





“Influence of the board of directors on discretionary accruals: Evidence from Vietnamese listed companies”

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INFLUENCE OF THE BOARD OF DIRECTORS ON DISCRETIONARY ACCRUALS: EVIDENCE FROM VIETNAMESE LISTED COMPANIES

Abstract

In the trend of globalization, profit is always a concern for companies because the competition is increasingly fierce. With accounting tools and policies, managers of companies can perform profit management. The purpose of this paper is to test the influence of the board of directors on the discretionary accruals in Vietnamese listed companies. The paper uses time series of table data. The sample includes 915 observations of 183 Vietnamese non-financial companies in the period from 2016 to 2020. The feasible generalized least squares method is used to test the hypotheses of the research model. The paper uses two foundational theories, including the agency theory and the signaling theory, to explain the discretionary accruals of Vietnamese listed companies. The results show that the independence of the board of directors, the meetings of the board of directors, and the foreigners in the board of directors influence the discretionary accruals in Vietnamese listed companies. Then, the paper proposes some appropriate policies on regulations to control the discretionary accruals in Vietnamese listed companies to improve the quality of accounting information in the context of regional and international economic integration.

Keywords

board characteristics, corporate governance, earnings management, financial information

JEL Classification

G21, G34, G41, M42

INTRODUCTION

The business community is an important element of the economy, and it has contributed a significant part to the development of countries in the world. Profit is a measure of business performance created based on accrual accounting, an important indicator used by many users (Dechow, 1994). Profit is also the primary goal of evaluating managers' success in running companies. Therefore, managers can intervene in applying accounting policies to perform profit management to achieve personal benefits (Schipper, 1989). It is for these reasons that directors on discretionary accruals (DA) have become a topic attracting the attention of many researchers.

BOD (Board of Directors) plays a vital role in a joint-stock company. It is the body that is empowered to make decisions about the company's business activities, affecting the well-being of investors, employees' safety, and community's economic stability (Molz, 1985). BOD also shows its importance in controlling intermediary issues arising between shareholders and managers, including controlling DA (Shah et al., 2009).

In Vietnam, DA is always a challenge to improve the quality of users' information (Thinh & Tan, 2019). The attraction of foreign direct investment creates a transparent information environment to create

confidence for investors, so it is necessary to have active solutions from state management agencies (Dang et al., 2017). DA is the responsibility of managers to stakeholders to demonstrate the obligation and reputation of the business to the users of information (Tran et al., 2020). Moreover, it is a time when Vietnam is increasingly integrating with the world economy. It is one of the factors that cannot be ignored when considering the influence of BOD characteristics on DA.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A joint-stock company is a common type of business in many countries. With this type of business, the BOD is the most crucial element in the corporate governance structure. Rezaee (2004) shows that the role of the BOD includes monitoring the plans and actions of the executive board; investment capital guarantee; preventing the concentration of power in groups of people on the executive board; building a system of control and balance between them. Abed et al. (2012) argue that BOD is a management system and orientation to promote the long-term operation of enterprises in a transparent market with the participation of shareholders. The Vietnamese law on enterprises stipulates that the BOD is the management body of the enterprise. Therefore, it has full power on behalf of the enterprise to decide and exercise the rights and obligations which are not under the authority of the shareholders (Vietnamese National Assembly, 2020).

Schipper (1989) argues that DA is the behavior of managers who use their influence to interfere in the application of accounting policies to achieve personal benefits. Levitt (1998) considers DA as an action to make the financial report reflect the manager's wishes rather than reflect the actual financial situation of the enterprise. Healy and Wahlen (1999) state that DA includes the form of influence through arising economic transactions. DA occurs when managers apply their judgments on the financial report and in the structure of the arising economic operations to change the financial report. This causes misunderstanding about the operating status of the business or affects the results of contracts based on reported figures of accountants.

