CORPORATE GOVERNANCE AND CEO CHARACTERISTICS ON FINANCIAL REPORTING QUALITY: EVIDENCE FROM CONSUMER GOODS COMPANIES IN ASEAN

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Toto Rusmanto  

ABSTRACT

Objective: The purpose of this study is to obtain empirical evidence regarding the effect of corporate governance (board size, board independence, audit committee size, audit committee independence) and CEO characteristics (CEO age, CEO duality, and CEO gender) on financial reporting quality.

Method: This study conducted content analysis and linear regression analysis on 258 consumer goods sector companies listed on the Osiris and Bloomberg databases for the period 2018-2021.

Results and Discussion: The results obtained revealed that board size and CEO gender have a positive effect on financial reporting quality. In contrast, board independence and CEO duality have a negative effect on financial reporting quality. Meanwhile, audit committee size, audit committee independence, and CEO age have no effect on financial reporting quality.

Research Implications: The research on financial reporting quality explains useful implications for companies to make economic decisions and avoid fraud that happens to a company.

Originality/Value: Authors find that no studies have investigated the effect of corporate governance and CEO characteristics in the ASEAN context. This study provides empirical data about the effect of corporate governance and CEO characteristics on financial reporting quality and how these different compositions and characteristics can facilitate the transition to manipulate and affect the financial reporting quality.

Keywords: Corporate Governance, CEO Characteristics, Financial Reporting Quality, Earnings Management.

GOVERNANÇA CORPORATIVA E CARACTERÍSTICAS DO CEO SOBRE A QUALIDADE DOS RELATÓRIOS FINANCEIROS: EVIDÊNCIAS DE EMPRESAS DE BENS DE CONSUMO NA ASEEAN

RESUMO

Objetivo: O objetivo deste estudo é obter evidências empíricas sobre o efeito da governança corporativa (tamanho do conselho, independência do conselho, tamanho do comitê de auditoria, independência do comitê de auditoria) e características do CEO (idade do CEO, dualidade do CEO e gênero do CEO) na qualidade dos relatórios financeiros.

Método: Este estudo realizou análise de conteúdo e análise de regressão linear em 258 empresas do setor de bens de consumo listadas nas bases de dados Osiris e Bloomberg para o período 2018-2021.

Resultados e Discussão: Os resultados da pesquisa indicaram que o tamanho do conselho e o CEO têm um impacto positivo na qualidade dos relatórios financeiros. Em contraste, a independência do conselho e a dualidade do CEO têm um impacto negativo na qualidade dos relatórios financeiros. Entretanto, o tamanho do comitê de auditoria, a independência do comitê de auditoria e a idade do CEO não têm impacto na qualidade dos relatórios financeiros.

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Implicações da Pesquisa: A investigação sobre a qualidade dos relatórios financeiros explica implicações úteis para as empresas tomarem decisões econômicas e evitarem fraudes que acontecem a uma empresa.

Originalidade/Valor: Os autores consideram que nenhum estudo investigou o efeito da governança corporativa e das características do CEO no contexto da ASEAN. Este estudo fornece dados empíricos sobre o impacto da governança corporativa e das características do CEO na qualidade dos relatórios financeiros e como essas diferentes composições e características podem facilitar a transição para manipular e influenciar a qualidade dos relatórios financeiros.

Palavras-chave: Governança Corporativa, Características do CEO, Qualidade dos Relatórios Financeiros, Gerenciamento de Resultados.

GOBIERNO CORPORATIVO Y CARACTERÍSTICAS DEL CEO SOBRE LA CALIDAD DE LOS INFORMES FINANCIEROS: EVIDENCIA DE EMPRESAS DE BIENES DE CONSUMO EN LA ASEAN

RESUMEN

Objetivo: El propósito de este estudio es obtener evidencia empírica sobre el efecto del gobierno corporativo (tamaño del directorio, independencia del directorio, tamaño del comité de auditoría, independencia del comité de auditoría) y las características del CEO (edad del CEO, dualidad del CEO y género del CEO) en la calidad de la información financiera.

Método: Este estudio realizó análisis de contenido y análisis de regresión lineal sobre 258 empresas del sector de bienes de consumo que cotizan en las bases de datos Osiris y Bloomberg para el período 2018-2021.

Resultados y Discusión: Los resultados obtenidos revelaron que el tamaño de la junta directiva y el género del CEO tienen un efecto positivo en la calidad de los informes financieros. Por el contrario, la independencia del consejo de administración y la dualidad de los directores ejecutivos tienen un impacto negativo en la calidad de la información financiera. Mientras tanto, el tamaño del comité de auditoría, la independencia del comité de auditoría y la edad del director ejecutivo no tienen ningún efecto sobre la calidad de los informes financieros.

Implicaciones de la investigación: La investigación sobre la calidad de los informes financieros explica implicaciones útiles para que las empresas tomen decisiones económicas y eviten el fraude que le sucede a una empresa.

Originalidad/Valor: Los autores encuentran que ningún estudio ha investigado el efecto del gobierno corporativo y las características del CEO en el contexto de la ASEAN. Este estudio proporciona datos empíricos sobre el impacto del gobierno corporativo y las características del CEO en la calidad de los informes financieros y cómo estas diferentes composiciones y características pueden facilitar la transición para manipular e influir en la calidad de los informes financieros.

Palabras clave: Gobierno Corporativo, Características del CEO, Calidad de los Informes Financieros, Gestión de Resultados.

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1 INTRODUCTION

The increasingly developing era where more companies operate in various fields has resulted in an increasingly competitive business world, therefore corporate governance must be competitive and efficient to attract investors to invest their capital in the company (Hasan et
al., 2022). The fact that the company is operating well can be seen in its annual report. The contents of an annual report include financial reporting and other information that covers the performance of an organization or company for a year. This report is a form of company responsibility to the organization, both internal and external to the company (Weygandt et al., 2018).

Companies use financial reporting to communicate their financial performance and position with stock market participants who need to have trust in the quality of the information provided in these reports to make economic decisions (Hasan et al., 2022). Therefore, the quality of financial reporting is essential in maintaining financial market efficiency because market players, such as investors, lenders, and regulators, rely on financial reporting information to make a decision (Yeh et al., 2014).

The composition of the board and audit committee is an important governance practice that affects the quality of financial information (Hasan et al., 2022). The board of directors is considered the central point in providing effective oversight of the company's financial reporting system to stakeholders (Mansor et al., 2013). The audit committee of a company's board of directors has received broad-based support over the years as a key component of effective corporate governance. The audit committee's main task is to oversee the financial reporting process to ensure managers report their company's performance ethically (Kusnadi et al., 2016).

Agency theory shows that managers have large incentives to manipulate earnings management. Therefore, the relationship between CEO characteristics and corporate earnings management requires much research (Bouaziz et al., 2020).

According to Hasan et al. (2022), financial reporting quality means the absence of earnings management, which is a deliberate exploitation of the financial reporting process. One of the information contained in financial reporting is company profit information, this profit information is often the target of management's opportunistic actions to maximize satisfaction. This speculation is carried out by choosing certain accounting policies that allow the company's profits to adjust, increase, or decrease as desired, therefore a weak governance structure can provide an opportunity for managers to engage in behavior that will ultimately result in lower quality of reported earnings, which is a strong indication of a serious breakdown in ethics business (Sáenz González & García-Meca, 2014). Perols & Lougee (2011) also stated that earnings management practices carried out by managers continuously can lead to fraud, namely by manipulating financial reporting.
Association of Certified Fraud Examiners (ACFE) in Global Report to The Nations (RTTN) Study on Occupational Fraud and Abuse 11th (2020) and 12th (2022) edition reports the scheme fraud common practice in various industries. ACFE found that manufacturing companies were in third place as an industry with the largest cases of fraud, which is a case of financial statement fraud, and the manufacturing sector is one of the sectors with the highest number of financial statement fraud cases in 2020 and 2022. The average loss due to fraud in that sector reached $275,000 in 2020 and reached $100,000 in 2022 (ACFE, 2020; ACFE, 2022).

One of the financial statement fraud cases in Indonesia is the case of earnings management carried out by PT Tiga Pilar Sejahtera Food Tbk (AISA). It was found that the practice of inflating financial reports in 2017 amounted to 4 trillion rupiahs from the issuer (DetikFinance, 2019).

Securities company Phintraco Securities stated the consumer goods sector or consumer goods have become one of the popular sectors for stock market investors in 2020, for example, in Unilever (UNVR) and Indofood (ICBP), where share prices increased to levels of IDR 8,225/share and IDR 10,225/share, for that Phintraco recorded an increase in investors of 47% (ANTARA, 2020).

For more than a decade, Southeast Asia has been a fast-growing market for consumer-packaged goods (CPG) manufacturers. The continued increase in consumer demand in this sector is indeed good for business (McKinsey, 2018). The object of this research focuses on consumer goods companies, because this sector produces products that are directly related to consumers, and becoming the center of attention for business people.

Based on the information above, this research is quite important to carry out, because financial reporting quality is important for making economic decisions and to avoid fraud that happens to a company. This research is a replication and development of what has previously been carried out by several researchers, such as research by Hasan A., Aly D., & Hussainey K (2022) which examined a comparison of two countries for several elements of corporate governance on financial reporting quality, and Bouaziz D, Salhi B, & Jarboui A (2020) which examined CEO characteristics regarding earnings management.

