

CEO Characteristics and Timeliness of Financial Reporting of Vietnamese Listed Companies

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Abstract: Timeliness of financial reporting is a qualitative characteristics that enhance the usefulness of information and significant to users of financial statements. This study examines the impact that board diversity (GENDERCHAIR) and CEO age (CEOAGE) have on audit report timeliness. The sample of this study comprises of 100 companies listed on the Vietnamese Stock Exchange in the period 2012-2014. Ordinary Least Square (OLS) regression analysis is performed to test the audit report timeliness determinants. Using quantitative research methods, the study found that there is a significant positive relationship between board diversity on timeliness of financial reporting while proxy variables of the CEO age have a significant negative relationship with timeliness of financial reporting. This paper extends prior research by addressing the potential effects of female executives on timeliness of financial reporting. The findings reported in this paper provide novel insights for the empirical financial accounting literature.

Keywords: Chief executive officer, timeliness of financial reporting, listed firms, Vietnam.

1. Introduction

The timeliness of audit reporting is the time in which financial statements will be examined by the external auditors who report about the truth and fair of financial reports [1]. Some studies indicate that the audit report is timely when auditors complete statutory audit in the short time. Based on that, companies will publish a set of annual audited financial statements within statutory time [2]. For instance, higher trust in audited financial reports, lower asymmetric information and favorable content in audit report are stated for companies which have timely audit

report [3, 4]. In fact, there are so much advantages of timeliness of audit reports that the effects of timeliness' audit reporting have got much more attention [5- 8]. Several determinants in relation to timely audit report have been investigated; however, factors of corporate governance have just been taken into account [9, 10]. In prior researches, one of CEO characteristics, which is called CEO duality, was included in the model of timeliness' audit report. Moreover, this model also stated that significant negative effect of CEO duality on timely audit reporting.

The relation of CEO characteristics and timely audit reports is expected because financial statements are prepared and published by the interaction of the external auditors and

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managers. Some studies suggest that a CEO may pay much attention to not only strategic, operational and financial decisions [11] but also earnings management and corporate disclosures [1, 12]. Moreover, it is believed that the overall audit process is really affected by the CEO although a CEO does not control over the audit report date. There are some investigations of the impact of CEO gender and CEO age on the timeliness of audit report. It is indicated that manager's characteristics have significantly impact on organizational outcomes and financial reporting [13]. Therefore, in the case of that shareholders, investors, boards of directors and auditors including the manager's characteristics in manager assessments, it is expected that the audit report lag may be also affected by these characteristics.

This study contributes to the literature concerning audit report timeliness by providing the first evidence of the effect of CEO gender and CEO age on timeliness of financial reporting in Vietnam. That is because the timeliness of audit report is a product of the interaction of the firm's managers and external auditors. Also, this causes that the characteristics of the management are significantly influenced by the interaction.

In Vietnam, there are a few studies about determinants of timely audit report or timely financial statements. In recent years, the author have just found that Dang Dinh Tan (2013) studied the impacts on the timeliness of the financial reporting in Vietnamese listed companies. However, there is no study about the effects of CEO characteristics and timely audit report or financial reports. Therefore, the results of this study have a crucial implication for shareholders and boards of directors in selecting a new CEO. In addition, this study underlines the importance of controlling CEO characteristics in terms of country regulations. In most developed and developing markets, regulatory bodies focus and organize the characteristics of governance mechanisms instead of the characteristics of the CEO.

2. Literature review and hypotheses

The prior literature of relationship between accounting and corporate governance supported that CEO's have really concerned their interests. That leads to motivating them to control and develop the company's resources for meeting their own interests instead of maximizing the shareholders' wealth [14, 15]. Some research also indicate that CEO can restate financial statements to conceal their behavior of frauds by applying and implementing more aggressive accounting policies that negative influence governance mechanisms.

According to Knechel and Sharma (2012), Knechel (2012), Wan-Hussin and Bamahros (2013), Mohamad-Nor (2010), Al-Ajmi (2008) pointed out that the behavior of the CEO is affected by CEO characteristics, including age, experience, education, tenure, career background, gender, and duality [6-10]. In fact, CEO's features can be used to predict the impact of a CEO on financial statements because these attributes play an important role in creation of the CEO's behavior. Thus, the company's outcomes have been effected by CEO's attributes [1]. However, some point of views gave significant evidence of that CEO's characteristics positively affected the CEO's behavior. For example, they can improve the quality of financial reporting. Zhang, Y., & Wiersema (2009) concluded that the market participants will perceive the signal of financial statements' quality by the CEO's attributes [16]. In the extent of this study, the authors have focus on the gender and age of a CEO and the brief review of pertinent literature and developing hypotheses for investigating the relation between these attributes and the timeliness' financial reporting.