Ronen and Yaari (2008) express a neutral view that DA is not always bad, and it is difficult to distinguish between profit distortion to committing

fraud. Managers are trying to control costs within the budget to be able to achieve the target in terms of sales. Chen (2010) considers that DA is a plan used by a company's management to influence profit in the direction of increasing or decreasing profit to come up with a profit figure that meets a defined goal. The objective may be related to material incentives for managers, or it may also guarantee the credit agreement terms. Cornett et al. (2008) test that DA is also a predictive step to avoid default in loan agreements, reduce legal costs, and increase regulatory benefits. DA is defined by Gulzar (2011) as the purposeful intervention of management in financial reporting procedures to gain benefits for individuals or organizations. Unlike fraud, Gulzar (2011) states that DA involves the choice of accounting policies and estimates based on conformity with generally accepted accounting principles. DA not only refers to the impact of numbers through accounting methods but also through transactions in economic activities, thereby affecting profits on financial reports.

DA is a field researched extensively around the world. However, up to now, there is no unified definition of this behavior as each definition is given to suit the purposes of the researchers (Noronha et al., 2008). From the above definitions, it can be stated that DA is an act that can be performed within or outside the permitted scope of regulations, standards, and accounting regimes to help managers achieve their goals. DA targets through accounting tools and methods. However, intentionally adjusting profit by affecting accruals or affecting arising economic transactions, and confusing users with information is a behavior that needs to be controlled to increase the quality of information on financial reports.

The agency theory is developed by Jensen and Meckling (1976). This theory studies the relationship between the principal and the authorized party, which can be stated clearly in the case of shareholders and managers as well as between

creditors and shareholders of the company. Jensen and Meckling (1976) consider that both parties in this proxy relationship want to maximize their interests. The propensity to maximize benefits to realize that managers will not always act in the owners' best interests. In addition, to limit the division of interests between shareholders and managers, it is possible to establish appropriate remuneration mechanisms as well as an effective monitoring mechanism to limit abnormal behaviors of managers' self-interest. Most reward plans for managers are usually based on accounting numbers, so managers may find ways to influence financial reports to achieve their personal goals.

The signaling theory is introduced by Spence (1973) to clarify information asymmetries in the labor market, and the theory is also used to explain disclosure in corporate reporting (Ross, 1977). Information asymmetry occurs when companies try to provide information to investors to recognize that their company is better than others in the market, attract investments, and improve their reputation (Verrecchia, 1983). Companies will disclose more information than is required by law to signal that their company is better (Campbell et al., 2001). Morris (1987) contributes to predicting that companies with higher quality will choose accounting policies that allow good information to be disclosed. On the contrary, companies with low quality will choose accounting policies to conceal insufficient information. Therefore, to emphasize the quality of their activities, companies often show their position through information disclosure. Managers tend to publish beneficial information – information that gives good signals to attract the interest of stakeholders.

The influence of BOD characteristics on DA attracted the attention of many researchers around the world. One of the first topics is the study of Chtourou et al. (2001). For example, Chtourou et al. (2001) examined the relationship between BOD characteristics and audit committee characteristics of 3,451 US companies in 1996. Through analyzing the influence of BOD characteristics on DA, Saleh et al. (2005) contribute additional references on the role of BOD on DA. To determine the value of the DA, the studies use the model of Jones (1991). Then, Peasnell et al. (2005), Rahman and Ali (2006), Ebrahim (2007), and Jaggi et al.

(2009) also consider BOD characteristics and DA. Moreover, the impact of corporate governance characteristics on DA was widely researched by Gulzar (2011), Houque et al. (2011), Liu (2012), Nugroho and Eko (2012), Moradi et al. (2012), Abed et al. (2012), Metawee (2013), Fathi (2013), and González and García-Meca (2014).

In recent years, several studies also have been interested in this topic. Typically, Kankanamage (2015) examines the impact of BOD characteristics on DA in Sri Lanka. The paper used the OLS method with 160 listed enterprises of Colombo from 2011 to 2014. The results show that BOD size has a positive influence while financial expertise of BOD, BOD composition, and meetings of BOD negatively affect DA.

Bala and Kumai (2015) checked the influence of BOD characteristics on DA in listed food and beverage companies in Nigeria. The data is collected from the financial reports of these companies for six years, from 2009 to 2014. The results elicit a negative relationship between BOD size, financial expertise of BOD, and DA. Meanwhile, the independence of BOD and females in BOD have a positive impact on this behavior, but BOD meetings have no significant influence on DA.

Hsu and Wen (2015) found the relationship between BOD characteristics and DA. The sample included 1,858 listed enterprises in Shanghai and Shenzhen from 2002 to 2012. The results point out that the independence of BOD and BOD size have a negative effect on DA. In contrast, the duality between the chairperson of BOD and the CEO has no significant influence on this behavior.

Daghsni et al. (2016) conducted the relationship between DA and BOD characteristics at listed enterprises in France. The sample included 70 listed enterprises in the period 2008–2012. The results demonstrate that BOD size has the opposite effect while the duality between the chairperson of BOD and the CEO, and BOD size positively affect DA.

Recognizing the important role of BOD in regulating profit-related activities, Sajjad (2017) analyzed the impact of BOD characteristics on DA. The sample included 100 listed enterprises in Pakistan from 2008 to 2014. The results show that the in-

dependence of BOD has the opposite effect, while the duality of the chairperson of BOD and the CEO positively influences DA. Besides, the results also point out a negligible impact of BOD size and females in BOD on DA.

Al Azeez et al. (2019) examine the influence of BOD characteristics on DA in international oil and gas groups. The sample of 71 corporations was selected from the top 250 corporations in 2016. The results find that the independence of BOD and females in BOD have a significant influence on DA. Conversely, the duality of the chairperson of BOD and the CEO increases this behavior, but BOD size does not affect DA.

To determine the relationship between BOD characteristics and DA, Hamid and Bello (2019) checked 150 listed enterprises in Malaysia. The results show that BOD size has a negative effect while the duality between the chairperson of BOD and the CEO, and members-foreigners in BOD have a positive impact on DA. Hooghiemstra et al. (2019) tested the influence of the BOD internationalization trend on DA. The results explore the members-foreigners in BOD making the DA level significantly higher. BOD size negatively affects DA. The existence of the duality between the chairperson of BOD and the CEO, and females in BOD do not affect the DA.

DA is highly relevant in Vietnam, but there are not many studies on this issue. Dang et al. (2017) found the factors affecting to DA of listed enterprises on HOSE (Ho Chi Minh City Stock Exchange, one of Vietnam's stock exchanges). The data was collected from 260 listed enterprises between 2012 and 2016. The results show that the duality between the chairperson of BOD and the CEO has a positive relationship with DA, while BOD size does not affect DA. Thinh and Tan (2019) explore the impact of corporate governance factors on DA at 173 listed enterprises on HOSE from 2013 to 2017. The regression results elicit the influence of BOD size inversely. At the same time, the financial expertise of BOD has a positive effect on DA, but the independence of BOD, females in BOD, and the frequency of BOD meetings do not affect DA.

Vo (2019) studies the impact of BOD characteristics on DA. The sample included 196 listed compa-

nies on HOSE for 2015–2018. The model included seven independent variables related to BOD and five control variables. The results show that BOD size, the duality between the chairperson of BOD and the CEO, and females in BOD do not affect DA. Finally, Tran et al. (2020) examine the impact of corporate governance on the DA of all Vietnamese listed banks from 2015 to 2019. The results find that members of foreigners in BOD have a negative effect on DA.

There are many factors affecting AD, in which some basic factors of BOD affect AD, specifically as follows:

1. **BOD size** will have different impacts on DA. It is proven through the analysis of studies, specifically Chtourou et al. (2001), Peasnell et al. (2005), Ebrahim (2007), Houque et al. (2011), Abed et al. (2012), Hsu and Wen (2015), Bala and Kumai (2015), Daghsni et al. (2016), Thinh and Tan (2019), Hamid and Bello (2019), and Hooghiemstra et al. (2019).
2. **The duality between the chairperson of BOD and the CEO.** Most of the results make comments about the positive influence of the duality between the chairperson of BOD and the CEO on DA like Saleh et al. (2005), Gulzar (2011), Nugroho and Eko (2012), Daghsni et al. (2016), Dang et al. (2017), Sajjad (2017), Hamid and Bello (2019), and Al Azeez et al. (2019).
3. **Independence of BOD.** Some conclusions are made about the relationship between the independence of BOD and DA. The positive influence of independent BOD on DA is found by Liu (2012), Bala and Kumai (2015), and Al-Rassas and Kamardin (2015).
4. **Females in BOD.** Many researchers analyze this factor to judge whether the gender issue in the BOD affects DA. However, Gulzar (2011), Lakhali et al. (2015), and Al Azeez et al. (2019) found the opposite effect on DA.
5. **Financial expertise of BOD.** The factor is studied by Kankanamage (2015) and Bala and Kumai (2015); a negative relationship between the financial expertise of BOD and DA is found.

6. **Meetings of BOD.** The research results of González and García-Meca (2014) and Kankanamage (2015) found that the number of BOD meetings negatively affects DA.
7. **Foreigners in BOD.** The influence of foreigners in BOD on DA is one of the outstanding issues when the country's economy is increasingly integrating with the world. Hamid and Bello (2019) and Hooghiemstra et al. (2019) explore a positive relationship between DA and the foreigners in BOD.

From the reviews of previous studies, there is currently no research in Vietnam to study the specific characteristics of BOD and DA of Vietnamese listed companies (VLCs). Therefore, the purpose of the paper is to test the influence of BOD basic factors on DA of VLCs in the last five years, from 2016 to 2020. Based on a brief review of studies related to the impact of BOD, the following hypotheses are built to form a research model, namely:

- H1: *The larger the company's BOD, the lower the DA.*
- H2: *Companies with the duality of the chairperson of BOD and the CEO have a higher DA.*
- H3: *The higher the independence of BOD, the higher the DA.*
- H4: *The higher number of females in BOD, the lower the DA.*
- H5: *The higher the financial expertise of BOD, the lower the DA.*
- H6: *The more times a company has meetings of BOD, the lower the DA.*
- H7: *Companies with the presence of foreigners in BOD have a lower DA.*

2. METHODOLOGY

The Vietnamese stock market is the leading growth rate in the Asian region. After nearly twenty years of operation and development, the stock market

is always actively participating in international organizations' activities. The sample selected 183 non-financial companies listed on the Vietnamese stock market from 2016 to 2020. The criterion for selecting a sample is to ensure that complete data is available for collection.

The paper uses Stata 14 and Microsoft Excel 2016 to process data and perform necessary analytical techniques to test the research hypotheses. Finally, the paper selects feasible generalized least squares (FGLS) to test the model.

The paper set a regression model with the dependent variable of DA and seven independent variables. The regression model is as follows:

$$DA_{it} = \beta_0 + \beta_1 \cdot SIZE_{it} + \beta_2 \cdot DUAL_{it} + \beta_3 \cdot INDEP_{it} + \beta_4 \cdot FEMA_{it} + \beta_5 \cdot PROF_{it} + \beta_6 \cdot MEET_{it} + \beta_7 \cdot FORE_{it} + \varepsilon_{it}, \quad (1)$$

where DA_{it} – dependent variable representing the level of D; $SIZE_{it}$ – BOD size; $DUAL_{it}$ – the duality of the chairperson of BOD and the CEO; $INDEP_{it}$ – independence of BOD; $FEMA_{it}$ – females in BOD; $PROF_{it}$ – financial expertise of BOD; $MEET_{it}$ – meetings of BOD; $FORE_{it}$ – foreigners in BOD.

2.1. Dependent variable (DA)

The paper measures according to the modified Jones model of Dechow et al. (1995) because of the popularity and superiority of the model, and many related studies all use the model to identify DA. The DA is determined by:

$$\frac{DA_{it}}{A_{it-1}} = \frac{TA_{it}}{A_{it-1}} - \frac{NDA_{it}}{A_{it-1}} \quad (2)$$

where DA_{it} – Adjustable accrual accounting variable; TA_{it} – Total accrual accounting variable; NDA_{it} – Non-adjustable accrual accounting variable; A_{it-1} – Total assets at the end of period $t-1$.

2.2. Independent variables

The model includes seven independent variables. The variable names and methods of measuring these variables are detailed in Table 1.

Table 1. