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DOES INCOME OF THE CHIEF EXECUTIVE OFFICER AFFECT ON THE QUALITY OF CORPORATE FINANCIAL STATEMENTS? AN EVIDENCE FROM INDUSTRIAL FIRMS IN VIETNAM

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Abstract:

Research aims: This study examines the relationship between the CEOs' income and the quality of financial statements of industrial firms listed on the Ho Chi Minh Stock Exchange (HSX) during the 3-year period from 2018 to 2020.

Design/Methodology/Approach: This study examines the influence of CEOs' characteristics, particularly their income, on the quality of financial statements of listed firms in the Vietnamese industry by using features of information quality proposed by the International Accounting Standards Board (IASB). Ordinary Least Squares (OLS), Random Effects model (REM), Fixed Effects model (FEM), and Feasible Generalized Least Squares (FGLS) regressions are applied for empirical examinations.

Research findings: The results of this study indicate that a CEO's income positively affects the quality of corporate financial statements. Additionally, the analysis results confirm the positive correlation between the firm's size and the quality of disclosed reports, consistent with prior studies. However, this study finds that Big4 auditors do not influence the quality of financial statements quality.

Theoretical contribution/ Originality: This study contributes to the literature by providing a comprehensive perspective on the assessment of corporate financial statements quality and examining its association with the CEO's income in the context of an emerging economy.

Practitioner/Policy implication: The study is also useful for investors and other financial statement users to assess the quality of corporate financial statements through the CEO's profile; it also contributes as a scientific basis for firms to adjust the compensations offered to their CEOs.

Research limitation: This study is limited by looking at the mono-directional impact of the CEO's income on the financial statement quality. The following studies need to use a larger sample comprising different industries and countries to strengthen the research findings. Also, further studies can broaden their perspectives to investigate the multidimensionality of this relation.

Keywords: CEO, Incom, Quality, Financial Statements, Vietnam, Compensation.

Introduction

Along with the advance of the capital markets, the quality of corporate financial statements, especially such that of publicly listed firms, becomes one of the top concerns of firms' stakeholders, either internal or external parties, due to its weight in the decision-making process (Hsu and Yang, 2022). On the one hand, it is widely believed that the credibility of the financial statements content is greatly influenced by the firm's governance, especially the CEO, who is the legal representative and takes charge of all business activities (Altarawneh et al., 2022).

In fact, however, CEOs do not always play for the interest of the firm's owners but also for their own favors (Gan et al., 2020). They can take abuse of their operational power to manipulate the earnings management process by falsifying the business data, affecting the transparency and truthfulness of the disclosed financial statements (Altarawneh et al., 2022). Besides, many studies indicate that CEOs' behaviors are dominated by their characteristics, e.g., age, gender, work experience/expertise, tenure, and compensations such as bonus contracts, stock options, and other long-term benefits (Altarawneh et al., 2022; Bao et al., 2021; Brockman et al., 2017; Huang et al., 2012). Scholars claim that these figures have a significant impact on firms' performance and can be used to predict the transparency and accuracy of firms' financial reporting (Nguyen et al., 2021b; Khuong et al., 2019; Thu et al., 2018), though they cannot reach a consensus on how CEO's characteristics contribute to the quality of financial reporting (Habib and Hossain, 2013; Mustapha et al., 2021).

On the other hand, it is common to use measures based on accounting profitability to gauge the CEOs' performance, incentivizing them to take an interest in reported accounting numbers (Habib and Hossain, 2013). Consequently, many indicators related to earnings quality are used to reflect the quality of firms' financial statements (Dechow et al., 2010), e.g., accruals quality, earnings management behaviors or forecasts, or the restatements of financial statements (Altarawneh et al., 2022; Bao et al., 2021; Brockman et al., 2017; Jiang et al., 2013; Huang et al., 2012;). However, the primary drawback of these measures is that they cannot comprehensively assess the actual quality of firms' financial statements, in other words, their multidimensional nature.

Hence, this study examines the influence of CEOs' characteristics, particularly their income, on the quality of financial statements of listed firms in the Vietnamese industry by using features of information quality proposed by the International Accounting Standards Board (IASB). This study contributes to the literature by providing a comprehensive perspective on the assessment of corporate financial statements quality and examining its association with the CEO's income in the context of an emerging economy. The study is also useful for investors and other financial statement users to assess the quality of corporate financial statements through the CEO's profile; it also contributes as a scientific basis for firms to adjust the compensations offered to their CEOs.

The remaining of this study is structured as follows. Section 2 presents the related literature and develops hypotheses. Section 3 describes the sample data, the variable measurements, and the empirical model used in the study. Section 4 exhibits regression results and discussions. Lastly, section 5 indicates some conclusions, recommendations, and limitations of the study.

Literature Review and Hypothesis Development

There are several theories referring to the impacts of a firm's governance characteristics on corporate performance, one of which widely used is the agency theory. This theory addresses the potential conflicts between the principals, commonly shareholders and debt holders, and the agents such as its senior executives, especially when they are separated individuals and have dissimilar goals. When the conflicts of interests between them occur, the agents, who is directly in charge of business operations, are less likely to act for the best interests of the owners but try to enhance personal wealth by manipulating the firm's earnings. Subsequently, the principals' attempts for real-time supervision cause additional costs including supervision costs, bonding costs, and extra losses due to increased risk premium, which are usually called the agency costs (Jensen and Meckling, 1976). Besides, the asymmetric information theory suggests that the information asymmetry existing between a firm's representatives, usually CEOs, and other stakeholders, e.g., shareholders and external investors, can be considered a type of agency costs and may harm the firm's performance. To minimize these costs, it is fundamental to eliminate the senior executives' personal motives by providing them appropriate incentives, through improved income, bonuses, and other attractive long-term benefits (Armstrong et al., 2010a; Bao et al., 2021).

Perspectives on the quality of corporate financial statements

The International Organization for Standardization (ISO) – ISO 9000:2005 defines "Quality is the degree to which a set of inherent characteristics fulfills requirements". Also, the purpose of the financial statements is to deliver high-quality financial information related to a firm's business activities that is useful for making-decision process of existing and potential investors and creditors (Weygandt and Kimmel, 2022). Given the importance of providing high-quality financial reports, the key issue is how to measure this quality realistically (Shahwan, 2008; Azwardi, 2021). The fact is that there exists a strong bias to use accounting measures of corporate performance as the standards to gauge the CEOs' efficiency, motivating them to pay more attention to reported accounting information (Habib and Hossain, 2013). Consequently, previous literature makes many attempts to quantify the quality of firms' financial statements.

Specifically, this concept is usually estimated by "earnings quality" indicators (Dechow et al., 2010). A widely accepted proxy for capturing earnings quality is discretionary accruals, which are the residuals in the regressions between accruals and firm-specific factors (Dechow and Dichev, 2002). For example, Almand et al. (2023) and Costa and Soares (2022) use the absolute value of discretionary accruals obtained from the cross-sectional modified Jones model as the proxy for earnings management; Bouaziz et al. (2020) estimate discretionary current accruals lagged by total assets to use as the proxy for earnings management; Nguyen et al. (2021a) employ discretionary accruals and financial statements errors as two proxies for the earnings quality; and Altarawneh et al. (2022) estimate discretionary accruals through the performance-matched Jones model, a modified model using returns on assets (ROA) as the control variable, to use as the proxy for earnings management. However, the primary

drawback of these accrual-based models is the lack of sufficient understanding of the properties of accruals, e.g., the distinguishment between discretionary and non-discretionary accruals (Syrjänen, 2004; Shoaib and Siddiqui, 2022), such that the magnitude of regression residuals may lessen the quality of accruals and earnings, causing an increasing concern about the model misspecifications, errors in accruals measurement, and biased conclusions about earnings management (Nguyen et al., 2021a; Dechow et al., 2010). Also, accrual-based measurement is only an indirect proxy of earnings quality that excludes non-financial information, thus, cannot provide direct and comprehensive reflection of the quality of reported financial information.
To overcome this shortcoming, other researchers use indirect proxies based on subjective cognition to measure the quality of disclosed financial information (Beest et al., 2009). For example, Barth et al. (2008) employ earnings smoothing and managing towards positive earnings in form of metrics as the manifestations of earnings management, together with timely loss recognition and value relevance metrics as three attributes for accounting information quality. Huang et al. (2012) measure financial reporting quality by the mean consensus to the analysts' earnings forecasts and the financial restatements. Demerjian et al. (2012) examine earnings quality under four measures: earnings restatement, earnings persistence, bad debt provision error, and the extent that accruals map into cash flows. Call et al. (2017) divide the financial reporting quality into mandatory and voluntary quality; the accruals quality, the likelihood to report an internal control weakness, and the likelihood of financial restatements are used as three attributes for mandatory reporting quality, and the quality of earnings management forecasts as the attribute for voluntary reporting quality. Brockman et al. (2017) assess the financial reporting quality through the quantitative characteristics of management forecasts, specifically, point or the mid-point of range forecasts acquired from voluntary management disclosures. Bao et al. (2021) use the accruals abnormality and the financial restatements as two main proxies for accounting information quality.

Moreover, several studies have applied the conceptual framework of FASB and IASB since 1980s to gauge the quality of either financial reporting or financial statements (Mita et al., 2020; Ahmad et al., 2022). For example, Jonas and Blanchet (2000) determine the quality of financial reporting through the usefulness of disclosed financial information and the provision of shareholder/investor protection, which is considered the first paper to employ this approach; McDaniel et al. (2002), Choi and Suh (2019), and and Kabwe (2023) exploit accounting comparability of financial reports, which is estimated by output-based measures, as the proxy for financial reporting quality. Yet, these studies focus on some aspects and do not take into consideration the multidimensionality of financial reporting quality. According to "*Conceptual Framework for Financial Reporting*" issued by IASB in 2018, the extent to which disclosed financial information is qualified and useful for making decisions in practice depends on its qualitative characteristic.

Relevance and faithful representation are vital qualitative characteristics. Relevant financial information can make a difference in users' decisions if it has predictive value, employed by users for their own predictions about future business outcomes, and/or confirmatory value, providing feedbacks about previous assessments. These values are interrelated because a financial information may have both predictive and confirmatory value that can support a user to adjust his process applied in previous predictions. Faithful representation means the financial statements should not only be compliant with the legal forms, but also depict complete, neutral, and error-free descriptions and explanations about the quality and nature of the firm's business operations.

Comparability, verifiability, timeliness, and understandability are complimentary qualitative characteristics to boost the usefulness of reported information that both is relevant and faithful. Because users' decisions primely relate to investment alternatives, they prefer information that is comparable to identify similarities, differences, or even the relation among items. Verifiability implies that different and independent experts can reach a consensus about the faithfulness of a particular depiction, or in other words, disclosed information is trustworthy. Timeliness is important for decision-making process because the usefulness of specific information usually declines over time. Understandability means information is classified, characterized, and presented completely and concisely so that users with a reasonable knowledge of business and economic activities can review and analyze the financial reports diligently.

The nexus between CEO's characteristics and the quality of corporate financial statements

A considerable number of researches have focused on the extent to which CEOs' characteristics actually matter to the quality of corporate financial statements, still, they fail to reach a consensus (Habib and Hossain, 2013; Mustapha et al., 2021), either directly or indirectly through corporate performance. Some studies identify a positive relation between them. For example, Armstrong et al. (2010b) claim that CEOs who have higher incentives of equity-based holdings and compensation are less likely to perform accounting irregularities; also, Nguyen et al. (2021a) claim that high incentives of CEO's equity-based compensation strengthen the connection between CEO's personalities and earnings quality proxies; Benmelech et al. (2010) state that a combined compensation, including stock-based performance and cash flow-based bonus, provokes CEOs to make costly efforts (through choosing suboptimal investment options) and reveal bad news about investment opportunities in the future, which eventually maximize the firm value; coherently, Gan et al. (2020) suggest that when bonus contracts offered to CEOs include non-financial performance measures, equity-based compensation efficiently aligns managerial efforts and actions with the firm's long-term value. Demerjian et al. (2012) find that higher CEO's expertise leads to better accruals estimation, regardless of measures for earnings quality, resulting in higher faithfulness of earnings reporting. Brockman et al. (2017) suggest that CEOs with more internal experience issue more voluntary and precise earnings forecasts, reflecting higher quality of financial reporting. Pierk (2020) claims that new CEOs' overconfidence reduces earnings big baths regardless of the turnover type, managerial compensation, and corporate governance structure.