The CEO's gender

According to the previous studies such as Walt and Ingley (2003), Robinson and Dechant (1997) [17, 18], board diversity, which is also called CEO's gender, can improve CEO's

actions which enhance the corporate performance and value.

Based on agency theory, more diverse board makes the control of managers better because the independence of managers can be enhanced by board diversity. The main point of this case is that women are director who will provide more important information to the board and making strategic decision is also increased. On the other hand, diversity of board can enhance the information process; thus, valuable and timely information is disclosed to the information's users, especially, the board and managers [18]. Therefore, it is expected that the participation of women in the board will increase the quality of financial reporting.

H1: Board diversity is positively associated with timeliness of the financial reporting.

CEO age

Our study also contributes to the timeliness of financial reporting by providing empirical evidence of an relation of the timeliness of financial reporting and CEO's age. It is suggested that elder CEO in the organization is more conservative in preparing and disclosing financial statements. Some prior research indicated that individuals who have been in the position of CEO for many years will become more ethical and prudent. And also, they are less likely to engage in earnings management and thus, the quality of financial reporting will be improved [20, 21, 22]. As result of this, auditors seem to spend less time conducting the audit process and issuing audit report timely. Therefore, the timeliness of disclosing financial statements is increased. Thus, it is hypothesized that:

H2: CEO age is negatively associated with timeliness of the financial reporting.

Control variables

Profitability is a financial ratio that is used to assess that the company will be able to gain earnings and whether the organization operated effectively. In fact, for organizations, favorable information of corporate performance will be disclosed more promptly. The performance of

company is seen as a signal and a factor that influence on management skills and the firm's securities. Therefore, for companies with good performance, auditors take much more time to engage the audit than companies with losses. However, based on agency theory, profitable companies will disclose financial information earlier to prove good performance of management enhance shareholders' confidence in managers [23, 24]. Moreover, companies with bad performance will extend the time of financial information disclosure in order to avoid financial rumors in the market [10, 25, 26, 27].

Several studies indicated that audit lag is negatively affected by company size which is measured by natural logarithm of total assets. Bigger companies always have strong internal system. Thus, according to Owusu-Ansah (2000) [28], auditors spend less time on conducting substantive tests of financial statements. On the other hand, more accounting staff and sophisticated accounting information systems will be settled in larger companies that makes financial disclosure more timely. In addition, financial analysts usually base on the timely financial statements of companies to confirm and revise expectations of their present and future economic prospects. Finally, managers in big organizations may have incentives to decrease the time of disclosing financial statements because they are controlled by shareholders and statutory agencies. Thus, it is expected that timeliness of financial disclosure is negatively associated with company size.

Owusu-Ansah (2000) pointed out that auditors will take more time to engage the audit process in the companies which have several operating units or branches and have much more diverse product lines and markets [28]. As a result of that, the time of financial disclosure will be extended. Therefore, it is expected that subsidiaries and operational complexity are positively associated with the timeliness of financial reporting.

This variable indicates the corporate's ability of growth in future in term of investment efficiency in the company [29]. Growth opportunities is measure by growth index in sum of assets, growth in sale or growth in book value to market value ratio. In this study, it measures as the ratio of book value (the sum of equity in the end of year) to market value (published and in hand stock multiple by stock market value in the end of year). Findings of previous research revealed that growth opportunities have a direct effect on the quality of financial reporting [30]. It means that firms with higher growth opportunities have high effectiveness on financial reporting quality. Thus, it helps auditors spend less time engaging in audit procedures. Audit report will be issued timely and financial statements will be also disclosure timely as well.

3. Data and variables

3.1. Sample description

In this study, the data set includes 100 companies listed before 2009 on Vietnamese stock markets (HNX and HOSE) in the period from 2012 to 2014. All of the companies has disclosed a full set of reports, such as financial statement and annual report. The data has excluded companies in bank sector, financial sector and securities sector. Following the above sample selection process, a total of 300 observations are collected. The sample was derived from 380 listed companies. Moreover, data were get from 2012 to 2014 because the financial information would be significantly changed when firms adopted The Circular 200/2014.

3.2. Variables

Our dependent variable is the timeliness of audit report. It is used as the main measure of timely audit reporting which is defined as the number of days from the fiscal year end date to

the date of audit report authenticity date and signature.

