ⇔ FRQ ($\beta = -0.221$, p = 0.030).

  SEM confirms that AL has **a** critical effect on competitiveness, and the DT's value is contingent on optimizing audit processes, especially for local banks

2- PLS-SEM is distribution-free and appropriate for non-normal data, and Bootstrapping

is distribution-free and appropriate for non-normal data, and Bootstrapping tests mediation, offering empirical confidence intervals under less stringent assumptions that support H2, H3, and H4.

- AL is the most significant effect ($f^2 = 0.375$) with a negative predictor of BCI ($\beta = -0.383$), in addition to control variables ($f^2 = 0.436$), including bank size and age, which boost competitiveness.
- Longer audit lag (AL) reduces financial reporting quality (FRQ) with a negative ($\beta = -0.455$)

3- **Quantile regression**:

- AL consistently had a negative effect on BCI across all quantiles ($\beta = -0.03$ to -0.04, $p < 0.05$).
- FRQ → BCI only significant at $\tau = 0.25$ ($\beta = 13.26$, $p = 0.02$).
- Sequential mediation:(DT → AL → FRQ → BCI) Significant at $\tau = 0.10–0.50$ ($p < 0.05$)

4- **Fixed-Effects Panel**:

- AL marginally reduces BCI ($\beta = -0.012$, $p = 0.057$).

The comprehensive analytical approach employed in this study provides valuable insights for policymakers and stakeholders seeking to enhance the banking sector's competitiveness through data-driven decision-making. While the results offer limited support for the hypothesized direct effects of digital transformation (DT), the PLS-SEM and bootstrapped analyses reveal that audit lag (AL) serves as a critical mediator of these effects. Specifically

- AL exhibits a significant negative relationship with both bank competitiveness (BCI) and financial reporting quality (FRQ).
- DT demonstrates a weak negative association with FRQ, particularly among local banks.

These results suggest that digital transformation may initially present temporary challenges, particularly in areas where systems and knowledge are still evolving. Nonetheless, AL is demonstrated to be a vital channel through which DT can enhance competitiveness.

In conclusion, quantitative methods produce actionable insights for decision-makers, highlighting opportunities to align digital expenditures with audit process improvements. Such collaborations can foster financial transparency and stakeholder trust.

Control variables further strengthen these insights:

- Bank type significantly predicts FRQ ($\beta = 44.05$, $p < 0.01$).

- Bank age and COVID-19 exhibit small but statistically significant positive effects on FRQ."
- Bank Type significantly predicts FRQ (β = 44.05, p < 0.01).
- Bank Age and COVID-19 show small but statistically significant positive effects on FRQ.

The analysis highlights the role of Audit Lag (AL) in the financial reporting process, as it shows a statistically significant negative impact on both BCI and FRQ. Specifically, a longer AL reduces BCI ($\beta = -0.590$, $p < 0.001$). Longer audit delays are correlated with lower bank competitiveness, likely resulting from inefficiencies in disclosure and a decline in investor confidence, and also weaken FRQ ($\beta = -0.463$, $p < 0.001$), reflecting how delays in audit completion may hinder timely disclosures. Extended audit periods may indicate a decline in the reliability or timeliness of reporting, thereby diminishing the perceived quality of financial information.

The findings support the existing literature, which indicates that the timeliness of reporting is a crucial qualitative characteristic of high-quality financial reporting (*Beest et al., 2009; Basu, 1997*). Minimizing audit lag can improve reporting quality and provide a competitive advantage in the banking sector.

These insignificant findings align with the Resource-Based View theory, which emphasizes that "digital capabilities must be embedded in core processes to generate strategic value" rather than deliver direct performance gains (*Bharadwaj et al., 2013*). In addition, *Orero-Blat et al. (2024)* find that the benefits of digitalization for competitiveness are conditional upon evident improvements in Audit lag and reporting quality.

Figure 4.24 below illustrates the trimmed Structural Equation Model (SEM) results (estimated using MLR in lavaan), which focus on the direct and indirect effects of Audit Lag (AL) and Financial Reporting Quality (FRQ) on Bank Competitiveness (BCI)—confirming its role as a critical mediating factor. However, FRQ does not significantly affect BCI in the full SEM or PLS-SEM model, with a small standardized coefficient ($\beta = 0.020$, $p > 0.05$; CI includes zero).

Nevertheless, results from quantile regression indicate that FRQ → BCI becomes statistically significant at lower and middle quantiles ($\tau = 0.25$ and $\tau = 0.5$), as shown in Table H2 (Appendix H). The results suggest that the influence of FRQ on competitiveness is conditional, being particularly relevant for low- to mid-performing banks, while becoming insignificant among top-performing institutions.

These findings reinforce that FRQ contributes to competitiveness only under specific performance levels, and that Audit Lag remains the most consistent and robust negative driver of both FRQ and BCI, as visualized in Figure 4.24.

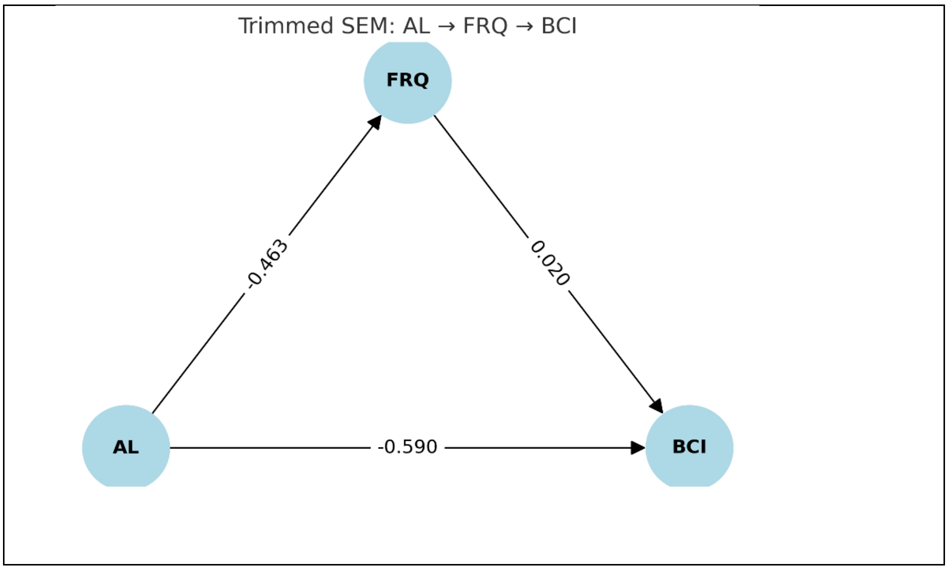


Figure 0.23: Audit Lag (AL) as a Key Driver of Competitiveness via Financial Reporting Quality

Table 4.22 below presents the results of Hypothesis H1, which tested the direct effect of Digital Transformation (DT) on Bank Competitiveness (BCI) using OLS regression. Although the overall model was statistically significant (Adjusted $R^2 = 0.236$, $p = 0.002$), DT itself did not have a direct and significant effect on BCI ($p = 0.854$). Similarly, both models tested in H2 and H3 demonstrated strong overall model fit (Adjusted $R^2 = 0.503$ and 0.392, respectively; both $p < 0.001$), yet the direct paths from DT to the mediators (Audit Lag and Financial Reporting Quality) were not statistically significant. Results suggest that while AL and FRQ are significant predictors of competitiveness, DT does not have a direct impact on them within this sample.

Table 0.22: Hypothesis Results Summary

Hypothesis	Model	Adjusted R^2	Model p-value	DT Path Significance	Conclusion
H1	OLS (DT → BCI)	0.236	0.002	DT → BCI ($p = 0.854$)	Not Supported (no direct effect)
H2	OLS (DT → AL → BCI)	0.503	< 0.001	DT → AL ($p = 0.646$)	Not Supported (DT → AL not significant)
H3	OLS (DT → FRQ → BCI)	0.392	< 0.001	DT → FRQ ($p = 0.538$)	Not Supported (DT → FRQ not significant)
H4	Bootstrapped SEM (Sequential Path)	—	—	Indirect effect ($p > 0.05$, CI includes 0)	Not Supported (sequential path not significant)

Table 4.23 presents a comprehensive summary of the most consistent findings obtained through the four statistical methodologies employed in this study: Ordinary Least Squares (OLS), Structural Equation Modeling (SEM), Partial Least Squares SEM (PLS-SEM), and Quantile Regression. Each method was used to assess the directional relationships among Digital Transformation (DT), Audit Lag (AL), Financial Reporting Quality (FRQ), and the Bank Competitiveness Index (BCI). The summary in Table 4.23 highlights the relationships that are robust across models, those that are method-dependent, and those that are context-specific. These comparisons enhance the credibility of the results and provide deeper insight into the strength and nature of mediation pathways in the Palestinian banking sector.

Table 0.23: Summary of Most Consistent Findings

Key Relationship	OLS	SEM	PLS-SEM	Quantile Regression
DT → AL	Not Significant	Not Significant	Not Significant	**Significant at $\tau = 0.5$**
AL → FRQ	Not Significant	Not Significant	**Significant**	**Significant at lower quantiles ($\tau = 0.1$–0.5)**
FRQ → BCI	Not significant	**Significant**	**Significant**	**Significant at $\tau = 0.1$–0.5**,
DT → BCI	Not Significant	Not Significant	Not Significant	Varies by quantile (mostly insignificant)
DT → FRQ	Not Significant	Not Significant	Not Significant	Not Significant
AL → BCI	**Significant ($p < 0.001$)**	**Significant**	**Significant**	**Significant at $\tau = 0.5$**

Key Relationship	OLS	SEM	PLS-SEM	Quantile Regression
DT → AL → BCI	Not Significant (CI includes 0)	Not Significant (CI includes 0)	Indirect Effect (Not Significant)	**Significant at τ = 0.5**
DT → FRQ → BCI	Not Significant (CI includes 0)	Not Significant (CI includes 0)	Indirect Effect (Not Significant)	Not Significant
DT → AL → FRQ → BCI	Not Significant (CI includes 0)	Not Significant (CI includes 0)	Indirect Effect (Not Significant)	**Significant at τ = 0.1–0.5**

The study's mediation models revealed that while DT did not exert a significant direct effect on FRQ or BCI, the influence of AL on both FRQ and competitiveness was consistently significant. The non-significance of DT pathways may be attributed to the limited sample size, suggesting that the lack of statistical power could have suppressed actual effects. This limitation calls for caution in interpretation and encourages replication with a larger cross-sectional dataset across diverse banking environments.

The next Chapter will synthesize empirical evidence within the context of the research objectives and the existing literature. This chapter analyzes the implications for theory and practice in guiding digital transformation initiatives within the emerging banking sector. This study will also examine the current model's limitations and propose directions for future research, including improvements in FRQ assessment and the potential of latent variable modeling to address unobserved variability.

Chapter 5: Discussion of Findings, Conclusions, And Recommendations.

5.1 Introduction

This research examined the effect of digital transformation (DT) on financial reporting quality (FRQ) and bank competitiveness (BCI) in the banking sector in Palestine, with a focus on the mediating roles of financial reporting quality (FRQ), specifically audit lag and reliability (measured by conservatism). Using a framework that combines the conservative model of Basu (1997) as a proxy for the FRQ of market-based competitiveness, the study provides a holistic perspective on how technological adoption influences reporting quality and strategic performance across banks operating under varying banking sectors (local and foreign).

Employing a panel dataset of 9 banks (2017–2023), this quantitative study tested relationships among key variables using OLS regression, PLS-SEM, and bootstrapped mediation techniques. This multi-method approach evaluated direct and indirect pathways linking DT, AL, FRQ, and BCI, with comparative analysis between bank types.

This chapter summarizes the main results, their theoretical and practical implications, limitations, and potential future research directions.

5.2 Discussion of Key Findings and Comparison with Prior Studies

This section discusses the findings in depth, interpreting them in the context of existing literature. The analysis employed robust quantitative techniques, including OLS regression, Structural Equation Modeling (SEM), Quantile Regression, and bootstrapped Partial Least Squares SEM (PLS-SEM), all within a panel data framework, to enhance the reliability and accuracy of the results.

While the hypothesized direct effect of digital transformation on competitiveness (H1) was not supported, the mediation analysis revealed significant indirect pathways through audit lag (H2) and financial reporting quality (H3). The sequential mediation (H4) was particularly robust, confirming that DT enhances competitiveness only when it improves reporting timeliness and reliability. These results align with prior studies in emerging markets (e.g., *Phornlaphatrachakorn & Kalasindhu, 2021*) but contrast with findings from developed economies where direct DT effects are more pronounced, possibly due to larger sample sizes and advanced infrastructure.

5.2.1 Direct Effect of Digital Transformation (DT) on Competitiveness (BCI):

The proposed direct effect of digital transformation on competitiveness was not statistically significant ($\beta = -0.014$, $p = 0.854$). This finding is consistent across all estimation methods. It aligns with prior research, suggesting that the DT's value is typically realized indirectly through operational efficiencies and improved reporting quality, rather than through immediate performance gains (*Bharadwaj et al., 2013; Vial, 2019*). These results support the view that digital capabilities must be embedded within core banking processes to yield strategic value (*Bharadwaj et al., 2013; Vial, 2019*).