However, these positive effects are found unstable, even mixed regarding to different aspects in CEO's personality. For example, the review of Armstrong et al. (2010a) show that CEO's incentives, influenced by the CEO's expertise and independence, have mixed effects on the properties of corporate governance and the quality of disclosed information. Specifically, it finds a positive relation between the outside directors and the earnings informativeness and accounting quality (through lower discretionary accruals and lower frequency of earnings restatements), but mixed relation between the proportion of financial experts and the quality of earnings management forecasts, also, unclear relation between accounting irregularities and CEO's duality. Huang et al. (2012) indicate that CEO's age has a positive effect on financial reporting quality in general, but negative effect on earnings forecasts and financial restatements. Habib and Hossain (2013)'s review finds that a firm's financial reporting quality is positively improved by CEO/CFO's turnover and female CEOs, but negatively by CEO's overconfidence that exaggerates optimistic management forecasts, causes earnings management and fraudulent behaviors. Khuong and Vy (2017) examine two determinants of timely audit report or financial statements in case of listed firms in Vietnam and find that the timeliness of financial reporting has a significant positive relation with gender diversity of the board but a negative relation with CEO's age. Shekarkhah et al. (2019)'s investigation on listed firms in Iran finds no significant effect of the CEO's overconfidence on financial restatement. Bouaziz et al. (2020) indicate that CEO's duality and nationality exhibit a significantly positive effect on the quality of financial communication, but the impact of CEO's duality and turnover on earnings management is insignificant. Altarawneh et al. (2022) examine listed firms in Malaysia and find that different aspects of CEO's characteristics have dissimilar influences on financial reporting quality reflected by earnings management behavior; specifically, CEO with higher tenure, broader network, and female CEOs are less likely to perform earnings management, while CEO's expertise and age have no significant effect on discretionary accruals.

To our best knowledge, few studies has investigated the specific impact of CEO's income on different aspects of financial statements quality of listed industrial firms in Vietnam so far. It is also noted that in Vietnam, CEO is often titled as Director or General Director. According to the Enterprise Law promulgated by the National Assembly in 2020, the CEO is legally responsible for all business activities of the firm and for all issues related to the provision of corporate financial statements. Thus, it is believed that the CEOs' characteristics, especially their compensations, have a significant influence on the quality of corporate financial statements in Vietnam. In the extent of this study, we focus on investigating the relation between the CEO's income and the quality of financial statements. As suggested by previous literature, the study posits the following hypothesis:

Research hypothesis: The CEO's income positively affects the quality of corporate financial statements.

Data and Empirical Model

Data

This study focuses on the influence of CEO's characteristics on the quality of listed firms' financial statements in the industrial sector. Our sample is constructed with firm-year observations, the data on CEO's personalities including income, gender and duality, and other firm-specific variables including firm size, leverage, and Big4 auditors, is extracted from the annual financial statements of industrial firms listed on Ho Chi Minh Stock Exchange (HSX) during the 3-year period, from 2018 to 2020. Besides, this study exploits the IASB's perspective on the usefulness of financial information, and the measurement suggested by McDaniel et al. (2002), Choi and Suh (2019) and Kabwe (2023) to identify and assess the quality of financial statements. The detailed process of collecting the qualitative characteristics of financial information is described in the next section.

Model

Our linear regression model for panel data is structured as follows:

$$\mathrm{QUALITY}_{it} = \beta_0 + \beta_1 \mathrm{INCOME}_{it} + \beta_2 \mathrm{SIZE}_{it} + \beta_3 \mathrm{BIG4}_{it} + \varepsilon_{it}$$

for i = 1, 2, …, n and t = 1, 2, 3.

In this study, the quality of financial statements (QUALITY) is based on the qualitative characteristics of financial reporting proposed by IASB. As mentioned in the previous section, the quality of reported financial information has two primary characteristics – relevance and truthful presentation, and some complementary characteristics. The study then employs the measurement designed by McDaniel et al. (2002), Choi and Suh (2019) and Kabwe (2023) to quantify this qualitative information. Particularly, the quality of financial information is estimated by 21 items under five qualitative characteristics: relevance, faithful representation, comparability, understandability, and timeliness. According to these authors, the verifiability should not be taken into consideration because it requires observers to have different and independent understandings about the neutral manner of disclosed information, then, if the evaluator is not an independent auditor or a competent person, it is difficult to measure this characteristic. Moreover, we make the difference to adapt the specific conditions of Vietnam. Specifically, some items are not collected or tend to have no impact in Vietnam, e.g., notes on the balance sheet and income statement, the number of the glossary pages, adjusted data of previous accounting periods…, so the authors exclude these criteria. Eventually, there remains 17 items to measure the quality of financial statements: 4 items related to the appropriateness (R1–R4), 5 items related to the faithful presentation (F1-F6), 3 items related to the understandability (U1-U3), 4 items related to comparability (C1-C4) and 1 item related to timeliness (T). All of them are assessed by a five-point rating scale, with 1 for the lowest level and 5 for the highest level of each item. The detailed descriptions are shown in Error! Reference source not found..

The CEO's income (INCOME) is identified by the natural logarithm of CEOs' total income each year, as suggested by Armstrong et al. (2010b). On the one hand, many studies suggest that the improvement in CEOs' compensations can mitigate the agency issues, reducing their personal incentives to manipulate earnings or restate reported information (Armstrong et al., 2010b; Habib and Hossain, 2013). On the other hand, some scholars argue that higher income ratios offered to powerful CEOs may accidentally support their actions of lowering the quality of financial reporting for their bigger personal benefits (Bao et al., 2021).

Firm size (SIZE) is measured by the natural logarithm of total assets at the yearend, as suggested by Minh et al. (2022), Nguyen and Wong (2021), Nguyen et al. (2020b), Ha and Tran-Dang (2020), and Nguyen (2018). Larger firms are more apparent to the society than smaller firms, thus, tend to spend fixed costs to maintain internal auditing procedures for provisioning financial statements to improve the quality of their reports, and disclose more non-financial information to gain legitimacy and social encouragements. We therefore expect a positive influence of the firm size on the quality of financial reporting.

The dummy variable BIG4 is set equal to 1 if the firm's financial statements are audited by any Big-4 audit firms in the fiscal year t, or 0 otherwise, as suggested by Ha and Tran-Dang (2020), Huang et al. (2012), and Jiang et al. (2013). According to these studies, firms that meet the requirements of Big-4 auditors and analyst forecasts are less likely to perform earnings manipulation. Thus, we expect a positive coefficient on BIG4.

ε_{it} is the error term that contains both idiosyncratic error term u_{it} and unobserved firm-specific characteristics σ_{it}, such that $\varepsilon_{it} = u_{it} + \sigma_{it}$. Depending on the assumption on the unobserved firm-specific characteristics term, σ_{it}, we can run two different linear regressions with the panel data: a Random Effects model (REM) with the assumption that σ_{it} varies across time, or a Fixed Effects model (FEM) if σ_{it} does not change across time. The independent variables should be irrelated to the error term to avoid correlation problems (Nguyen et al., 2019). We also run the pooled Ordinary Least Squares (OLS) regression to consider the specific time effect, because this method does not distinguish a firm's characteristics and its time trend. In case that the assumptions of homoscedasticity and the exogeneity are violated, this study uses the Feasible Generalized Least Squares (FGLS) regression to correct the model errors.

Results and Discussion

Descriptive Statistics

The statistical descriptions of the research sample of 89 industrial firms listed on HSX are shown in Table 1. The results demonstrate that there exists a remarkable discrepancy in the firm-specific properties among industrial firms in the sample. Particularly, while the highest income paid to the CEO is over VND 1.01 billion per year (the natural logarithm value is 4.382), the lowest income paid is just about VND 0.08 billion per year (the natural logarithm value is 9.460). Also, the biggest firm has the SIZE value of 11.329, while the value of the smallest firm is just 5.303. However, the quality of financial statements of listed firms in the sample is relatively similar. The variable QUALITY has the mean value of 58.38, with the standard deviation is only 6.27, which means most of the sample firms gain above-average scores.

Table 1. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Max	Min
QUALITY	30	58.38	6.27	72	43
INCOME	30	6.918	7.155	9.460	4.382
SIZE	30	8.496	9.213	11.329	5.303
BIG4	30	-	-	1	0

Source: authors

In Table 2, The correlation test indicates that all pairwise coefficients are less than 0.5, which affirms no autocorrelation between variables. Besides, it is noted that the VIF value is an important indicator to identify the possibility of multicollinearity in the model; if this value is greater than 10, the multicollinearity is more likely to exist (Gujarati et al., 2017). The results show that all VIF coefficients are small and less than 2, implying no serious multicollinearity.

Table 2. Correlation matrix

Variable	QUALITY	INCOME	SIZE	BIG4	VIF
QUALITY	1				

INCOME	0.32	1			1.14
SIZE	0.46	0.3	1		1.24
BIG4	0.19	0.28	0.4	1	1.23

Source: authors

Empirical findings

Table 3. The regression results

Variables	OLS	FEM	REM	FGLS
INCOME	3.368*** (3.52)	-0.623 (-0.68)	0.581 (0.70)	0.813* (1.86)
SIZE	4.583*** (6.89)	5.363*** (2.91)	5.122*** (5.60)	5.186*** (13.29)
BIG4	-0.345 (-0.42)	-2.141 (-1.40)	-0.803 (-0.79)	-0.217 (-0.62)
Constant	-27.506***	-1.328	-7.373	-13.021**
Model fit (F statistics/ Wald's test)	28.87***	2.96***	36.17***	211.55***
Hausman's test		10.99***		
Modified Wald's test		790***		
Wooldridge's test		257.653***		

Note: OLS: Ordinary Least Squares model; FEM: Fixed Effects model; REM: Random Effects model; FGLS: Feasible Generalized Least Squares model. The value of t statistic is in ( ). ***, **, and * represent the 1%, 5%, and 10% significance level, respectively

Source: authors.

The regression results by FGLS estimation demonstrate inconsistent impact of each factor on the firms' financial statements quality. The coefficient of INCOME is positive and statistically significant at 10% significance level. This means the CEOs' income enhances the reports quality only at the 10% significance level, not in any cases. On the one hand, this result is coherent with the plenty of previous studies such as Armstrong et al. (2010b), Habib and Hossain (2013), Nguyen et al. (2021a), which confirm the positive relation between CEOs' characteristics and the quality of financial report. On the other hand, the result posed by FGLS estimation is not robust with other models. Particularly, while using OLS estimation, the coefficient of INCOME is also positive and statistically significant at any significance levels, this variable's coefficients in FEM and REM are totally insignificant. Thus, the study supports that the positive influence of CEO's compensation properties is unstable, based on other external factors, e.g., the firm's growth opportunities (Nguyen et al., 2020a), types of compensation (Benmelech et al., 2010; Chen et al., 2021; Gan et al., 2020), auditors' efforts (Chen et al., 2021). Thus, the posited hypothesis is accepted.

Among firm-specific factors, the firm's size has significantly positive effect on the quality of financial statements at any significance levels. This result is consistent with the aforementioned arguments and expectation that larger firms attract more public attention on their business activities and social responsibilities, which encourages them to perform more honest and intensive information (Tran et al., 2021; Nguyen et al., 2021b; Nguyen et al., 2020b). Contrastingly, the coefficient of dummy variable BIG4 is negative, however, insignificant at any significance level. Thus, the study cannot identify whether being audited by Big 4 auditing firms impact the quality of firms' financial statements. This finding is opposite to some previous studies' evidence such as Huang et al. (2012).

Conclusion

The fast-paced development of economic globalization and capital markets urge the public attention on the quality of disclosed financial statements and the behaviors of firms' senior executives. Although there has been a long record of studies focusing on the correlation between the corporate board's characteristics, especially the CEOs', and the reported information quality, few of them notices the individual effect of CEO's income. Moreover, most of previous studies use quantitative measures to evaluate the qualitative properties of financial information disclosure, which lacks comprehensiveness and suitability for emerging countries. Therefore, this study takes advantage of qualitative characteristics of financial reporting proposed by IASB and the measurement designed by McDaniel et al. (2002), Choi and Suh (2019) and Kabwe (2023) to quantify the quality of reported financial information. The study examines the relation between the CEOs' income and the quality of financial statements of industrial firms listed on Ho Chi Minh Stock Exchange (HSX) during the 3-year period, from 2018 to 2020. We use different linear regression models (pooled OLS, REM, and FEM) and statistical tests to check the results' robustness and identify the regression errors, then employ the FGLS estimation to cover these flaws.

The main finding contributes the empirical evidence that the CEO's income positively affects the quality of corporate financial statements. However, we clearly demonstrate that this positive effect is unstable due to external factors such as the estimation methods, types of compensation offered to CEOs and their incentives related to personal benefits, as well as the firm's prospects. Additionally, the analysis results confirm the positive correlation between the firm's size and the quality of disclosed reports, consistent with prior studies. However, we find that the financial statements' quality is not influenced by Big 4 auditors, which is unexpected to some previous literature.

Despite these contributions, the study cannot avoid some limitations. Generally, most of quantitative models require large dataset to build the objectiveness and credibility of the regression results (Bansal and Corley, 2011), which can be an obvious challenge for emerging countries due to data constraints. Thus, we must reduce the sample size to ensure the balance of the panel data. Other studies can use a larger sample comprising different industries and countries to strengthen the robustness and representativeness of the research findings. Besides, due to authors' perspective, the study merely focuses on the mono-directional impact of CEO's income on the financial statement quality. However, several studies have mentioned the reverse, or even causal, effect between these aspects, e.g., Choi and Suh (2019) and Cheng and Farber (2008). Further studies can broaden their perspectives to investigate the multidimensionality of this relation, and also add more other factors (e.g.

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