In this study, eight independent variables are used in this research board diversity (GENDERCHAIR), CEO age (CEOAGE), profitability (PROFIT), company size (SIZE), subsidiaries (SUBs), complexity of operation (OPERA), and growth opportunities (PB). As far as independent variables are concerned, we have selected several proxies that appear in the empirical literature.

- GENDERCHAIR which is defined as one of the following alternative chairman executive dummies: GENDERCHAIR equals one if the chairman of the firm is female .

- CEO Age is the CEO's age at the beginning of year t ; $CEOAGE = \text{logarit}(\text{CEO Age})$.

- PROFIT is net profit which gets from annual income statement .

- SIZE is the size for a company in a given industry at a given time which results in natural logarithm of total assets .

- SUBs is a number of subsidiaries in the company which are got from annual reporting or financial statement .

- OPERA is defined as the complexity of the company's operation. OPERA equals one if the firm includes more than a field of operation.

- PB is defined as the ability of firm's growth in future view. This variable is measured by the price to book ratio.

4. Research methodologies

Since the sample contains data across firms and different time, the cross-sectional method is employed. To test for the hypotheses, this research utilizes the following regression model to examine and test for the impact of multiple independent variables which is the CEO characteristics on the dependent variable which is the timeliness of financial reporting in the 100 most active firms in the Vietnam stock exchange. The research uses Stata software to analyze data.

Research model:

$$\text{TIME1}_{i,t} = \beta_0 + \beta_1 \text{GENDERCHAIR}_{i,t} + \beta_2 \text{CEOAGE}_{i,t} + \beta_3 \text{PROFIT}_{i,t} + \beta_4 \text{SIZE}_{i,t} + \beta_5 \text{SUBS}_{i,t} + \beta_6 \text{OPERA}_{i,t} + \beta_7 \text{PB}_{i,t} + \varepsilon$$

Table 1. Proxies, expected relationship

| No. | Independent/Control variables | | Hypothesis |
|-----|-------------------------------|-------------|------------|
| | Name | Sign | |
| 1 | The gender of the CHAIR | GENDERCHAIR | (+) |
| 2 | The age of the CEO | CEOAGE | (-) |
| 3 | The profitability | PROFIT | (-) |
| 4 | The company size | SIZE | (+) |
| 5 | Subsidiaries of company | SUBs | (+) |
| 6 | The complexity of operation | OPERA | (+) |
| 7 | The growth opportunities | PB | (-) |

Source: Authors summary.

5. Results

The mean of the variable explains the average days taken for issuing the audit report with respect to the number of days from the fiscal year end date to the date of the audit report authenticity date and signature in the sample of this study. From Table 1 it also can be stated that companies in this study use a maximum of 107 days to issue their audit report from the date on the financial statement.

To test the correlation between the variables, the Pearson correlation coefficient was used. With this test how variables move

from each other has been measured. The correlations between the variables in Table 3 gives a first indication about the sign and the influence of the variables in determining timeliness. The correlation of 0.0674 for GENDERCHAIR and TIME1 indicates that there is a positive relation between the variables. The same applies for the SIZE, SUBs and OPERA with a correlation of 0.1843, 0.1255 and 0.1520. CEOAGE, PROFIT and PB are negatively related, with a correlation of -0.1951, -0.0251 and -0.0700.

Table 2. Descriptive statistics of sample variables

| Variable | Obs | Mean | Std.Dev | Min | Max |
|-------------|-----|----------------------|----------------------|-----------------------|----------------------|
| TIME1 | 300 | 75.14 | 15.43658 | 10 | 107 |
| GENDERCHAIR | 300 | 0.1266667 | 0.3331549 | -17 | 80 |
| CEOAGE | 300 | 3.894463 | 0.1590249 | 3.3673 | 4.26268 |
| PROFIT | 300 | 1.11*e ¹¹ | 5.67*e ¹¹ | -2.23*e ¹² | 7.15*e ¹² |
| SIZE | 300 | 27.17643 | 1.551747 | 23.1799 | 32.1362 |
| SUBs | 300 | 2.17333 | 5.337752 | 0 | 55 |
| OPERA | 300 | 0.86 | 0.3475668 | 0 | 1 |
| PB | 300 | 0.9088667 | 0.7322189 | 0.21 | 5.31 |

Source: Descriptive statistics with STATA.