The research aims to obtain empirical evidence of the effect of corporate governance and CEO characteristics on financial reporting quality. Corporate governance includes the size of the board of directors, the independence of the board of directors, the size of the audit committee, and the independence of the audit committee. CEO characteristics include CEO age, CEO duality, and CEO gender.
2 THEORETICAL FRAMEWORK

This study used agency theory and upper-echelon theory to fully understand the relationship between financial reporting quality with corporate governance and CEO characteristics.

Agency theory shows that one of the things that facilitates the practice of earnings management is information asymmetry which incites managers to make a necessary decision to improve their situation and maximize their utility, to the detriment of other stakeholders (Bouaziz et al., 2020). This situation creates agency cost which results in the board's work being less effective and lacking in independence, resulting in a reduction in overall company performance (Fama & Jensen, 1983).

Upper echelon theory assumes that top managers are strategic decision-makers in an organization so that the decisions they make have a direct impact on the organization. A leader is influenced by their abilities, beliefs, and individual characteristics such as age, functional footprint, other career experiences, education, socioeconomic roots, and financial conditions, causing the decision-making and responses given by each organizational leader to be different (Hambrick & Mason, 1984).

Earnings management is the manager's ability to manipulate reported earnings using discretion in accounting principles (Alqatamin et al., 2017; Bouaziz et al., 2020). Rankin et al. (2018) state that the two main reasons managers carry out earnings management are to benefit the company and to fulfill short-term goals which have an impact on maximizing managerial remuneration and bonuses.

This research uses accrual earnings management which is measured by discretionary accrual. The positive value of discretionary accrual indicates that the company tends to carry out earnings management in an income-increasing pattern, while a negative value of discretionary accrual indicates that the company tends to carry out earnings management in an income-decreasing pattern (Ratmono et al., 2015).

Trueman & Sheridan (1988) found a positive relationship between earnings management and asymmetric information or imbalance information, which suggests that the higher the level of asymmetry, the higher the possibility of earnings management activity.
Agency theory argues that a larger corporate board strengthens capacity and improves monitoring of corporate operations, which means a larger board size can improve financial reporting quality (Hsu & Yang, 2022). According to Hasan et al. (2022) research, board size has a positive effect on financial reporting quality because larger boards are less likely to be dictated to by controlling shareholders and can effectively carry out their supervisory obligations. The results of other similar studies conducted by Hsu & Yang (2022), Mansor et al. (2013), and Sáenz González & García-Meca (2014), support that board size has a positive effect on financial reporting quality. Thus the hypothesis is as follows:

**H1:** Board size has a positive effect on financial reporting quality

### 2.2 INDEPENDENCE OF THE BOARD OF DIRECTORS AND FINANCIAL REPORTING QUALITY

Independent directors are unaffiliated parties in the organization, namely major shareholders, members of the board of directors, or members of the board of commissioners. The role of board independence is as a balance to other affiliated directors. Agency theory states that independent directors perform a key monitoring role to resolve agency conflicts resulting from the separation of ownership and control which positively affects financial reporting quality (Hasan et al., 2022).

Corporate governance literature also emphasizes that a greater degree of independence of the board provides greater control over the development of the company's activities and better defense against information problems as a mechanism for carrying out accountability processes to the various business interest groups since the external board of directors is not related to the management of the entity (Sáenz González & García-Meca, 2014). The results of another similar study were conducted by Hasan et al. (2022), Mansor et al. (2013), and Sáenz González and García-Meca (2014), which show that the board independence variable has a positive effect on financial reporting quality. Thus, the hypothesis is as follows:

**H2:** Board independence has a positive effect on financial reporting quality
2.3 AUDIT COMMITTEE SIZE AND FINANCIAL REPORTING QUALITY

The role of the audit committee in the organization is to assist the board of commissioners in increasing the effectiveness of internal auditors and external auditors as well as assisting auditors in maintaining their independence from management to improve financial reporting quality so that the existence of an audit committee is useful for ensuring transparency and openness of financial reporting. Agency theory states that a larger audit committee can effectively carry out its corporate oversight function. Similar research was carried out by Mansor et al. (2013), which shows that the size of the audit committee has a positive effect on financial reporting quality. Thus, the hypothesis is as follows:

H3: The size of the audit committee has a positive effect on financial reporting quality.

2.4 AUDIT COMMITTEE INDEPENDENCE AND FINANCIAL REPORTING QUALITY

The main task of the audit committee is to supervise the financial reporting process, the effectiveness of internal control, and the monitoring of internal and external auditors, where agency theory states that this increases the capacity of the board of directors (principal) to act as a management monitor (agent) by providing more detailed knowledge and understanding of the company's financial reports, where the existence and independence of audit committee members can help them to balance the different views of management and external auditors to produce high-quality financial reports (Kusnadi et al., 2016; Pincus et al., 1989).

With independence, the audit committee can optimize monitoring and provide criticism regarding management policies so that the audit committee can reduce the possibility of financial reports being manipulated. Independent audit committee members will ensure the delivery of higher-quality financial reports (Hasan et al., 2022). Research from Mansor et al. (2013), supporting the independence of the audit committee has a positive effect on financial reporting quality. Thus, the hypothesis is as follows:

H4: Audit committee independence has a positive effect on financial reporting quality.

2.5 CEO AGE AND FINANCIAL REPORTING QUALITY

Upper echelon theory (Hambrick & Mason, 1984), assumes that the characteristics of top management and what they do are very influential in company decision-making. Older CEOs prioritize the principle of prudence in decision-making. Older individuals are more
ethical and conservative than younger individuals, they are less likely to engage in aggressive earnings management which would result in lower-quality financial reporting (Huang et al., 2012). Hambrick and Mason's (1984) study suggests that younger CEOs contribute more to business growth and development than older CEOs, and suggests that older managers are less likely to pursue risky strategies because they lack the ability to generate new ideas. and pay more attention to future financial security. Previous research by Huang et al. (2012), and Hambrick and Mason (1984) support that CEO age has a positive effect on financial reporting quality. Thus, the hypothesis is as follows:

**H5: CEO age has a positive effect on financial reporting quality**

2.6 CEO DUALITY AND FINANCIAL REPORTING QUALITY

Agency theory states that CEOs with dual functions are more motivated to manage profits because CEO duality allows the CEO to be more powerful and reduces the administrator's ability to monitor business directors, which increases agency problems. Agency theory also suggests that CEO duality facilitates CEO entrenchment behavior and weakens the general responsibility of a board of directors, which shows that the duality of the CEO is more driven to manage profits, and results in lower financial reporting quality. CEO duality allows the CEO to be more powerful and can reduce the administrator's ability to monitor business directors increasing agency problems. Thus, the hypothesis is as follows:

**H6: CEO age has a positive effect on financial reporting quality**

2.7 CEO GENDER AND FINANCIAL REPORTING QUALITY

Stereotype society about gender can be related to the position of CEO in the company. Upper echelon theory (Hambrick & Mason, 1984), assumes that the characteristics of top management and what they do are very influential in company decision-making. In general, women are considered more ethical and possessive-teamwork which is higher compared to men, where female executives are more accountable than male executives (Ashafoke et al., 2021). Faccio et al. (2016) compared female CEOs with male CEOs and documented that female CEOs tend to avoid riskier investment and financing opportunities, meaning female CEOs are more conservative and risk-averse than men. As a result, companies with female CEOs are characterized as companies with low levels of leverage (not risky). According to Bouaziz et al. (2020), female executives are better suited to understand client needs, make more
ethical decisions in their work than men, and tend to manage accounting results that produce high-quality financial reporting. Thus, the hypothesis is as follows:

\[ H7: \text{CEO gender has a positive effect on financial reporting quality} \]

3 METHODOLOGY

3.1 DATA & SAMPLE

This research uses secondary data, namely data obtained from third parties based on company information contained in Osiris and Bloomberg databases, as well as annual reports. The research population is consumer goods companies in ASEAN for the 2018-2021 period. The sampling technique used in this research is purposive sampling which uses certain considerations.

Table 1

Sample criteria selection results

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer goods companies listed in the Osiris and Bloomberg databases for the 2018-2021 period</td>
<td>397</td>
</tr>
<tr>
<td>Companies that do not have financial data information for the 2018-2021 period</td>
<td>-55</td>
</tr>
<tr>
<td>Companies that do not publish annual reports and do not have director and CEO profile content for the 2018-2021 period</td>
<td>-84</td>
</tr>
<tr>
<td>Total sample for 2018-2021</td>
<td>258</td>
</tr>
</tbody>
</table>

Source: Processed researcher data (2023)

3.2 VARIABLE AND MEASUREMENT

3.2.1 Dependent Variable

The dependent variable in the regression model in this study is the financial reporting quality which is proxied by accrual earnings management. Accrual earnings management is measured using discretionary accrual which is calculated by finding the difference between the total accruals with non-discretionary accruals (Bouaziz et al., 2020; Hasan et al., 2022; Soroushyar, 2022). In this research, financial reporting quality is proxied by accrual earnings management using the Modified Jones Model in discretionary accrual calculation (Dechow et al., 1995). The following are the calculation steps of the Modified Jones Model:
• Calculating total accruals (TA):

\[ TA_{it} = NI_{it} - CFO_{it} \]  

(1)

where:

- \( TA_{it} \): Company Total Accruals
- \( NI_{it} \): Net Profit of company i in period t
- \( CFO_{it} \): Cash Flow Operating of company i in period t

• Estimating total accruals (TA\(_{it}\)) with Ordinary Least Square:

\[ \frac{TA_{it}}{A_{it-1}} = \alpha_1 + \frac{1}{A_{it-1}} + \alpha 2 \frac{\Delta REV_{it}}{A_{it-1}} + \alpha 3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon \]  