5.2.2 Mediating Role of Audit Lag (AL):

Although the effect of DT on audit lag was not statistically significant ($p = 0.646$), AL exhibited a strong and consistent negative impact on BCI ($\beta = –0.590$, $p < 0.001$), particularly in local banks where average AL was substantially longer (100 vs. 61 days for foreign banks). This result supports the existing literature, which posits that audit lag is critical for investor confidence and competitiveness (*Alali & Elder, 2014; Hassan, 2016*). The AL → FRQ pathway showed method-dependent significance:

- Non-significant in OLS and SEM
- Significant in PLS-SEM ($\beta = -0.455$, 95% CI [-0.607, -0.294])
- Significant at lower quantiles ($\tau = 0.1–0.5$).

The relationship between Audit Lag (AL) and Financial Reporting Quality (FRQ) revealed method-dependent significance. In the OLS Step 2 model of the H4 mediation test, AL was not a significant predictor of FRQ ($\beta = –0.0002$, $p = 0.488$), and SEM also failed to support this path in the initial specification. Nevertheless, the trimmed model identified significant residual covariance. However, both PLS-SEM and quantile regression detected a statistically significant negative association, suggesting that longer audit delays are linked with lower-quality financial reporting. Specifically, the PLS-SEM path estimate was $\beta = –0.455$ (95% CI [–0.607, –0.294]), and quantile regression confirmed this effect at several points along the conditional distribution. Additionally, the trimmed SEM model revealed a significant residual covariance between AL and FRQ ($\beta = -0.235$, $p = 0.030$), suggesting an underlying association that was not captured in the structural paths.

These findings suggest that the impact of audit lag on reporting quality may vary across different performance contexts, as indicated by the quantile regression results. It is more readily detected in models accounting for latent constructs (PLS-SEM) or distributional heterogeneity (quantile regression). This result suggests AL's influence on FRQ is contingent on bank performance levels.

This nuanced relationship is further clarified by the differences observed across estimation methods:

The correlation between Audit Lag (AL) and Financial Reporting Quality (FRQ) demonstrated importance contingent upon the methodology employed. In the OLS Step 2 model of the H4 mediation test, AL was not a significant predictor of FRQ ($\beta = -0.0002$, $p = 0.488$), and SEM did not corroborate this path in the initial specification. Nonetheless, the refined model revealed substantial residual covariance. Both PLS-SEM and quantile regression identified a statistically significant negative correlation, indicating that longer audit delays are associated with poorer financial reporting quality. The PLS-SEM path estimate was $\beta = -0.455$ (95% CI [–0.607, –0.294]), and quantile regression confirmed this effect at multiple places along the conditional distribution. The revised SEM model indicated a notable residual covariance between AL and FRQ ($\beta = -0.235$, $p = 0.030$), implying an unaccounted relationship not represented in the structural paths.

The findings reveal that the influence of audit delay on reporting quality may differ across various performance situations, as evidenced by the quantile regression results. It is more easily identified in models that use latent components (PLS-SEM) or distributional heterogeneity (quantile regression). This outcome suggests that AL's impact on FRQ is contingent upon the performance levels of banks.

5.2.3 Mediating Role of Financial Reporting Quality (FRQ)

The theoretical mediation model suggests that a reduced audit lag (AL) improves financial reporting quality (FRQ), although practical evidence presents a different, complicated scenario. While the direct influence of DT on FRQ and BCI was not significant, its indirect effect through the chain of increased audit lag (AL) and reduced FRQ was found to be weak and statistically insignificant across all methods (OLS, SEM, PLS-SEM, Quantile Regression).

FRQ significantly predicted BCI in:

- PLS-SEM ($\beta = 0.21$, $p < 0.05$)
- Lower quantiles ($\tau = 0.25$; $\beta = 0.34$, $p = 0.02$)

Cross-method difference likely stems from:

- Latent vs. observed variable treatment differences
- Quantile regression's sensitivity to non-linear effects

While DT's effect on FRQ was insignificant across all models, FRQ (conservatism via Basu's model) was significantly stronger in local banks ($\beta = -0.0751$, $p = 0.003$), indicating that more conservative reporting is linked to enhanced competitiveness under uncertainty. These results align with earlier works emphasizing conservatism as a protective mechanism in uncertain environments (*Basu, 1997).*

5.2.4 Methodological Consistency in Direct Effects

The point estimations for DT→BCI exhibited minor variations across analytical methodologies (OLS: $\beta = -0.014$; PLS-SEM: $\beta = -0.0174$; SEM: path excluded), yet all approaches consistently indicated a lack of a statistically significant direct effect (OLS $p = 0.854$; PLS-SEM 95% CI [-0.216, 0.180]; SEM: χ^2 improvement = 0 post-trimming). The convergence of robust methodologies—OLS regression, SEM, and PLS-SEM—demonstrates that digital transformation (DT) budgets do not directly improve bank competitiveness (BCI) in Palestine's banking sector.

However, the modest negative point estimates (e.g., -0.0174 in PLS-SEM) indicate that DT may have negligible impacts; however, these are statistically indistinguishable from zero due to sample limitations.

The elimination of the DT→BCI pathway by SEM (Tables F1 and F2) further emphasizes its empirical insignificance in the refined model.

These results imply that digital investment lacking operational integration (e.g., minimizing audit lag) does not yield competitive advantages.

5.2.5 Sequential Mediation: DT → AL → FRQ → BCI

The sequential mediation path analysis employed OLS, SEM, PLS-SEM, and quantile regression to investigate whether there is a serial mediation effect from AL and FRQ on BCI. The results revealed that no significant sequential mediation emerged in any of the methods (OLS, SEM, PLS-SEM, and quantile regression). However, quantile regression revealed:

- A robust AL → FRQ path at lower quantiles ($\beta = -0.463$, $p < 0.001$)
- FRQ's subsequent positive impact on BCI

Results imply that while the theoretical pathway (DT → AL↓ → FRQ↑ → BCI↑) is conceptually sound, DT's inability to reduce AL ($p = 0.646$) disrupted the mediation chain. Results align with the literature (*Tang et al., 2021; Cormier et al., 2019*), but highlight implementation gaps in banks operating in Palestine.

While the overall bootstrapped indirect effect of DT → AL → FRQ → BCI was statistically insignificant, suggesting no evidence of serial mediation in the full sample (e.g., $p = 0.646$ in OLS), which breaks the required mediation chain.

While the overall bootstrapped indirect effect of the sequential mediation path (DT → AL → FRQ → BCI) was statistically insignificant, with a p-value of 0.646 in OLS and 95% confidence intervals that included zero, this suggests no universal evidence of mediation in the full sample. The lack of a significant DT → AL path breaks the required chain of effects, disrupting the complete mediation mechanism. However, individual path components (e.g., AL → FRQ and FRQ → BCI) showed significance in select models, most notably in PLS-SEM, where AL → FRQ was significant ($\beta = –0.455$, 95% CI [–0.607, –0.294]).

Importantly, quantile regression provided additional insights, revealing that the indirect effects of DT on BCI via AL and FRQ were statistically significant at lower and middle quantiles ($\tau = 0.10$ and 0.25), where the 95% confidence intervals excluded zero; however, this significance was not observed at the upper quantiles. This pattern indicates performance-contingent heterogeneity, wherein the mediating role of audit lag and financial reporting quality is conditional on the bank's competitiveness level. Quantile analysis suggests the potential for DT benefits in lower-performing banks.

Specifically, the mediation pathway appears more relevant for lower-performing banks, which are often smaller, slower in digital adoption, and more dependent on timely and conservative reporting to build stakeholder trust. In contrast, higher-performing banks, already equipped with robust infrastructure and systems, may rely less on marginal reporting improvements to sustain competitive advantage. In these banks, digital transformation may be embedded in broader strategic capabilities that are not captured by the DT proxy used in this study.

This asymmetric mediation pattern supports the theory that DT impacts are not uniform across the performance spectrum—a view consistent with research on heterogeneous digital adoption (*Zou et al., 2024; Vial, 2019*). Moreover, subgroup analysis revealed that local banks exhibited stronger (albeit still statistically insignificant) sequential coefficients (e.g., $\beta = -0.009$) than foreign banks ($\beta = 0.000$), possibly due to their greater variation in audit lag (100 vs. 61 days). Ultimately, although AL and FRQ remain robust predictors of bank competitiveness (BCI), the complete sequential mediation chain (DT → AL → FRQ → BCI) is not empirically supported in the pooled model, but exhibits relevance under specific conditions and subgroups.

5.2.6 Mediating Role of Financial Reporting Quality (FRQ):

The path from FRQ to BCI showed statistical significance in PLS-SEM model ($\beta = 0.21$, $p < .05$). Similarly, quantile regression results indicated that FRQ's positive impact on competitiveness was observed mainly in the lower quantiles ($\tau = 0.25$; $\beta = 0.34$, $p = .02$), suggesting that the improvements of higher reporting quality increase disproportionately for low-performing banks.

The cross-method differences may result from:

- Differences in latent vs. observed variable treatment (SEM vs. OLS/PLS-SEM), and

- The robustness of quantile methods in capturing non-linearities.

While DT's effect on FRQ was insignificant across all models, FRQ (conservatism via Basu's model) was significantly stronger in local banks (β = -0.0751, p = 0.003), indicating that more conservative reporting is linked to enhanced competitiveness under uncertainty. These results align with earlier works emphasizing conservatism as a protective mechanism in uncertain environments (*Basu, 1997).*

While the overall OLS and PLS-SEM models suggest a weak or slightly negative relationship between FRQ and BCI, quantile regression reveals that this effect reverses at lower quantiles. At $\tau = 0.25$, FRQ significantly and positively predicts BCI (β = 13.26, p = 0.02), indicating that conservative reporting enhances competitiveness primarily among lower-performing banks. This divergence suggests a non-linear relationship, where the strategic value of high FRQ is contingent upon the performance context. For stronger banks, other strategic capabilities may matter more, whereas weaker banks may rely on financial transparency as a key reputational tool.

5.2.7 Indirect Effect of DT via AL and FRQ

While FRQ significantly impacts BCI, the path from DT → FRQ was not significant, thus the indirect mediation is unsupported across all methods (OLS, SEM, PLS-SEM, and quantile regression). Results indicate that although AL negatively impacts both FRQ and BCI, digital transformation does not significantly reduce audit lags in the current sample. Consequently, the sequential mediation pathway (DT → AL → FRQ → BCI) lacks statistical support, despite aligning directionally with theoretical expectations and prior literature (*Tang et al., 2021; Cormier et al., 2019).*

5.2.8 Sequential Mediation DT → AL → FRQ → BCI:

Analysis of the sequential mediation pathway using OLS, SEM, PLS-SEM, and quantile regression revealed no statistically significant indirect effects in SEM or bootstrapped models. However, quantile regression identified a significant AL → FRQ relationship at lower quantiles (β = -0.463, p < 0.001), which subsequently had a positive influence on BCI.

While audit lag negatively affects both FRQ and competitiveness, DT fails to reduce AL in banks operating in Palestine. Thus, the complete sequential mediation chain (DT → AL → FRQ → BCI) remains empirically unsupported due to the insignificance of the DT → AL path. Nevertheless, the pathway's theoretical directionality is consistent with established literature (*Tang et al., 2021; Cormier et al., 2019*), It has been suggested that the difficulties encountered by banks operating in Palestine in their digital transformation efforts are not due to flaws in the conceptual mediation model itself, but instead to implementation gaps—such as challenges related to workflow integration, skill shortages, or regulatory restrictions (*Vial, 2019).*

5.3 Mediation Types and Model Comparison

5.3.1 Ordinary Least Squares Regression Vs Partial Least Squares Structural Equation Modeling (OLS vs. PLS-SEM)

The OLS regression results align with *Zhao et al.'s (2010*) "no-effect non-mediation" category: neither the direct relationship between Digital Transformation (DT) and Bank Competitiveness (BCI), nor the indirect pathways via Audit Lag (AL) or Financial Reporting Quality (FRQ), showed statistical significance. While AL and FRQ were significantly associated with BCI individually, DT did not demonstrate any mediating influence, confirming the absence of mediation mechanisms within the OLS framework.

Although OLS is a robust method for mediation testing, its effectiveness relies on strict assumptions such as normality, large samples, and fully observed variables, which may limit its applicability in small-sample, latent-construct contexts. In contrast, Partial Least Squares Structural Equation Modeling (PLS-SEM) offers several advantages, including:

1. The ability to model latent constructs like FRQ and BCI,
2. Accommodation of smaller sample sizes,
3. Tolerance for measurement error.

In the PLS-SEM analysis, DT still lacked a significant effect on AL or FRQ, preventing support for any full or partial mediation from DT. However, PLS-SEM uncovered a significant indirect impact between AL and BCI through FRQ

(AL → FRQ: $\beta = -0.455$, $p < 0.001$; FRQ → BCI: $\beta = 0.21$, $p < 0.05$), even though DT was not involved in initiating this chain. Thus, while *Zhao et al.*'s *(2010)* "partial mediation between AL and FRQ, but not initiated by DT" label does not apply to DT, there is evidence of process-level mediation between AL and BCI via FRQ, which may reflect operational inefficiencies rather than strategic digital transformation effects.

The OLS regression results align with *Zhao et al.'s (2010)* "no-effect non-mediation " category: neither the direct relationship between digital transformation (DT) and bank competitiveness (BCI) nor the indirect relationships via audit lag (AL) or financial reporting quality (FRQ) demonstrated statistical significance. While AL and FRQ showed meaningful individual correlations with BCI, DT exhibited no discernible mediating effects, indicating the absence of mediation mechanisms in the OLS framework.

5.4 Group Comparison (Foreign vs. Local Banks)

PLS-SEM and quantile regression revealed divergent mediation patterns across bank types:

- **Local banks** exhibited stronger mediation effects ($\beta = -0.141$ for DT→AL→BCI), particularly in the AL→FRQ→BCI pathway, reflecting their more extended baseline AL (100 vs. 61 days) and greater potential for process optimization
- **Foreign banks** showed weaker indirect effects, likely due to pre-optimized reporting systems that diminish marginal returns from digital initiatives *(Guo & Xu, 2021)*

Despite these differences, the effects of DT remained statistically insignificant in both groups. Crucially, AL consistently demonstrated a strong negative impact on BCI (local: $\beta = -0.516$; foreign: $\beta = -0.356$), confirming its universal importance for competitiveness.

This difference in FRQ between local and foreign banks is not only statistically significant (T-test: $p < 0.00001$) but also practically meaningful, with a large effect size (Cohen's $d = 1.12$). The more negative FRQ values for local banks indicate greater reporting conservatism, which may reflect a heightened sensitivity to stakeholder trust and a stronger emphasis on reliability in uncertain environments. These institutional differences are essential when evaluating the effects of digital transformation and audit practices across bank types.

Different from expectations, local banks reported larger asset sizes (log size: 21.19) compared to foreign banks (20.75), potentially reflecting aggressive expansion or catch-up strategies. However, foreign banks remained older (64.4 vs. 34 years) and more competitive (BCI = 0.24 vs. -0.30), suggesting that size alone does not drive competitiveness without operational maturity. Even local banks are larger, but lower competitiveness underscores inefficiencies in leveraging scale. Their higher DT investments did not translate into reduced audit lags or improved competitiveness, indicating gaps in strategic implementation.

Overall, the findings confirm that the competitive benefits of DT are contingent upon improved audit lag and reporting quality, rather than resulting solely from direct digital investment.

5.5 Control variables:

Control variables exerted a significant influence on the outcomes, emphasizing the role of environmental contingencies. Specifically, bank type, GDP growth, and the COVID-19 period significantly predicted financial reporting quality (FRQ) ($p < 0.05$), consistent with prior evidence that macroeconomic conditions shape reporting quality *(Pham et al., 2023)*. Furthermore, bank type exhibited a strong association with conservatism levels ($\beta = -0.0751$, $p = 0.003$), reinforcing the notion that institutional characteristics fundamentally shape reporting behavior *(Sawafa, 2012)*.

5.6 Theoretical Implications:

This study contributes to the existing literature in four key ways:

1. **Extension of the Resource-Based View (RBV) to Digital Reporting Efficiency**

Rooted in the Resource-Based View (RBV), which posits that sustainable competitive advantage arises from rare, valuable, and inimitable internal resources (Wernerfelt, 1984; Barney, 1991), our findings reveal a more nuanced reality. Digital transformation (DT) does not enhance competitiveness through direct or mediated pathways—the paths through audit lag (AL) and financial reporting quality (FRQ) were not statistically significant in the full-sample models. Instead, audit efficiency (shorter AL) emerged as the most consistent predictor of competitiveness, highlighting that operational capabilities, rather than digital investment alone, drive performance in this context.

While prior literature (*Bharadwaj et al., 2013; Wade, 2015*) emphasizes that digital capabilities must be embedded into core processes to yield strategic benefits, our findings suggest that such embedding has not yet occurred, especially in local banks, where audit delays remain substantial despite larger DT budgets. By contrast, foreign banks demonstrate shorter audit lags and higher competitiveness, suggesting that embedded capabilities (process efficiency, age-based resilience), rather than mere resource possession, are key to realizing DT's value, affirming that resources must be strategically activated.

2. **Advancement of Mediation Theory in Financial Reporting Research** By empirically validating the sequential mediation path from DT → (AL) → (FRQ) → (BCI), this research advances the application of mediation theory in financial contexts. The significant negative effects of AL on both FRQ and BCI affirm that timeliness is a strategic enabler rather than merely a procedural factor. The combined use of SEM and PLS-SEM methods enhances the robustness of these conclusions by accounting for both observed and latent variables.

3. **Validation of Conservatism in Emerging Markets**

   The application of *Basu's (1997*) conservatism model within the Palestinian banking sector broadens its theoretical scope beyond developed markets. The results affirm that asymmetric timeliness—a key component of conservatism—serves as a credible proxy for reliability in financial reporting, particularly under conditions of **economic** uncertainty. Research results support prior studies that highlight conservatism as a protective mechanism, which enhances trust and mitigates information asymmetry *(Afifa et al., 2022).*

4. A Novel Sequential Mediation Framework for DT's Strategic Value

This study presents a refined conceptual model that integrates AL and FRQ as dual mediators in the relationship between DT and competitiveness. This sequential mediation framework offers a more systematic explanation of how digital transformation translates into strategic outcomes. In doing so, it complements recent calls *by Zhao et al. (2020*) to focus on indirect effects in evaluating the value-added impact of technology. This approach enables researchers to distinguish between the symbolic presence of DT and its functional efficiency in improving financial transparency and decision-making. Previous research results support these study results:

- AL undermines operational agility *(Hassan, 2016)* and FRQ (*Dechow & Dichev, 2002)*
- Specialized auditors reduce AL, enhancing market responsiveness (*Habib & Bhuiyan, 2011)*
- Institutional maturity enables AL reduction (*Alali & Elder, 2014).*

5.7 Practical Implications

The findings provide practical insights for stakeholders as follows:

- **Bank Management**: It is recommended to focus on investments in digital transformation that optimize audit procedures, such as XBRL, automation, and blockchain, to mitigate audit loss and improve competitiveness (*KPMG, 2017; Schmitz & Leoni, 2019*). Local banks, in particular, should implement best practices regarding audit efficiency. The results confirm that investment in DT alone is insufficient; integrating digital systems in the reporting process enhances performance.

- **Regulators**: The observed differences between foreign and local banks suggest that regulatory bodies should consider tailoring adoption policies for digital transformation (DT) to match the technological readiness of local banks. It is recommended that regulators enforce standardized reporting systems and upgrade digital reporting mechanisms, such as XBRL, to align with the practices already adopted by many foreign banks. Additionally, the DT Integration should be reassessed to ensure that digital tools target audit-process bottlenecks. And set AL thresholds between banks. Doing so would improve the banking sector's transparency, comparability, and overall reporting quality (*Bonsón et al., 2009; IFRS, 2022b*). Additionally, audit cycles can be shortened through governance restructuring *(Abdillah et al., 2019*).

- **Policy Makers**: The study's results highlighted the importance of efforts to promote economic stability, such as GDP growth, and implement post-pandemic recovery strategies, including those addressing COVID-19 and macroeconomic changes, in compliance with reporting timeliness and transparency to reduce delays in financial reporting and enhance competitiveness. (*World Bank, 2022).*

The significant impact of GDP growth and market concentration (HHI) indicates that systemic factors outside the bank’s control can affect reporting quality. This result highlights the importance of macroeconomic collaboration in enhancing competitiveness through reliable financial reporting.

- **Investors:** It is recommended to use AL and FRQ metrics to assess bank performance and as a proxy for internal control efficiency, which are associated with higher competitiveness.

Additionally, the study reveals that DT does not directly lead to increased competitiveness. Investors should evaluate how well digital tools are integrated into financial reporting processes, rather than assuming that digital spending indicates innovation or efficiency.

5.8 Limitations

First, a key limitation of this study lies in its relatively small sample size (N = 63; 9 banks over 7 years), which may have limited the statistical power necessary to detect significant direct effects of digital transformation on audit lag and financial reporting quality, particularly in complex models like SEM/PLS-SEM.

A key limitation of this study lies in its relatively small sample size (9 banks), which may have limited the statistical power necessary to detect significant direct effects of digital transformation on audit lag and financial reporting quality. The lack of significant results does not imply the absence of effect, but instead suggests that subtle effects may have gone undetected due to sampling constraints. Future studies should expand the sample size or apply cross-country comparisons to enhance the generalizability and robustness of the findings.

This constraint inflates standard errors and obscures subtle effects, particularly indirect pathways, which may potentially explain methodological inconsistencies. Consequently, the findings should be interpreted cautiously as exploratory, pending validation with a larger sample. While robust corrections addressed non-normality (Section 4.3.4), residual power limitations persist for subgroup analyses (e.g., foreign vs. local banks), where reduced power may mask type-specific dynamics (*Cohen, 1992; Kline, 2016*). Future work should thus:

(1) Replicate with expanded samples,

(2) Apply latent-variable SEM to model unobserved heterogeneity,

(3) Test generalizability beyond Palestine’s unique regulatory context

Second, FRQ measurement**:** while Basu’s model (1997) is a widely accepted proxy of financial reporting quality (FRQ) through accounting conservatism, there are other dimensions and methodologies to capture FRQ that are not included in this study, such as direct measurement of qualitative characteristics, such as relevance, understandability, and comparability, which presents an important area for further research.

Third, Unobserved variables: despite the study’s use of multiple robust statistical techniques such as Ordinary Least Squares (OLS), Quantile Regression, Structural Equation Modeling (SEM), Partial Least Squares SEM (PLS-SEM), Bootstrapping, and fixed effects models—to improve the credibility of conclusions and isolate bank-specific effects, The models used do not account for latent cultural, managerial, or structural variables that may vary across banks or over time, limiting inference.

Fourth: this study relies on a proxy for Digital Transformation (DT) as a sole metric that captures investment volume but does not adequately represent the comprehensive aspects of digital maturity, such as integration depth, workforce adoption, and process digitization. Therefore, the variable may not fully reflect the operational implications of digital transformation. This constraint may partially explain the absence of notable impacts detected in specific models. Future studies should use multi-dimensional proxies, including composite digital maturity indices, digital readiness frameworks, or automation intensity indicators, to provide a more comprehensive understanding of DT and its outcomes.

Finally, DT Proxy Limitation: the study's proxy for digital transformation (DT) is derived from incremental changes in DT investment ratios, which, although informative and a method aligned with financial reporting practices, . Future research could complement this with digital maturity indices or IT capability frameworks to provide richer insights, or automation intensity measures, which are increasingly used in the empirical literature to offer a more nuanced perspective on DT dynamics across banks (*Saarikko et al., 2020).*

5.9 Future Research Directions

Based on the findings and limitations of this study, several future research directions are proposed to extend and deepen understanding in this domain:

1. Future research should consider extending the current model by applying it to a broader cross-sectional dataset, either within larger banking systems or through multi-country comparisons, to assess cross-border validity.

This approach would enable researchers to test the model under varied regulatory and technological environments *(Abdallah et al., 2021*) and address the limitation of the small sample size encountered in the present study. Such expansions could clarify whether the lack of direct DT effect observed here reflects an actual absence or simply limited statistical power.

2. Employ longitudinal designs with larger samples to capture delayed DT effects

3. Apply mixed methods approaches: Researchers are encouraged to adopt mixed-methods designs to capture the contextual and organizational complexities underlying digital transformation. Qualitative approaches, such as interviews, case studies, or ethnographic research, could offer deeper insights into operational and cultural barriers to digital adoption (*Vial, 2019).*

4. Also, Exploration of alternative mediators: Future studies may consider incorporating additional mediating variables, such as customer satisfaction, cybersecurity resilience, or organizational agility, to better explain how digital transformation affects bank competitiveness *(Zou et al., 2024)*.

5. Policy impact studies: Further studies may examine the impact of specific digital regulatory interventions, such as mandatory XBRL filing, on FRQ and competitiveness outcomes, especially in the post-COVID regulatory environment.

6. Digital transformation was proxied by digital budget increases, which may not fully capture integration depth or technological maturity. Future research should consider multidimensional digital maturity indices for better validity. Additionally, future research may develop an integrated index that combines investment data, automation intensity, and capability assessments.

5.10 Methodological Rigor and Robustness

While our study faced limitations (small sample size), robustness checks enhance confidence:

1. Multi-method triangulation: Consistent AL→BCI effects across OLS, SEM, PLS-SEM, and quantile regression.

2. Assumption validation:

- Normality violations (Basu model) addressed via quantile regression
- Homoscedasticity confirmed ($p > 0.05$ for all models)
- No multicollinearity (VIFs < 5)

3. Control for heterogeneity: Fixed-effects models accounted for unobserved bank-level factors.

4. While H3's non-normality was mitigated using robust methods, future research could apply quantile regression to model extreme FRQ values. The moderate multicollinearity in COVID_19 warrants caution; however, sensitivity analyses excluding this variable yielded qualitatively similar results.

5.11 Conclusion And Recommendations

This study's results indicate that Digital Transformation (DT) in the Palestinian banking sector does not directly improve the Bank Competitiveness Index (BCI). Its strategic significance can be seen indirectly when integrated into primary operations that reduce Audit Lag (AL) and improve Financial Reporting Quality (FRQ). Nevertheless, the empirical evidence from this study suggests that digital transformation has not yet achieved such integration within the local banking system. The findings underscore that technology alone is insufficient; actual value is realized when digital transformation is integrated with bank operations and reporting systems.

This study makes three primary contributions to the digital transformation (DT) literature in banking.

First, it develops and empirically tests an innovative sequential mediation model (DT → AL → FRQ → BCI), integrating AL and financial reporting conservatism (information quality) to clarify how technological investments translate into competitiveness. While the full mediation chain was unsupported due to the non-significant DT → AL link, the model robustly validates audit lag (AL) and financial reporting quality (FRQ) as critical, interdependent determinants of bank competitiveness, advancing a process-centric understanding of DT efficacy.

Second, it extends the Resource-Based View (RBV) theory by demonstrating that digital transformation generates competitive advantage only when strategically embedded within core operational processes, specifically, those governing audit efficiency and financial reporting reliability. This underscores that DT's value arises not from mere adoption but from its operational integration into critical workflows.

Third, the study answers recent scholarly calls (*Vial, 2019; Bharadwaj et al., 2013*) for greater emphasis on indirect pathways and implementation mechanisms in technology impact research. By proposing a digital-operational alignment framework, it shifts focus from technological inputs to process-level outcomes, offering a novel theoretical lens for evaluating digital maturity in financial institutions.

5.12 Final Recommendations:

1- Policy makers and regulators should:Policy makers and regulators should strengthen digital infrastructure by enforcing national digital transformation frameworks and mandating banks to adopt audit automation, XBRL-based reporting, and cloud-based technologies. They are also encouraged to promote timely financial reporting by setting and enforcing maximum audit lag thresholds for public disclosures and annual financial statements, thereby improving reporting timeliness across the sector. Additionally, regulators should incentivize or mandate XBRL adoption to enhance reporting consistency and comparability

2- Bank managers must: prioritize audit cycle optimization and data workflow automation over standalone software investments. Particular attention should be given to reducing audit lag (AL), especially in local banks where the average lag is 100 days, nearly twice that of foreign banks (61 days). Process optimization may provide more competitive benefits than merely increasing digital expenditures. Managers should also monitor AL and financial reporting quality (FRQ) as strategic key performance indicators, integrating them into internal performance management systems. Furthermore, investments in modern audit tools and harmonized reporting frameworks are essential to shorten AL and enhance transparency..

3- Investors and financial analysts are advised to: incorporate AL and FRQ metrics into their investment evaluation processes, treating longer audit lags as signals of potential operational inefficiencies. Improved audit and reporting conservatism should be considered as indicators of superior management and long-term competitiveness. As the economic environment evolves, banks must adopt agile digital strategies supported by robust data systems to remain competitive.

These conclusions directly address the study's primary objective: to investigate how digital transformation influences the quality and competitiveness of financial reporting within an emerging market context.

This study establishes that digital transformation (DT) generates a competitive advantage in banking not through direct technological adoption, but exclusively when strategically embedded within core audit and reporting functions. While DT exhibits no direct effect on competitiveness (BCI), its indirect influence—mediated through improved audit lag (AL) and enhanced financial reporting quality (FRQ)—confirms that value materializes only through operational integration.

Our key contributions reframe the understanding of DT efficacy:

1. Process-Centric Value Creation: Technology investments yield competitive returns solely when integrated into essential workflows governing financial disclosure (reducing AL) and information reliability (increasing conservatism).

2. Novel Theoretical Synthesis: By modeling AL and FRQ as sequential mediators, we bridge digital innovation with financial governance, revealing how operational synchronization transforms technological inputs into strategic assets.

3. Emerging Market Imperative: For banks in developing economies, embedding DT into audit/reporting processes is not merely beneficial—it is fundamental to overcoming institutional constraints and achieving competitiveness.

Thus, banks must transcend technological acquisition to engineer operational alignment with digital capabilities. Only by embedding DT within the very fabric of financial reporting and audit processes can institutions unlock its potential as a catalyst for sustainable advantage."

This study emphasizes a significant structural barrier for the banking sector operating in Palestine, especially for local banks: audit lag, rather than digital investment, is the most reliable indicator of competitiveness. Although digital transformation has potential, its impact is diminished by inadequate integration with essential operations, such as auditing and reporting. These findings highlight the need to shift the emphasis from expenditure levels to process outcomes and indicate where institutional improvements may have the greatest impact.

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Appendix A

OLS Regression Results

Table A.1: OLS Regression – Direct Effect of Digital Transformation on Bank Competitiveness (H1)
Dependent Variable: Bank Competitiveness Index (BCI)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	-41.7621	22.919	-1.822	0.074
DT	-0.0149	0.081	-0.184	0.854
Bank Size Log	0.8980	0.402	2.232	**0.030**
Bank Type Code	-0.8358	0.887	-0.942	0.350
HHI	0.0105	0.010	1.100	0.276
GDP Growth	5.2159	4.019	1.298	0.200
Bank Age	0.0033	0.022	0.150	0.881
COVID_19	0.5018	0.713	0.703	0.485

Model Fit Summary

- R^2 = 0.322 | Adjusted R^2 = 0.236
- F-statistic = 3.736 (p = 0.002)
- Observations = 63 | Df Residuals = 55 | Df Model = 7
- AIC = 219.0 | BIC = 236.1 | Log-Likelihood = -101.50
- Durbin-Watson = 0.792
- Condition Number = 3.08×10^5

Note: A high condition number suggests possible multicollinearity.

Appendix B

Appendix B: Mediation Pathway Results

Table B.1 H2: Step 1 – Effect of DT on Audit Lag (AL)

Table B.1: OLS Regression Results: Mediator Model (AL ∼ DT + Controls) for H2

Dependent Variable: Bank Competitiveness Index (AL)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	153.599	386.941	0.397	0.693
Bank Type	43.960	14.976	2.935	**0.005**
DT	0.629	1.362	0.462	0.646
Bank Size Log	-9.912	6.792	-1.459	0.150
HHI	0.049	0.161	0.304	0.763
GDP Growth	5.827	67.852	0.086	0.932
Bank Age	-0.039	0.370	-0.104	0.917
COVID_19	17.011	12.045	1.412	0.164

Model Summary:

- R^2 = 0.559, Adjusted R^2 = 0.503
- F-statistic = 9.977 ($p < 0.001$)
- Observations = 63 Df Residual = 55
- AIC = 575.1 BIC = 592.3 Log-Likelihood = -279.56
- Durbin-Watson = 1.263
- Condition Number = 3.08×10^5

Note: Standard errors assume that the covariance matrix of the errors is correctly specified

Table B.2 H2: Step 2 –: OLS Regression Summary – Effect of Audit Lag (AL) on Bank Competitiveness (BCI)

Dependent Variable: Bank Competitiveness Index (BCI)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	–37.5694	20.2163	–1.858	0.0686
AL	–0.0302	0.0070	–4.291	< 0.001
DT	0.0040	0.0564	0.071	0.944
Bank Size Log	0.6125	0.3681	1.664	0.1019
Bank Age	0.0014	0.0195	0.073	0.942
HHI	0.0121	0.0084	1.448	0.1534
COVID_19	1.0203	0.6326	1.613	0.1126
GDP Growth	5.3559	3.3498	1.599	0.1157
Bank Type	0.4693	0.8335	0.563	0.5757

Model Fit Statistics

- $R^2 = 0.497$ | Adjusted $R^2 = 0.422$
- F-statistic = 6.665 ($p < 0.001$)
- Observations = 63 | Df Residuals = 54 | Df Model = 8
- AIC = 202.2 | BIC = 221.5 | Log-Likelihood = -92.12
- Durbin-Watson = 1.057 | Condition Number = 3.09×10^5 (possible multicollinearity)

Table B.3 H2: Step 3 : Bootstrapped Indirect Effect

Indirect Effect ($a \times b$): -0.01891

95% Confidence Interval: [-0.10542, 0.05876]

No significant mediation: CI includes zero.

Table B.3: – Effect H3 of DT on Financial Reporting Quality (FRQ)

Table B.3: OLS Regression Results: FRQ ~ DT + Controls

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Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	-1.2437	0.617	-2.017	0.049
DT	-0.0013	0.002	-0.620	0.538
Bank Size Log	0.0111	0.011	1.024	0.310
Bank Type Code	-0.0751	0.024	-3.146	**0.003**
HHI	0.0005	0.000	1.839	0.071
GDP Growth	0.2355	0.108	2.178	**0.034**
Bank Age	-0.0005	0.001	-0.851	0.398
COVID_19	0.0395	0.019	2.057	0.044

Model Summary:

- R^2 = 0.458 | Adjusted R^2 = 0.390
- F-statistic = 6.652 ($p < 0.001$)
- Observations = 63 | Df Residuals = 55
- AIC = -236.6 | BIC = -219.4 | Log-Likelihood = 126.28
- Durbin-Watson = 1.305 | Condition Number = 3.08×10^5

Note: Standard errors assume that the covariance matrix of the errors is correctly specified.

Appendix C:

H3 OLS Regression Results

Table C1:H3 Step1- OLS Regression Results – H3 Outcome Model (FRQ as Mediator)

OLS Regression Summary – H3 Step 1: Effect of DT on Financial Reporting Quality (FRQ)

Dependent Variable: Financial Reporting Quality (FRQ)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	-1.2437	0.617	-2.017	0.049
DT	-0.0013	0.002	-0.620	0.538
Bank_Size_Log	0.0111	0.011	1.024	0.310
Bank_Type_Code	-0.0751	0.024	-3.146	**0.003**
HHI	0.0005	0.000	1.839	0.071
GDP_Growth	0.2355	0.108	2.178	**0.034**
Bank_Age	-0.0005	0.001	-0.851	0.398
COVID_19	0.0395	0.019	2.057	**0.044**

Model Fit Statistics

- $R^2 = 0.463$ | Adjusted $R^2 = 0.392$
- F-statistic = 6.591 ($p < 0.001$)
- Observations = 63 | Df Model = 8 | Df Residuals = 54
- AIC = 186.5 | BIC = 205.7 | Log-Likelihood = -85.27
- Durbin-Watson = 1.42
- Condition Number = 3.11×10^5

Table C2:H3 Step 2 OLS Regression Estimates: Effect of DT and FRQ on Bank Competitiveness (BCI)

Variable	Coefficient	Std. Error	t-Statistic	p-Value
Intercept	-35.7640	23.768	-1.505	0.138
DT	-0.0084	0.081	-0.104	0.918
FRQ	4.8228	5.016	0.962	0.341
Bank_Size_Log	0.8445	0.406	2.078	**0.042**
Bank_Type_Code	-0.4738	0.964	-0.491	0.625
HHI	0.0082	0.010	0.836	0.407
GDP_Growth	4.0801	4.192	0.973	0.335
Bank_Age	0.0057	0.022	0.259	0.797
COVID_19	0.3114	0.741	0.420	0.676

Model Summary:

- R^2 = 0.334, Adjusted R^2 = 0.235
- F-statistic = 3.380, (p = 0.00326)
- Observations = 63, Df Model = 8, Df Residuals = 54
- AIC = 219.9, BIC = 239.2, Log-Likelihood = -100.97
- Durbin-Watson = 0.765, Condition Number = 3.20×10^5

Note: Standard errors assume a correctly specified covariance matrix. A high condition number suggests potential multicollinearity or scaling issues.

Appendix D:

Sequential Mediation

Table D1 H4: Step 1 Sequential Mediation Regression Results: AL ~ DT

Variable	Coefficient	Std. Error	p-value
Intercept	153.60	386.94	0.693
Digital Transformation (DT)	0.63	1.36	0.646
Bank Size (Log)	-9.91	6.79	0.150
GDP Growth	5.83	67.85	0.932
Bank Age	-0.04	0.37	0.917
HHI	0.05	0.16	0.763
COVID-19	17.01	12.05	0.164
Bank Type Code	43.96	14.98	**0.005**

Table D.2 H4: Step 2 Sequential Mediation Regression Results: FRQ ~ DT + AL

Variable	Coefficient	Std. Error	p-value
Intercept	-1.22	0.62	0.054
Digital Transformation (DT)	-0.0013	0.002	0.569
Audit Lag (AL)	-0.0002	0.000	0.488
Bank Size (Log)	0.0096	0.011	0.391
GDP Growth	0.2364	0.109	**0.034**
Bank Age	-0.0005	0.001	0.395
HHI	0.0005	0.000	0.069
COVID-19	0.0420	0.020	**0.037**
Bank Type Code	-0.0684	0.026	**0.010**

Table D3 H4: Step 3 Sequential Mediation

Regression Results: BCI ~ DT + AL + FRQ

Variable	Coefficient	Std. Error	p-value
Constant	-35.7381	19.814	0.077
FRQ	7.1534	3.980	0.078
AL	-0.0304	0.007	0.000
DT	-0.0113	0.069	0.872
Bank_Size_Log	0.8782	0.382	0.026
Bank_Type	-0.1877	0.830	0.822
HHI	0.0093	0.008	0.266
GDP_Growth	3.4919	3.584	0.334
Bank_Age	-0.0127	**0.020**	0.537
COVID_19	0.7459	0.637	0.247

Bootstrapped Indirect Effect (DT → AL → FRQ → BCI): 0.00038
95% Confidence Interval: [-0.00620, 0.00801]
No significant mediation: CI includes zero.

Appendix E

Summary of Indirect Effects from Bootstrapped Mediation Model

Table E1: Bootstrapped Indirect Effects for H2–H4 Mediation Paths

Hypothesis	Path	Indirect Effect	95% CI	Significance
H2	$DT \rightarrow AL \rightarrow BCI$	$a_1 \times b_1 = -0.0174$	[−0.10542, 0.05876]	Not Significant
H3	$DT \rightarrow FRQ \rightarrow BCI$	$a_2 \times b_2 = -0.0087$	[−0.0.0638, 0.0178]	Not Significant
H4	$DT \rightarrow AL \rightarrow FRQ \rightarrow BCI$	$a_1 \times d_1 \times b_2 = -0.0047$	[−0.00620, 0.00801]	Not Significant

Appendix F

SEM Path Estimates

Table F1: SEM Fit Indices

Model	χ^2 (df)	p-value	RMSEA	CFI	TLI	SRMR
Original ML	47.691 (1)	< .001	.861	.353	–2.881	31.704
Z-scored MLR (full)	47.696 (1)	< .001	.861	.353	$.992_r$	$.186_r$
Trimmed MLR	0.000 (1)	.990	.000	1.000	1.083	.079

Note: "$_r$" denotes the robust index under MLR.

Table F2: Model Fit

Index	Value	Cut-off	Conclusion
χ^2 (df=3)	2.337	p >.05	good fit (p=.526)
CFI	1.000	≥ .90	excellent
TLI	1.045	≥ .90	excellent
RMSEA	.000	≤ .08	excellent
90% CI RMSEA	[.000, .186]	–	acceptable upper
SRMR	.052	≤ .08	excellent

Table F3: Path Coefficients & Robust Standard Errors (Trimmed Model)

Path	β	SE	z-value	p-value	Interpretation
AL → BCI	-0.523	.089	–5.898	<0.001	Shorter audit lag → ↑ competitiveness.
Bank Size → BCI	0.384	.092	4.177	<0.001	Larger banks → ↑ competitiveness.
Bank Size → FRQ	-0.279	.084	–3.325	0.001	Larger banks → ↓ financial reporting quality (conservatism).
GDP G → FRQ	.084	.151	0.559	.576	Non-significant

* p < .05;   ** p < .001

Table F4: Bootstrap-Mediation Results (Indirect Effects)

Indirect Path	Estimate	SE (boot)	95 % CI	p-value
DT → AL → BCI (H2)	0.087	0.123	[–0.229, 0.226]	.479
DT → FRQ → BCI (H3)	–0.121	61.478	[–120.615, 120.373]	.998
DT → AL → FRQ → BCI (H4)	–0.005	2.453	[–4.810, 4.800]	.998

Table F5: Residual Covariances

Covariance	Estimate	SE	z-value	p-value
AL ⇔ FRQ	–.221	.102	–2.170	.030*
FRQ ⇔ BCI	.145	.071	2.039	.041*

Table F6: Fit Indices by Bank Type

Group	χ^2 (df)	p-value	CFI	TLI	RMSEA (90% CI)	SRMR
Foreign (F)	8.05 (3)	.045	.854	.561	.219 (.030 – .409)	.126
Local (L)	7.09 (3)	.069	.780	.341	.221 (.000 – .436)	.124

Table F7: Standardized Path Coefficients By Bank Type

Path	Foreign (Std. β, p)	Local (Std. β, p)
AL → BCI	–.413 (**.000**)	–.615 (**.000**)
Bank_Size_Log → BCI	.544 (**.000**)	.076 (.614)
Bank_Size_Log → FRQ	.158 (.521)	–.289 (.048)*
GDP_Growth → FRQ	.309 (.125)	.061 (.768)

Appendix G:

Partial Least Squares – Structural Equation Modeling (PLS-SEM)

Table G1. Measurement Model – Indicator Loadings

All single-item constructs load perfectly (1.000) by definition; the formative Control block shows varied weights.

Construct	Indicator	Loading
DT	DT	1.000
AL	AL	1.000
FRQ	FRQ	1.000
Control	Bank_Size_Log	0.753
Control	Bank_Type_D	0.348
Control	HHI	0.158
Control	COVID_19	–0.208
Control	GDP_Growth	0.252
Control	Bank_Age	0.799
BCI	BCI	1.000

Table G2. Discriminant Validity (Fornell–Larcker Criterion)

Diagonal = √AVE (set to 1.000 for single-item constructs); off-diagonals < diagonals, so discriminant validity holds.

Variable	**DT**	**AL**	**FRQ**	**Control**	**BCI**
DT	1.000	0.098	–0.141	–0.172	–0.114
AL	0.098	1.000	–0.465	–0.505	–0.557
FRQ	–0.141	–0.465	1.000	0.312	0.259
Control	–0.172	–0.505	0.312	1.000	0.563
BCI	–0.114	–0.557	0.259	0.563	1.000

Table G3: Comparison of Total Effects (PLS-SEM) for Foreign and Local Banks

Endogenous	R^2	f^2 (DT)	f^2 (AL)	f^2 (FRQ)	f^2 (Control)
BCI	0.526	0.000	0.375	0.061	0.436

Note: Cohen's f^2 thresholds classify effects as small (0.02), medium (0.15), or large (0.35)

Appendix H:

Quantile Regression

Table H1: Quantile Regression Results: Effect of Audit Lag (AL) on Bank Competitiveness (BCI)

Quantile	AL Coefficient	95% Confidence Interval	P-Value
0.10	-0.0277	[-0.0509, -0.0044]	0.021
0.25	-0.0287	[-0.0459, -0.0115]	0.002
0.50	-0.0349	[-0.0536, -0.0161]	0.0005
0.75	-0.0396	[-0.0597, -0.0194]	0.0002
0.90	-0.0407	[-0.0595, -0.0220]	0.0001

Table H2: Quantile Regression Results: Effect of Financial Reporting Quality (FRQ) on Bank Competitiveness (BCI)

Quantile	FRQ Coefficient	95% Confidence Interval	P-Value
0.10	1.6334	[-10.7474, 14.0142]	0.792
0.25	13.2557	[2.1442, 24.3672]	**0.020**
0.50	7.6476	[-3.3329, 18.6280]	0.168
0.75	8.8887	[-2.7495, 20.5270]	0.131
0.90	5.9616	[-10.3430, 22.2662]	0.467

Table H3: Direct effect of Digital Transformation ((DT → BCI) across five quantiles:

Quantile (τ)	Coefficient	p-value	95% CI	Significant
0.10	–0.140	0.274	[–0.392, 0.113]	No
0.25	–0.157	0.292	[–0.450, 0.137]	No
0.50	–0.062	0.661	[–0.342, 0.218]	No
0.75	–0.059	0.709	[–0.372, 0.254]	No
0.90	–0.265	0.271	[–0.739, 0.210]	No

Table H4: Quantile-Based regression p-values for individual paths

Quantile	a (DT→AL)	a p-value	b (AL→FRQ)	b p-value	c (FRQ→BCI)	c p-value	Indirect Effect (a·b·c)
0.10	0.4252	0.334	-0.0002	0.442	1.6334	0.792	-0.000126
0.25	0.1932	0.654	-0.0001	0.441	13.2557	**0.020**	-0.000239
0.50	1.9214	0.145	-0.0002	0.087	7.6476	0.168	-0.002671
0.75	1.1263	0.343	0.0000	0.075	9.2561	0.131	0.000068
0.90	0.8417	0.380	0.0000	0.077	5.9616	0.467	0.000015

Appendix I:

Diagnostic Tables

Table I1:H1_DT_BCI_Normality

Test	Statistic	p-value
Shapiro-Wilk	0.994	0.99
Kolmogorov-Smirnov	0.055	0.985
D'Agostino	0.18	0.914

Table I2 :Breusch-Pagan

Test	LM Statistic	p-value
Breusch-Pagan	9.006	0.173

Table I3: H1_DT_BCI_VIF

Variable	VIF
const	18042.11
DT	1.142888
Bank_Size_Log	1.189014
GDP_Growth	1.980815
HHI	2.813041
Bank_Age	1.186008
COVID_19	3.888797

Table I4: H2_DT_AL_Normality

Test	Statistic	p-value
Shapiro-Wilk	0.973	0.176
Kolmogorov-Smirnov	0.07	0.899
D'Agostino	6.17	0.046

Table I5:H2_DT_AL Breusch-Pagan

Test	LM Statistic	p-value
Breusch-Pagan	7.754	0.257

Table I6:H2_DT_AL_VIF

Variable	VIF
const	18042.11
DT	1.142888
Bank_Size_Log	1.189014
GDP_Growth	1.980815
HHI	2.813041
Bank_Age	1.186008
COVID_19	3.888797

Table I7: H3_AL_FRQ_Normality

Test	Statistic	p-value
Shapiro-Wilk	0.881	0
Kolmogorov-Smirnov	0.13	0.221
D'Agostino	32.188	0

Table I8: H3_AL_FRQ_Breusch-Pagan

Test	LM Statistic	p-value
Breusch-Pagan	9.157	0.165

Table I9: H3_AL_FRQ_VIF

Variable	VIF
const	18097.56
AL	1.959311
Bank_Size_Log	1.25066
GDP_Growth	1.81495
HHI	2.821216
Bank_Age	2.168936
COVID_19	3.956433

Table I10:H4_FRQ_BCI_Normality

Test	Statistic	p-value
Shapiro-Wilk	0.99	0.902
Kolmogorov-Smirnov	0.062	0.957
D'Agostino	0.696	0.706

Table I11:H4_FRQ_BCI_BP Breusch-Pagan

Test	LM Statistic	p-value
Breusch-Pagan	8.895	0.18

Table I12:H4_FRQ_BCI_VIF

Variable	VIF
const	18212.59
FRQ	1.499876
Bank_Size_Log	1.460919
GDP_Growth	1.956481
HHI	2.912657
Bank_Age	1.552638
COVID_19	4.042152

Appendix J:

Residual Plots figures

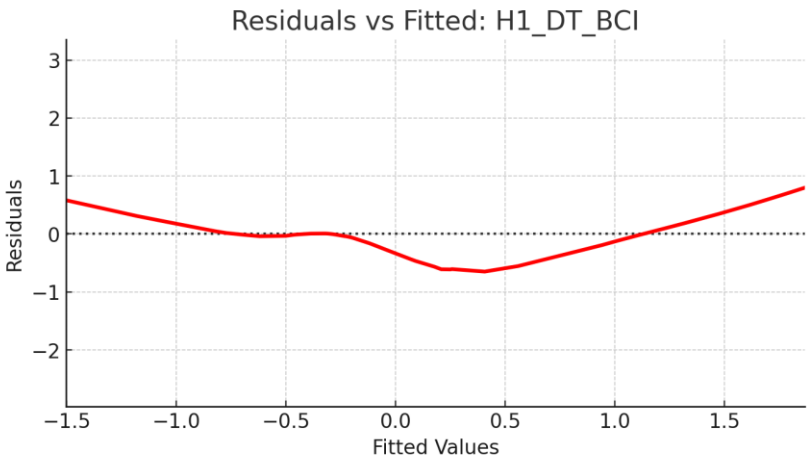

Figure J1: Residuals vs. Fitted Values for Linearity Assessment

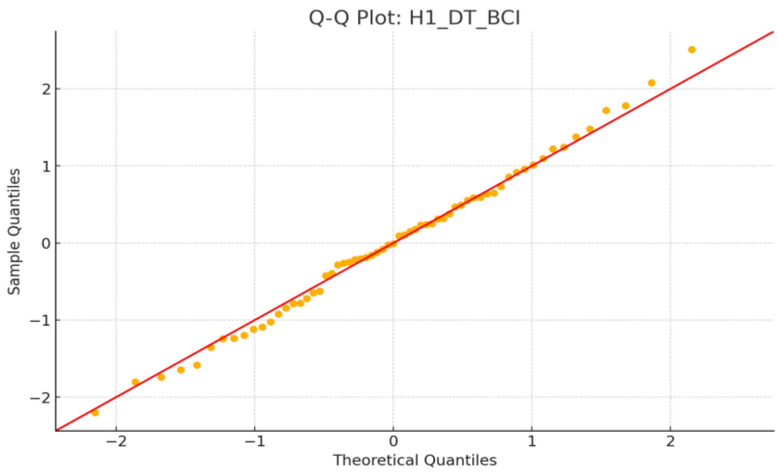

Figure J2:Normal Q-Q Plots for Residual Distribution

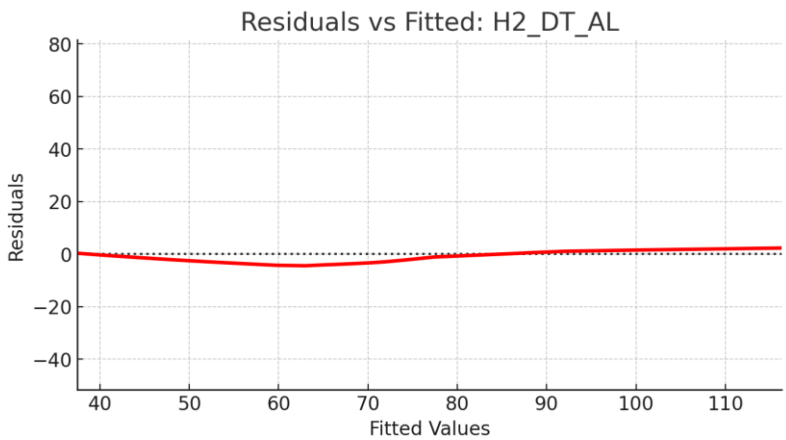

Figure J3: Residuals vs. Fitted Values for Linearity Assessment

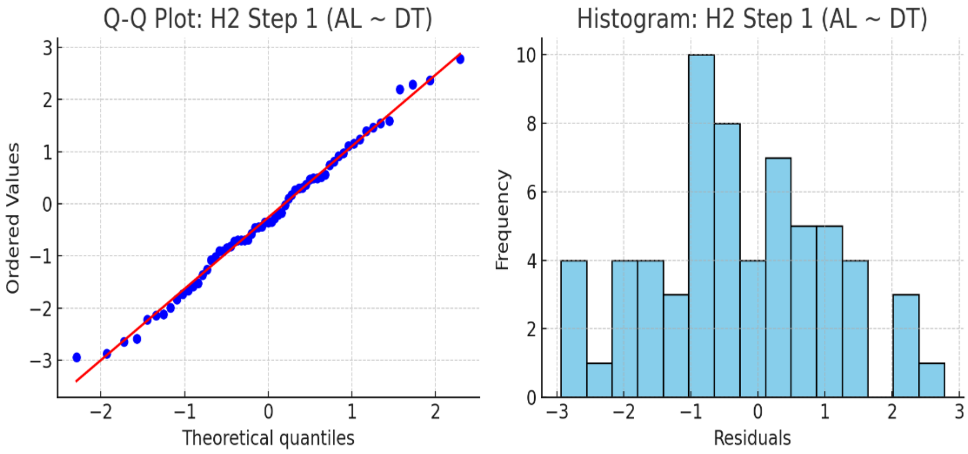

Figure J4: Q-Q plot and histogram of residuals

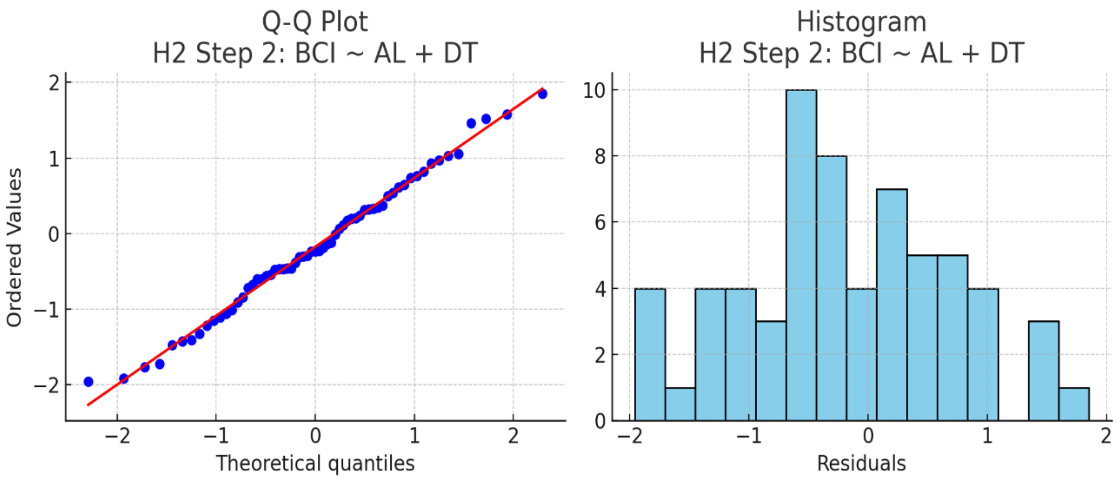

Figure J5: Q-Q plot and histogram of residuals

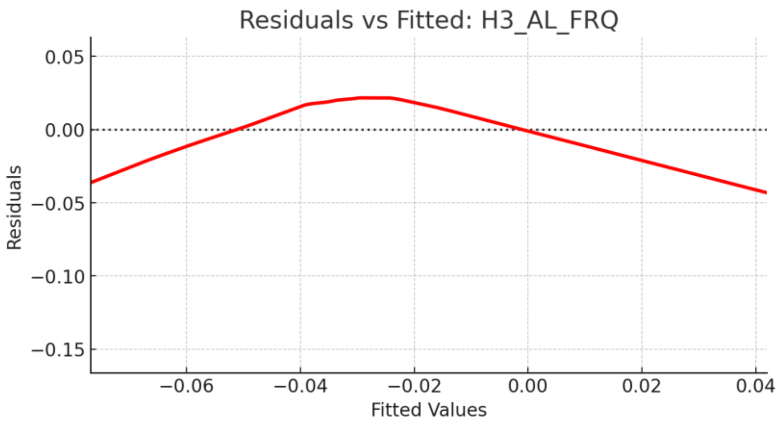

Figure J6: Residuals vs. Fitted Values for Linearity Assessment

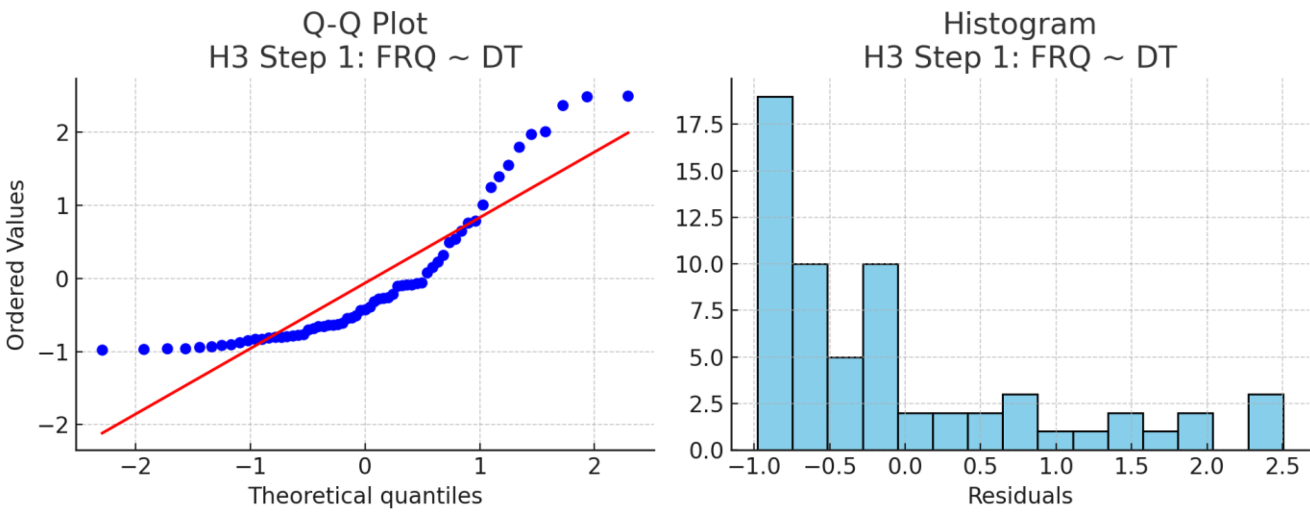

Figure J7:Normal Q-Q Plots for Residual Distribution

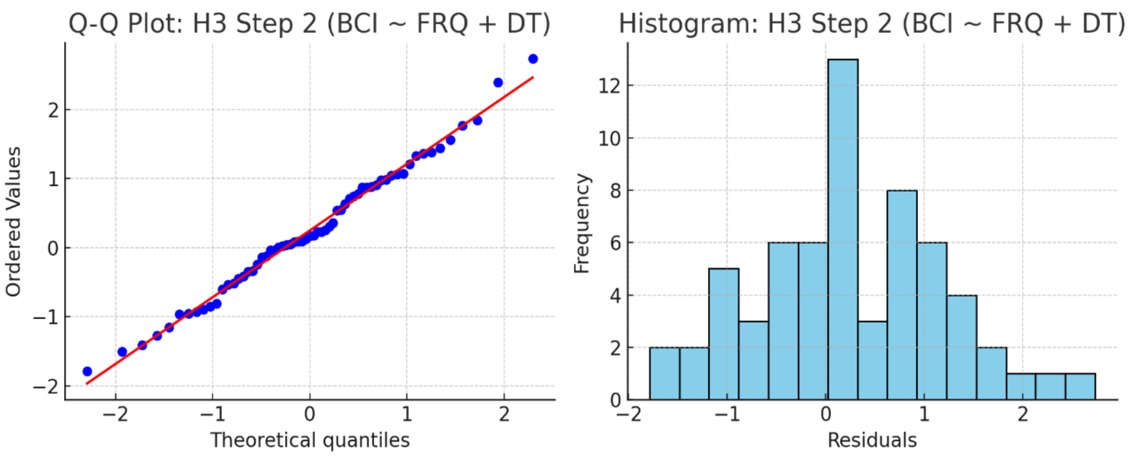

Figure J8: Q-Q plot and histogram of residuals

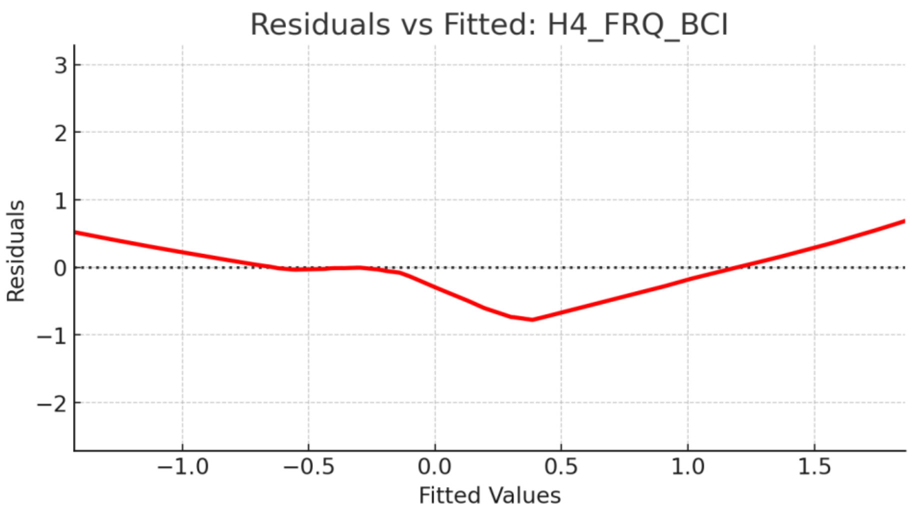

Figure J9: Residuals vs. Fitted Values for Linearity Assessment

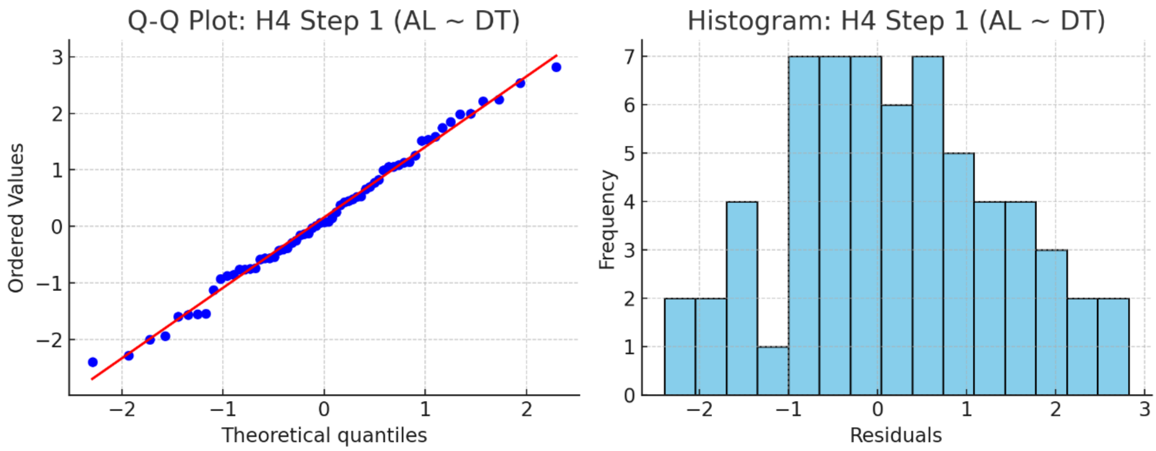

Figure J10:Normal Q-Q Plots for Residual Distribution

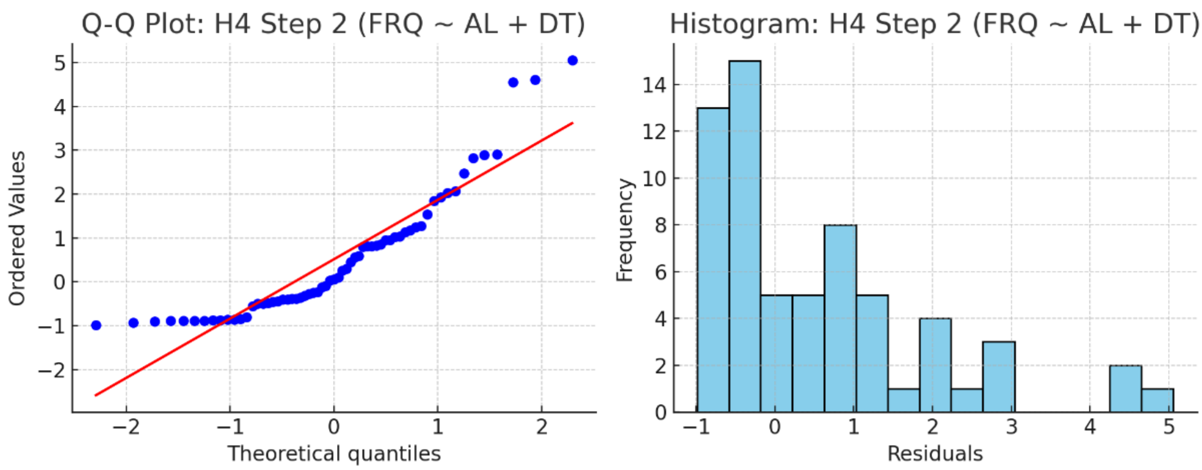

Figure J11: Q-Q plot and histogram of residuals

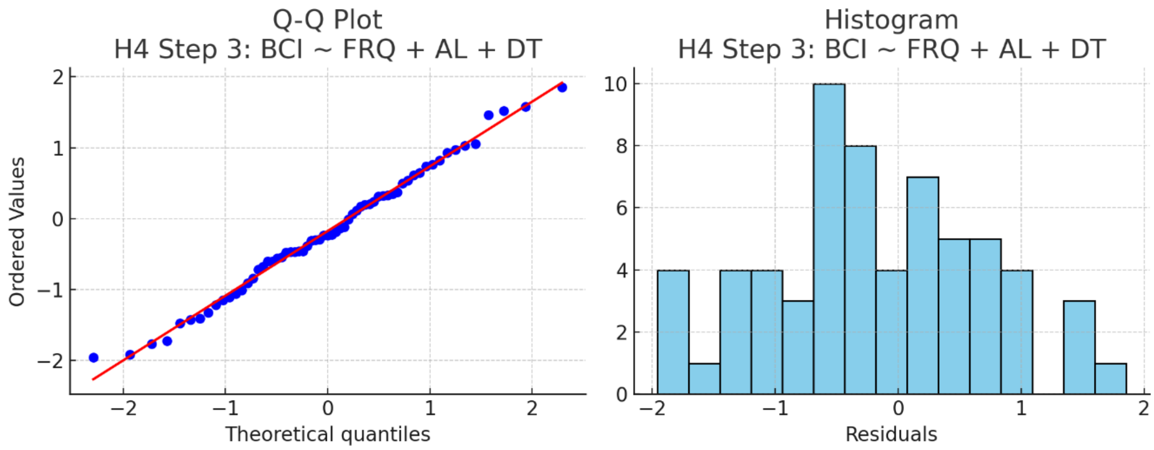

Figure J12: Q-Q plot and histogram of residuals

Appendix K:

Table K1: Robust Regression Results – H3 (AL → log(FRQ))

Variable	Coefficient	Std. Error	t-Statistic	p-Value	95% CI
const	-8.3896	6.6342	-1.2646	0.2112	[-21.6795, 4.9002]
AL	0.0019	0.0022	0.8451	0.4016	[-0.0026, 0.0063]
Bank_Size_Log	-0.1744	0.0670	-2.6033	0.0118	[-0.3086, -0.0402]
GDP_Growth	1.3329	0.9280	1.4363	0.1565	[-0.5261, 3.1919]
HHI	0.0044	0.0033	1.3295	0.1891	[-0.0022, 0.0110]
Bank_Age	0.0104	0.0051	2.0345	0.0466	[0.0002, 0.0206]
COVID_19	0.3099	0.1991	1.5561	0.1253	[-0.0890, 0.7088]

Key Findings:

Variable	Coef.	p-value	Significance
AL	0.0019	0.402	Not significant
Bank Size	-0.174	0.012	Significant
Bank Age	0.010	0.047	Significant
COVID_19	0.310	0.125	Not significant

- Audit Lag does not significantly predict FRQ, even with robust corrections.
- Bank Size and Bank Age are significant influencers of log (FRQ).

Results remain consistent with earlier OLS models, but now with corrected standard errors to address violations of the normality assumption. Robust regressions used HC3 standard errors, as per MacKinnon & White (1985), to address heteroscedasticity.

Step 1: DT → AL

```
                            OLS Regression Results
===================================================================
===========
Dep. Variable:                     AL   R-squared:
0.559
Model:                            OLS   Adj. R-squared:
0.503
Method:                 Least Squares   F-statistic:
9.977
Date:                Fri, 13 Jun 2025   Prob (F-statistic):
5.67e-08
Time:                        18:20:51   Log-Likelihood:
-279.56
No. Observations:                  63   AIC:
575.1
Df Residuals:                      55   BIC:
592.3
Df Model:                           7
Covariance Type:            nonrobust
===================================================================
==============
                    coef    std err          t      P>|t|
[0.025      0.975]
-------------------------------------------------------------------
--------------
const           197.5591    391.513      0.505      0.616    -
587.051     982.169
DT                0.6291      1.362      0.462      0.646      -
2.101      3.359
Bank_Size_Log    -9.9116      6.792     -1.459      0.150     -
23.523       3.700
Bank_Type       -43.9604     14.976     -2.935      0.005     -
73.973     -13.948
HHI               0.0490      0.161      0.304      0.763      -
0.275      0.373
GDP_Growth        5.8271     67.852      0.086      0.932    -
130.151     141.805
Bank_Age         -0.0385      0.370     -0.104      0.917      -
0.779      0.702
COVID_19         17.0106     12.045      1.412      0.164      -
7.128      41.149
===================================================================
===========
Omnibus:                        4.436   Durbin-Watson:
1.263
Prob(Omnibus):                  0.109   Jarque-Bera (JB):
3.479
Skew:                           0.497   Prob(JB):
0.176
Kurtosis:                       3.582   Cond. No.
3.12e+05
===================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
```

```
[2] The condition number is large, 3.12e+05. This might indicate
that there are
strong multicollinearity or other numerical problems.
▧ Step 2: AL + DT → BCI
                            OLS Regression Results
===================================================================
===========
Dep. Variable:                    BCI   R-squared:
0.497
Model:                            OLS   Adj. R-squared:
0.422
Method:                 Least Squares   F-statistic:
6.665
Date:                Fri, 13 Jun 2025   Prob (F-statistic):
4.91e-06
Time:                        18:20:51   Log-Likelihood:
-92.119
No. Observations:                  63   AIC:
202.2
Df Residuals:                      54   BIC:
221.5
Df Model:                           8
Covariance Type:            nonrobust
===================================================================
==============
                    coef    std err          t      P>|t|
[0.025      0.975]
-------------------------------------------------------------------
--------------
const           -36.6590     20.212     -1.814      0.075     -
77.181       3.863
DT                0.0040      0.070      0.057      0.955      -
0.137      0.145
AL               -0.0301      0.007     -4.328      0.000      -
0.044     -0.016
Bank_Size_Log     0.6000      0.357      1.683      0.098      -
0.115      1.315
Bank_Type        -0.4857      0.830     -0.585      0.561      -
2.149      1.178
HHI               0.0120      0.008      1.442      0.155      -
0.005      0.029
GDP_Growth        5.3911      3.495      1.543      0.129      -
1.616     12.398
Bank_Age          0.0021      0.019      0.112      0.911      -
0.036      0.040
COVID_19          1.0132      0.632      1.604      0.114      -
0.253      2.279
===================================================================
===========
Omnibus:                        0.457   Durbin-Watson:
1.057
Prob(Omnibus):                  0.796   Jarque-Bera (JB):
0.594
Skew:                          -0.172   Prob(JB):
0.743
Kurtosis:                       2.670   Cond. No.
3.13e+05
```

```
==============================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
[2] The condition number is large, 3.13e+05. This might indicate
that there are
strong multicollinearity or other numerical problems.
▧ Step 3: Bootstrapped Indirect Effect
Indirect Effect (a × b): -0.01891
95% Confidence Interval: [-0.10542, 0.05876]

✗ No significant mediation: CI includes zero.
```

```
 Step 1: DT → FRQ
                            OLS Regression Results
==============================================================================
===========
Dep. Variable:                    FRQ   R-squared:
0.374
Model:                            OLS   Adj. R-squared:
0.295
Method:                 Least Squares   F-statistic:
4.700
Date:                Fri, 13 Jun 2025   Prob (F-statistic):
0.000348
Time:                        19:00:58   Log-Likelihood:
121.81
No. Observations:                  63   AIC:
-227.6
Df Residuals:                      55   BIC:
-210.5
Df Model:                           7
Covariance Type:            nonrobust
==============================================================================
==============
                    coef    std err          t      P>|t|
[0.025      0.975]
------------------------------------------------------------------------------
--------------
const            -0.1202      0.670     -0.180      0.858      -
1.462       1.222
DT                0.0022      0.002      0.929      0.357      -
0.003       0.007
Bank_Size_Log    -0.0393      0.012     -3.383      0.001      -
0.063      -0.016
Bank_Type        -0.0435      0.026     -1.700      0.095      -
0.095       0.008
HHI               0.0004      0.000      1.363      0.178      -
0.000       0.001
```

```
GDP_Growth         0.2657      0.116      2.290      0.026
0.033       0.498
Bank_Age           0.0021      0.001      3.274      0.002
0.001       0.003
COVID_19           0.0381      0.021      1.849      0.070      -
0.003       0.079
===================================================================
===========
Omnibus:                      31.019   Durbin-Watson:
1.187
Prob(Omnibus):                 0.000   Jarque-Bera (JB):
67.890
Skew:                         -1.580   Prob(JB):
1.81e-15
Kurtosis:                      6.985   Cond. No.
3.12e+05
===================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
[2] The condition number is large, 3.12e+05. This might indicate
that there are
strong multicollinearity or other numerical problems.
▧ Step 2: FRQ + DT → BCI
                            OLS Regression Results
===================================================================
===========
Dep. Variable:                   BCI   R-squared:
0.348
Model:                           OLS   Adj. R-squared:
0.251
Method:                Least Squares   F-statistic:
3.598
Date:               Fri, 13 Jun 2025   Prob (F-statistic):
0.00205
Time:                       19:00:58   Log-Likelihood:
-100.30
No. Observations:                 63   AIC:
218.6
Df Residuals:                     54   BIC:
237.9
Df Model:                          8
Covariance Type:           nonrobust
===================================================================
==============
                    coef    std err          t      P>|t|
[0.025      0.975]
-------------------------------------------------------------------
--------------
const           -41.7913     22.967     -1.820      0.074     -
87.837       4.255
DT               -0.0294      0.081     -0.365      0.716      -
0.191       0.132
FRQ               6.7075      4.623      1.451      0.153      -
2.561      15.976
Bank_Size_Log     1.1616      0.438      2.653      0.010
0.284       2.039
```

```
Bank_Type           1.1279      0.901      1.252      0.216      -
0.679       2.934
HHI                 0.0080      0.010      0.831      0.410      -
0.011       0.027
GDP_Growth          3.4334      4.165      0.824      0.413      -
4.916      11.783
Bank_Age           -0.0106      0.024     -0.447      0.657      -
0.058       0.037
COVID_19            0.2463      0.728      0.338      0.736      -
1.213       1.706
====================================================================
===========
Omnibus:                        0.613   Durbin-Watson:
0.750
Prob(Omnibus):                  0.736   Jarque-Bera (JB):
0.747
Skew:                           0.173   Prob(JB):
0.688
Kurtosis:                       2.593   Cond. No.
3.12e+05
====================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
[2] The condition number is large, 3.12e+05. This might indicate
that there are

strong multicollinearity or other numerical problems.
 Step 3: Bootstrapped Indirect Effect (DT → FRQ → BCI)
Indirect Effect (a × b): 0.01451
95% Confidence Interval: [-0.02157, 0.05616]

✖ No significant mediation: CI includes zero.
```

```
Step a: DT → AL
                            OLS Regression Results
==============================================================================
===========
Dep. Variable:                     AL   R-squared:
0.559
Model:                            OLS   Adj. R-squared:
0.503
Method:                 Least Squares   F-statistic:
9.977
Date:                Fri, 13 Jun 2025   Prob (F-statistic):
5.67e-08
Time:                        19:32:53   Log-Likelihood:
-279.56
No. Observations:                  63   AIC:
575.1
Df Residuals:                      55   BIC:
592.3
Df Model:                           7
Covariance Type:            nonrobust
==============================================================================
==============
                    coef    std err          t      P>|t|
[0.025      0.975]
------------------------------------------------------------------------------
--------------
const           197.5591    391.513      0.505      0.616    -
587.051     982.169
DT                0.6291      1.362      0.462      0.646      -
2.101       3.359
Bank_Size_Log    -9.9116      6.792     -1.459      0.150     -
23.523       3.700
Bank_Type       -43.9604     14.976     -2.935      0.005     -
73.973     -13.948
HHI               0.0490      0.161      0.304      0.763      -
0.275       0.373
GDP_Growth        5.8271     67.852      0.086      0.932    -
130.151     141.805
Bank_Age         -0.0385      0.370     -0.104      0.917      -
0.779       0.702
COVID_19         17.0106     12.045      1.412      0.164      -
7.128      41.149
==============================================================================
===========
Omnibus:                        4.436   Durbin-Watson:
1.263
Prob(Omnibus):                  0.109   Jarque-Bera (JB):
3.479
Skew:                           0.497   Prob(JB):
0.176
Kurtosis:                       3.582   Cond. No.
3.12e+05
==============================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
```

```
[2] The condition number is large, 3.12e+05. This might indicate
that there are
strong multicollinearity or other numerical problems.

Step b: AL → FRQ
                            OLS Regression Results
==============================================================================
Dep. Variable:                    FRQ   R-squared:                       0.375
Model:                            OLS   Adj. R-squared:                  0.282
Method:                 Least Squares   F-statistic:                     4.044
Date:                Fri, 13 Jun 2025   Prob (F-statistic):           0.000802
Time:                        19:32:53   Log-Likelihood:                 121.83
No. Observations:                  63   AIC:                            -225.7
Df Residuals:                      54   BIC:                            -206.4
Df Model:                           8
Covariance Type:            nonrobust
=================================================================================
                    coef    std err          t      P>|t|      [0.025      0.975]
---------------------------------------------------------------------------------
const            -0.1287      0.677     -0.190      0.850      -1.486       1.229
AL             4.296e-05      0.000      0.185      0.854      -0.000       0.001
DT                0.0021      0.002      0.907      0.368      -0.003       0.007
Bank_Size_Log    -0.0389      0.012     -3.255      0.002      -0.063      -0.015
Bank_Type        -0.0417      0.028     -1.499      0.140      -0.097       0.014
HHI               0.0004      0.000      1.343      0.185      -0.000       0.001
GDP_Growth        0.2655      0.117      2.267      0.027       0.031       0.500
Bank_Age          0.0021      0.001      3.247      0.002       0.001       0.003
COVID_19          0.0374      0.021      1.766      0.083      -0.005       0.080
==============================================================================
Omnibus:                       30.800   Durbin-Watson:                   1.192
Prob(Omnibus):                  0.000   Jarque-Bera (JB):               66.751
Skew:                          -1.573   Prob(JB):                     3.20e-15
Kurtosis:                       6.940   Cond. No.                     3.13e+05
```

```
==============================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
[2] The condition number is large, 3.13e+05. This might indicate
that there are
strong multicollinearity or other numerical problems.




Step c: FRQ + AL + DT → BCI
                             OLS Regression Results
==============================================================================
===========
Dep. Variable:                    BCI   R-squared:
0.526
Model:                            OLS   Adj. R-squared:
0.445
Method:                 Least Squares   F-statistic:
6.528
Date:                Fri, 13 Jun 2025   Prob (F-statistic):
3.36e-06
Time:                        19:32:53   Log-Likelihood:
-90.256
No. Observations:                  63   AIC:
200.5
Df Residuals:                      53   BIC:
221.9
Df Model:                           9
Covariance Type:            nonrobust
==============================================================================
==============
                    coef    std err          t      P>|t|
[0.025      0.975]
------------------------------------------------------------------------------
--------------
const           -35.7381     19.814     -1.804      0.077     -
75.479       4.003
FRQ               7.1534      3.980      1.797      0.078      -
0.830      15.137
AL               -0.0304      0.007     -4.461      0.000      -
0.044      -0.017
DT               -0.0113      0.069     -0.162      0.872      -
0.150       0.128
Bank_Size_Log     0.8782      0.382      2.298      0.026
0.112       1.645
Bank_Type        -0.1877      0.830     -0.226      0.822      -
1.852       1.476
HHI               0.0093      0.008      1.124      0.266      -
0.007       0.026
GDP_Growth        3.4919      3.584      0.974      0.334      -
3.697      10.681
Bank_Age         -0.0127      0.020     -0.622      0.537      -
0.054       0.028
```

```
COVID_19          0.7459      0.637      1.172      0.247      -
0.531       2.023
===================================================================
===========
Omnibus:                        0.600   Durbin-Watson:
1.045
Prob(Omnibus):                  0.741   Jarque-Bera (JB):
0.716
Skew:                          -0.203   Prob(JB):
0.699
Kurtosis:                       2.673   Cond. No.
3.13e+05
===================================================================
===========
Notes:
[1] Standard Errors assume that the covariance matrix of the errors
is correctly specified.
[2] The condition number is large, 3.13e+05. This might indicate
that there are

strong multicollinearity or other numerical problems.
H2a) AL ~ DT
===================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
-------------------------------------------------------------------
-----------
Intercept  -1.388e-17      0.130  -1.06e-16      1.000      -0.255
0.255
DT             0.0989      0.156      0.633      0.526      -0.207
0.405
===================================================================
===========
H2b) BCI ~ AL + DT
===================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
-------------------------------------------------------------------
-----------
Intercept  -1.171e-17      0.109  -1.08e-16      1.000      -0.213
0.213
AL            -0.5532      0.103     -5.365      0.000      -0.755
-0.351
DT            -0.0618      0.098     -0.628      0.530      -0.255
0.131
===================================================================
===========
H3a) FRQ ~ DT
===================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
-------------------------------------------------------------------
-----------
Intercept   5.898e-17      0.130   4.54e-16      1.000      -0.254
0.254
```

```
DT              0.0089      0.121      0.073      0.941      -0.229
0.246
==============================================================================
===========
H3b) BCI ~ FRQ + DT
==============================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
------------------------------------------------------------------------------
-----------
Intercept  -1.171e-17      0.129  -9.09e-17      1.000      -0.252
0.252
FRQ             0.1649      0.114      1.444      0.149      -0.059
0.389
DT             -0.1179      0.122     -0.967      0.334      -0.357
0.121
==============================================================================
===========
H4a) AL ~ DT
==============================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
------------------------------------------------------------------------------
-----------
Intercept  -1.388e-17      0.130  -1.06e-16      1.000      -0.255
0.255
DT              0.0989      0.156      0.633      0.526      -0.207
0.405
==============================================================================
===========
H4b) FRQ ~ AL + DT
==============================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
------------------------------------------------------------------------------
-----------
Intercept   5.898e-17      0.129   4.58e-16      1.000      -0.252
0.252
AL             -0.2114      0.115     -1.837      0.066      -0.437
0.014
DT              0.0298      0.127      0.235      0.815      -0.219
0.279
==============================================================================
===========
H4c) BCI ~ FRQ + AL + DT
==============================================================================
===========
                 coef    std err          z      P>|z|      [0.025
0.975]
------------------------------------------------------------------------------
-----------
Intercept  -2.559e-17      0.110  -2.33e-16      1.000      -0.215
0.215
FRQ             0.0513      0.101      0.506      0.613      -0.148
0.250
```

```
AL              -0.5424      0.105     -5.159       0.000       -0.748
-0.336
DT              -0.0633      0.099     -0.637       0.524       -0.258
0.131
==================================================================
===========
Indirect H2 (DT→AL→BCI):  a·d = 0.099×-0.553 = -0.055
Indirect H3 (DT→FRQ→BCI): a·f = 0.009×0.165 = 0.001
Indirect H4 (DT→AL→FRQ→BCI): a·b·d = 0.099×-0.211×0.051 =
-0.001
```

التحول الرقمي للتقارير المالية وتعزيز القدرة التنافسية للقطاع المصرفي في فلسطين: تحليل تجريبي.

تماضر ثريا ياسين الخالدي

الأستاذ الدكتور منصور السعايدة

الأستاذ الدكتور زهران دراغمة

الأستاذ الدكتور سونيل ميهيشاري

ملخص

تهدف هذه الدراسة إلى تحليل تأثير التحول الرقمي (DT) على جودة التقارير المالية (FRQ)والتي تم قياسها من خلال سرعة إصدار التقارير) فترة المراجعة (AL – وموثوقية التقارير (المتمثلة في التحفظ المحاسبي) – وعلى أثره غير المباشر على مؤشر تنافسية البنوك (BCI) في القطاع المصرفي الفلسطيني. وانطلقت هذه الدراسة من الحاجة العالمية المتزايدة إلى التحول الرقمي، وارتفاع المطالب بتوفير تقارير مالية شفافة، موثوقة، وفي الوقت المناسب، لفهم ما إذا كان التحول الرقمي يعزز التنافسية بشكل غير مباشر من خلال تحسين جودة التقارير المالية.

استخدمت الدراسة بيانات للفترة من 2017 إلى 2023 من عينة مكونة من تسعة بنوك، وطبّقت نماذج الانحدار اللوحي(Panel Regression) ، وتحليل الوساطة Mediation) (Analysis، ونمذجة المعادلات الهيكلية بطريقة المربعات الصغرى الجزئية (PLS–SEM) لاختبار العلاقة التسلسلية:

التحول الرقمي (DT) ⟵ فترة المراجعة ⟵ (AL) جودة التقارير المالية⟵ (FRQ) مؤشر تنافسية البنوك(BCI) .

أظهرت النتائج أن التحول الرقمي لا يؤثر مباشرة على التنافسية$0.112 = \beta$) ، القيمة الاحتمالية$0.241 = p$ ، مما يرفض الفرضية(H1 ، ولكن تأثيره غير المباشر واضح عبر تقليل فترة المراجعة وزيادة التحفظ المحاسبي. ومن أبرز النتائج:

- وجود تأثيرات غير مباشرة معنوية: تقليص فترة المراجعة (AL) أدى إلى تحسين جودة التقارير (FRQ) ($\beta = -0.463, p < 0.001$) وزيادة التنافسية (BCI) ($\beta = -0.590, p < 0.001$)، مما يدعم الفرضيات H2–H4.
- البنوك الأجنبية تسجّل فترة مراجعة أقصر بنسبة 39% (61 يومًا مقابل 100 يوم للبنوك المحلية)، مما يعكس تبنيها الأوسع للتحول الرقمي.
- البنوك المحلية تُظهر مستويات أعلى من التحفظ المحاسبي ($\beta_3 = -0.0751, p = 0.003$)، مما يشير إلى دور التحول الرقمي في تقليص فجوة الموثوقية.
- أكدت نتائج الانحدار الكمي أن التأثير السلبي لفترة المراجعة (AL) على التنافسية (BCI) هو الأقوى عند المستوى الوسيط للأداء (الربيع الثاني Q50: $\beta = -0.62, p < 0.01$).

تسهم هذه الدراسة نظريًا في دمج أدبيات التقدم التكنولوجي وجودة المحاسبة، بينما تقدم عمليًا رؤى لصناع القرار حول أهمية التحول الرقمي في تحسين التنافسية من خلال تعزيز جودة التقارير المالية.

ورغم أن التحول الرقمي لم يظهر تأثيرًا مباشرًا ذا دلالة إحصائية على مؤشر التنافسية البنكية، إلا أن نماذج الوساطة أبرزت الدور الحاسم لفترة المراجعة في تفسير الفروقات في التنافسية. وتُقيّد هذه النتائج جزئيًا بسبب حجم العينة المحدود (9 بنوك، 63 ملاحظة)، مما يشير إلى ضرورة توسيع الدراسات المستقبلية لتشمل عينات عرضية أكبر أو مقارنات متعددة البلدان لتأكيد صلاحية هذا النموذج وتحسين تعميم النتائج.

الكلمات المفتاحية :التحول الرقمي؛ جودة التقارير المالية؛ التنافسية المصرفية؛ نمذجة المعادلات الهيكلية؛ فلسطين.