Table 3. Pearson correlation coefficient matrix

| | TIME1 | GENDER CHAIR | CEOAGE | PROFIT | SIZE | SUBs | OPERA | PB |
|-------------|---------|-----------------|---------|--------|--------|--------|--------|--------|
| TIME1 | 1.0000 | | | | | | | |
| GENDERCHAIR | 0.0674 | 1.0000 | | | | | | |
| CEOAGE | -0.1951 | 0.1428 | 1.0000 | | | | | |
| PROFIT | -0.0251 | -0.0243 | -0.0157 | 1.0000 | | | | |
| SIZE | 0.1843 | -0.0579 | -0.0400 | 0.3948 | 1.0000 | | | |
| SUBs | 0.1255 | -0.0481 | -0.0805 | 0.7358 | 0.4804 | 1.0000 | | |
| OPERA | 0.1520 | -0.1063 | 0.0707 | 0.0526 | 0.1743 | 0.1159 | 1.0000 | |
| PB | -0.0700 | 0.0258 | 0.0608 | 0.5799 | 0.3445 | 0.5394 | 0.0911 | 1.0000 |

Source: Pearson correlation with STATA.

Table 4 presents the results of the Pooled Regression Models that have been estimated to examine the impact of CEO characteristics on the audit report timeliness of selected companies controlling the effect of firm specific variables.

The regression model tests the relationship between the timeliness of the audit report, which measured by the number of days from the date at financial statements to the date of issuing the audit report, and CEO characteristics and firm’s characteristics as well. As revealed in Table 4, the result of the regression model indicates a significantly positive relationship between the timeliness of the audit report (TIME1) and the gender of chair (GENDERCHAIR). It is a fact that women’s joint presence in the board will not mean that audit report will be issued quickly. The result is consistent with the findings of previous studies such as Stephenson (2004), Robinson and Dechant (1997), Owusu-Ansah (2000), Owusu-Ansah and Leventis (2006) [31, 18, 28, 32].

Moreover, CEO age (CEOAGE) negatively affect the timeliness of issuing of the audit report at 1 percent level of significance. In fact, younger CEOs are likely to engage in earnings management for improving their position which makes auditors spend much more time conducting the audit. Thus, issuing the audit report is not timely. Moreover, older CEOs often have reputation for self-image and conservatism, so they are less likely to use earnings management than younger CEOs. For control variables, company size (SIZE) at a 5 percent level of significance and subsidiaries (SUBs), company’s profitability (PROFIT) and complexity of company’s operation (OPERA) at a 1 percent level of significance. In addition, the growth opportunities of the company also impact on timely audit reporting at a 5 percent level of significance. Growth opportunities are likely to improve the quality of financial statements and also, auditors will engage in the audit more quickly. Therefore, they will be able to make a timely issue of the audit report. This finding is consistent with previous studies [10, 20-27].

Table 4. The regression results of model

| Regression model | | |
|------------------|--------------------------|-------|
| Variables | Coef. | P> t |
| GENDERCHAIR | **6.07509 | 0.023 |
| CEOAGE | ***-18.61383 | 0.001 |
| PROFIT | ***-4.9*e ⁻¹² | 0.004 |
| SIZE | **1.704514 | 0.015 |
| SUBs | ***0.6828774 | 0.004 |

| | | |
|-----------------------------------|--------------|-------|
| OPERA | ***6.487603 | 0.004 |
| PB | ** -3.256978 | 0.030 |
| Observations | 300 | |
| R-squared | 14.51% | |
| P_Value > X ² = 0.0000 | *** | |

Source: Regression with STATA.

6. Conclusion

The empirical evidence shown in this study offers further insights into the determinants of audit report timeliness. Two crucial CEO characteristics are included, namely board diversity and CEO age, and are among the factors significantly affecting audit report timeliness. This is because it is believed that a CEO has a significant influence on the quality of financial reporting and that these characteristics have an influence on the behavior of CEOs.

7. Limitations

Similar to the prior research [10, 26, 27], this study is not isolated from limitations that suggest caution in the interpretation of the results. First, it is recognized that the setting prevents the investigation from being enriched due to the lack of public disclosure, and insufficient cooperation between the companies and academic society. For example, the additional characteristics of the CEOs, such as shareholding and compensation were not considered. Second, empirical results are based on a small sample size and particularly on the data of nonfinancial companies; thereby limiting the generalization of the results to similar institutional settings and jurisdictions, and lowering the statistical power of the various tests, although bootstrap resampling method has been used to overcome this problem. Thus, such limitations warrant future research to re-explore this issue and to test the overall generalization of the findings to other jurisdictions.

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