(2)

• Calculating non-discretionary accruals (NA\(_{it}\)):

\[ NA_{it} = \alpha 1 + \frac{1}{A_{it-1}} + \alpha 2 \frac{\Delta REV_{it}-\Delta REC_{it}}{A_{it-1}} + \alpha 3 \frac{PPE_{it}}{A_{it-1}} \]  

(3)

• Calculating discretionary accruals (AEM):

\[ AEM_{it} = [(TA_{it} / A_{it-1}) - NA_{it}] \]  

(4)

Where:

- \( AEM_{it} \): Accrual Earnings Management in the company period t as measured by Discretionary Accruals
- \( NA_{it} \): Non-Discretionary Accruals in company i period t
- \( TA_{it} \): Total Accruals in company i period t
- \( A_{it-1} \): Total Accruals in company i period t-1
- \( \Delta REV_{it} \): Company i's income in year t minus by company i's income in year t-1
- \( PPE_{it} \): Property, plant, and equipment company i in period t
- \( \Delta REC_{it} \): Company i's receivables in year t minus company i's receivables in year t-1
- \( \varepsilon \): Error
3.2.2 Independent Variable

Table 2

Operational table independent variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Measurement</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board Size (X1)</td>
<td>Number of members of the Board of Directors</td>
<td>(Hasan et al., 2022)</td>
</tr>
<tr>
<td>Board Independence (X2)</td>
<td>Number of unaffiliated members of the board of directors</td>
<td>(Hasan et al., 2022)</td>
</tr>
<tr>
<td>Audit Committee Size (X3)</td>
<td>Number of audit committee members</td>
<td>(Hasan et al., 2022)</td>
</tr>
<tr>
<td>Audit Committee Independence (X4)</td>
<td>Number of unaffiliated audit committee members</td>
<td>(Hasan et al., 2022)</td>
</tr>
<tr>
<td>CEO Age (X5)</td>
<td>Logarithm of CEO age</td>
<td>(Bouaziz et al., 2020)</td>
</tr>
<tr>
<td>CEO Duality (X6)</td>
<td>Dummy variable, if the CEO has two positions</td>
<td>(Bouaziz et al., 2020)</td>
</tr>
<tr>
<td></td>
<td>as CEO and chairman of the board is given the number</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1, if the position is separate it is given the number</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>CEO Gender (X7)</td>
<td>Dummy variable, if the CEO is a woman, it is given</td>
<td>(Bouaziz et al., 2020)</td>
</tr>
<tr>
<td></td>
<td>the number 1, if the CEO is a man, it is given the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>number 0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Processed researcher data (2023)

4 RESULTS AND DISCUSSION

4.1 DESCRIPTIVE STATISTICS

Descriptive statistical results can be seen in the table below:

Table 3

Descriptive statistics table result

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Min</th>
<th>Max</th>
<th>Mean</th>
<th>Std. Devi</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSIZE</td>
<td>1032</td>
<td>.00</td>
<td>22.00</td>
<td>75.804</td>
<td>.367197</td>
</tr>
<tr>
<td>BIND</td>
<td>1032</td>
<td>.00</td>
<td>9.00</td>
<td>31.948</td>
<td>.161823</td>
</tr>
<tr>
<td>AUDS</td>
<td>1032</td>
<td>.00</td>
<td>6.00</td>
<td>31.696</td>
<td>.83991</td>
</tr>
<tr>
<td>AUDI</td>
<td>1032</td>
<td>.00</td>
<td>6.00</td>
<td>28.527</td>
<td>.97476</td>
</tr>
<tr>
<td>AGE</td>
<td>1032</td>
<td>30.00</td>
<td>90.00</td>
<td>561.027</td>
<td>1.102634</td>
</tr>
<tr>
<td>DUAL</td>
<td>1032</td>
<td>.00</td>
<td>1.00</td>
<td>.2607</td>
<td>.43921</td>
</tr>
<tr>
<td>GEN</td>
<td>1032</td>
<td>.00</td>
<td>1.00</td>
<td>.0950</td>
<td>.29330</td>
</tr>
<tr>
<td>DAC</td>
<td>1032</td>
<td>-1.11</td>
<td>.82</td>
<td>-.0352</td>
<td>.11317</td>
</tr>
</tbody>
</table>

Source: Processed researcher data (2023)

The variables BSIZE, BIND, AUDS, and AUDI have a minimum value of 0.00, which means there are still companies that do not have a member of each composition.

The AGE variable or CEO age has a minimum value of 30.00, and a maximum value of 90.00 which means that the youngest age in the company is found to be 30 years old, and the
The oldest age is found to be 90 years old. The variable DUAL has an average value of 26.07%, it considered poor. The variable GEN has an average score of 9.5%, this means the number of female CEOs in the companies is considered poor.

The DAC variable or financial reporting quality, which is measured by earnings management, has a minimum value of -1.11. A negative DAC value indicates that the company tends to carry out earnings management in a pattern of income-decreasing. Meanwhile, the maximum value is 0.82. A positive DAC value indicates that the company tends to carry out earnings management in a pattern of income-increasing. The average value shows a value of -0.0352. This shows that on average consumer goods companies in ASEAN tend to carry out profit management in a pattern of income-decreasing.

4.2 CLASSIC ASSUMPTION TEST

There are four tests based on the Ghozali (2018) method, the first is the normality test using the Kolmogorov-Smirnov method and a value of 0.000 is obtained.

Table 4
Kolmogorov-Smirnov test table result

<table>
<thead>
<tr>
<th>One-Sample Kolmogorov-Smirnov Test</th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>1032</td>
</tr>
<tr>
<td>Normal Parameters*</td>
<td>Mean</td>
</tr>
<tr>
<td></td>
<td>.0000000</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation</td>
</tr>
<tr>
<td></td>
<td>.11227108</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td>Absolute</td>
</tr>
<tr>
<td></td>
<td>.143</td>
</tr>
<tr>
<td></td>
<td>Positive</td>
</tr>
<tr>
<td></td>
<td>.143</td>
</tr>
<tr>
<td></td>
<td>Negative</td>
</tr>
<tr>
<td></td>
<td>-.131</td>
</tr>
<tr>
<td>Test Statistic</td>
<td>.143</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)*</td>
<td>.000</td>
</tr>
<tr>
<td>Monte Carlo Sig. (2-tailed)d</td>
<td>Sig</td>
</tr>
<tr>
<td></td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>99% Confidence Interval</td>
</tr>
<tr>
<td></td>
<td>Lower Bound .000</td>
</tr>
<tr>
<td></td>
<td>Upper Bound .000</td>
</tr>
</tbody>
</table>

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. Lilliefors’ method is based on 10000 Monte Carlo samples with starting seed 299883525.

Source: Processed researcher data (2023)

*P-value* is smaller than alpha (0.000 < 0.05), it can be concluded that the residual data is not normally distributed, but because the data is panel data, the normality of the data is assumed to have been fulfilled because the panel data has more than 30 observations, this is appropriate with the central limit postulate (*central limit theorem*) which states that if there is
n more than 30 then it is stated that the data has a tendency to be normally distributed (Kwak & Kim, 2017). Based on this, further testing can be carried out.

The second test carried out was the heteroscedasticity test.

**Figure 1**

*Heteroscedasticity test result*

[Image of scatterplot showing heteroscedasticity test result]

Source: Processed researcher data (2023)

The resulting image shows that the points are spread randomly, and not forming a pattern. The points spread both above and below zero on the Y-axis. It can be concluded that there is no heteroscedasticity in the regression model, so the regression model is suitable for use in the following analysis.

The third test carried out was the multicollinearity test.
The results showed that the VIF value of each independent variable was below 10. Based on these results, it can be concluded that there is no multicollinearity between the independent variables in the model.

The last test carried out was autocorrelation using the Durbin-Watson method.

The final Durbin-Watson value was 1.909, which was between -2 and +2 (-2 < 1.909 < +2). These results indicate that in the regression model, there is no autocorrelation, thus the model meets the requirements for regression testing.

### 4.3 PEARSON PRODUCT MOMENT CORRELATION ANALYSIS

Based on the Pearson Product Moment correlation analysis in Table 7, it can be seen that the correlation coefficient (R) value is 0.126. This value indicates a very weak relationship between the independent variable simultaneously and the dependent variable based on the Guilford criteria (Sugiyono, 2019).
Table 7

Pearson product-moment correlation coefficient value table

<table>
<thead>
<tr>
<th>Model Summary(^b)</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td>R</td>
<td>R Square</td>
<td>Adjusted R Square</td>
<td>Std. Error of the Estimate</td>
</tr>
<tr>
<td>1</td>
<td>.126(^a)</td>
<td>.016</td>
<td>.009</td>
<td>.11265</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CEO Gender (GEN), Board size (BSIZE), CEO Duality (DUAL), Audit Committee Independence (AUDI), CEO age (AGE), Board Independence (BIND), Audit Committee size (AUDS)

b. Dependent Variable: AEM (DAC)

Source: processed researcher data (2023)

4.4 ANALYSIS OF THE COEFFICIENT OF DETERMINATION

The coefficient of determination is the square of the correlation coefficient (Sugiyono, 2019). Once it is known that the R-value is 0.126, the coefficient of determination can be calculated using the following formula:

\[
KD = R^2 \times 100%
\]

\[
= (0.126)^2 \times 100\% \tag{5}
\]

\[
= 0,016
\]

Thus, the coefficient of determination value obtained is 1.6\%, which shows that the effect of Board Size, Board Independence, Audit Committee Size, Audit Committee Independence, CEO Age, CEO Duality, and CEO Gender is 1.6\% on financial reporting quality. Meanwhile, the remaining 98.4\% was affected by other factors not observed in this study.

4.5 MULTIPLE LINEAR REGRESSION ANALYSIS

In this study, multiple linear regression analysis is intended to determine the effect of board size (BSIZE), board independence (BIND), audit committee size (AUDS), audit committee independence (AUDI), CEO age (AGE), CEO duality (DUAL), CEO gender (GEN) on the financial reporting quality. The goal is to predict or estimate the value of the dependent variable in a cause-and-effect relationship to the value of other variables. Therefore, the multiple linear regression model can be formulated as follows:
\[ AEM = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 AUDS + \beta_4 AUDI + \beta_5 AGE + \beta_6 DUAL + \beta_7 GEN + \varepsilon \]  

Where:

AEM = Financial Reporting Quality as measured by Accruals Earnings Management
BSIZE = Board Size
BIND = Board Independence
AUDS = Audit Committee Size
AUDI = Audit Committee Independence
AGE = CEO Age
DUAL = CEO Duality
GEN = CEO Gender
\( \varepsilon \) = Error

### Table 8

**Multiple linear regression table results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-.035</td>
<td>.072</td>
<td>-.495</td>
<td>.621</td>
</tr>
<tr>
<td>Board Size (BSIZE)</td>
<td>-.002</td>
<td>.001</td>
<td>-.069</td>
<td>-1.772</td>
</tr>
<tr>
<td>Board Independence (BIND)</td>
<td>.007</td>
<td>.003</td>
<td>.099</td>
<td>2.482</td>
</tr>
<tr>
<td>Audit Committee Size (AUDS)</td>
<td>.004</td>
<td>.006</td>
<td>.028</td>
<td>.649</td>
</tr>
<tr>
<td>Audit Committee Independence (AUDI)</td>
<td>-.003</td>
<td>.005</td>
<td>-.028</td>
<td>-.637</td>
</tr>
<tr>
<td>CEO Age (AGE)</td>
<td>-.007</td>
<td>.042</td>
<td>-.005</td>
<td>-.167</td>
</tr>
<tr>
<td>CEO Duality (DUAL)</td>
<td>.022</td>
<td>.008</td>
<td>.085</td>
<td>2.710</td>
</tr>
<tr>
<td>CEO Gender (GEN)</td>
<td>-.021</td>
<td>.012</td>
<td>-.055</td>
<td>-1.751</td>
</tr>
</tbody>
</table>

a. Dependent Variable: AEM (DAC)
Source: Processed researcher data (2023)

**4.5.1 The Effect of Board Size on Financial Reporting Quality**

The size of the board of directors has a significant value of 0.077 and a coefficient of -0.002. This shows that the size of the board of directors has a positive effect on financial reporting quality, meaning that H1 is accepted. This means the larger the board size, the higher is financial reporting quality. This research is in line with research conducted by Hsu & Yang (2022), Mansor et al. (2013), Sáenz González & García-Meca (2014), who reveal that better monitoring and advice is provided by larger board sizes. The opinion of Peasnell et al. (2005)
in Hasan et al. (2022) is similar to this research which argues that board size has a positive effect on financial reporting quality because a larger board is less likely to be dictated to by controlling shareholders and can effectively carry out their supervisory obligations. These results are strengthened by agency theory which argues that larger corporate boards strengthen capacity and improve monitoring of corporate operations.

4.5.2 The Effect of Board Independence on Financial Reporting Quality

The independence of the board of directors has a significant value of 0.013 and a coefficient of 0.007. This shows that the independence of the board of directors has a negative effect on financial reporting quality, meaning that H2 is rejected. The results obtained show that companies with a high level of independence do not always have high-quality financial reports. This research is not in line with agency theory which states that independent directors perform the main monitoring role to resolve agency conflicts resulting from the separation of ownership and control which positively affects the financial reporting quality (Hasan et al., 2022).

These results also do not follow the corporate governance literature which has confirmed that a greater degree of board independence provides greater control over the development of the company's activities and better defense against information problems as a mechanism for carrying out accountability processes to the various interest groups of the business, since external directors are not related to the management of the entity (Sáenz González & Garcia-Meca, 2014).

4.5.3 The Effect of Audit Committee Size on Financial Reporting Quality

The Audit committee size has a significant value of 0.516 and a coefficient of 0.004. This shows that the size of the audit committee does not affect the financial reporting quality, meaning that H3 is rejected. This means companies with any number of audit committees do not determine the financial reporting quality. This research is not in line with research conducted by Mansor et al. (2013), which found that the audit committee size variable had a positive effect on financial reporting quality. This is because the effectiveness of the audit committee is limited by the limited rationality of its members, potential conflicts of interest, and coordination difficulties (Peasnell et al., 2005). This is not under agency theory which states that a larger audit committee can effectively carry out its company oversight function.
Similar results were found by Hasan et al. (2022), they did not find any significant effect of audit committee size on financial reporting quality.

4.5.4 The Effect of Audit Committee Independence on Financial Reporting Quality

Audit committee independence has a significant value of 0.524 and a coefficient of -0.003. This shows that the audit committee independence does not affect financial reporting quality, meaning that H4 is rejected. This research is not in line with research conducted by Mansor et al. (2013), which found that the audit committee independence variable had a positive effect on financial reporting quality. This is because almost all x sample companies have a majority of independent audit committee members. If an audit committee with a majority of independent directors is independent enough to monitor the financial reporting process, no additional effect is seen on financial reporting quality even if the audit committee consists of more independent directors (Kusnadi et al., 2016).

This is not following the main task of the audit committee to supervise the company's financial reporting process, including the integrity of financial reports, the effectiveness of internal control and monitoring of internal and external auditors, where this increases the capacity of the board of directors (principal) to act as a management monitor (agent) by providing more detailed knowledge and understanding of the company's financial reports, where the existence and independence of audit committee members can help them to balance the different views of management and external auditors to produce higher quality financial reports (Kusnadi et al., 2016; Pincus et al., 1989).

The results of this research are similar to research conducted by Kusnadi et al. (2016) which did not find any significant effect of audit committee independence on financial reporting quality.

4.5.5 The Effect of CEO age on Financial Reporting Quality

CEO age has a significant value of 0.867 and a coefficient of -0.007. The results obtained show that a company of any age does not determine the level of financial reporting quality. The results of this study are similar to research conducted by Bouaziz et al. (2020) and Alqatamin et al. (2017), they found no significant effect between CEO age and financial reporting quality.
This does not follow the study of Hambrick & Mason (1984) which states that younger CEOs contribute more to business growth and development than older CEOs, Echelon theory suggests that the CEO's characteristics can affect the decision-making process, which means if older CEOs are more ethical and conservative than younger individuals, they are less likely to engage in high levels of earnings management that would result in poor financial reporting quality (Huang et al., 2012).

4.5.6 The Effect of CEO Duality on Financial Reporting Quality

CEO duality has a significant value of 0.007 and a coefficient of 0.22. This shows that CEO duality has a negative effect on financial reporting quality, meaning that H6 is rejected. This research is not in line with research conducted by Bouaziz et al. (2020), this is reinforced by the existence of agency theory which states that CEO duality facilitates the behavior of the CEO and weakens the general responsibility as a board of directors, which shows that the duality of the CEO is more driven to manage profits, and results in lower reporting quality. CEO duality allows the CEO to be more powerful and can reduce the administrator's ability to monitor business directors which increases agency problems and further affects board independence.

4.5.7 The Effect of CEO Gender on Financial Reporting Quality

CEO gender has a significant value of 0.080 and a coefficient of -0.021. This shows that CEO age does not affect financial reporting quality, meaning that H7 is rejected. This research is in line with the research by Bouaziz et al. (2020). Faccio et al. (2016), document a comparison of female CEOs with male CEOs that female CEOs tend to avoid riskier investment and financing opportunities, which means female CEOs are more conservative and risk-averse than men. As a result, companies with female CEOs are characterized as companies with low levels of leverage (not risky). Gavious et al. (2012) in Bouaziz et al. (2020) also say that female executives are better suited to understand client needs, make more ethical decisions in their work than men, and tend to manage accounting results, which results in financial reporting quality.
5 CONCLUSION

This research was conducted to analyze factors that effect financial reporting quality, namely the size of the board of directors, the independence of the board of directors, the size of the audit committee, the independence of the audit committee, CEO age, CEO duality, and CEO gender in consumer goods companies in ASEAN. Based on the result and discussion above, it is hoped that companies, especially consumer goods companies in ASEAN, can improve the company’s corporate organization aspects, such as the composition of the board of directors, determining the number of CEOs who have dual functions or more, and expanding gender diversity among CEOs in order to prevent and avoid fraud, so that they can improve the company’s financial reporting quality.

Future researchers are expected to be able to add other independent variables or use different variables in determining factors that affect financial reporting quality, such as CEO compensation, Board Meetings, and CEO specialization industry, and can use different company sectors to get a larger sample size that can represent the population. Using an extended research period or the most recent research period, to better reflect the effect of earnings management in financial reporting quality, for example using a ten-year research period. In this research, the measurements that were used are discretionary accruals (DAC) with a modified Jones model. Therefore, future researchers are expected to use other calculations to get an idea of earnings management with different calculation methods.

REFERENCES


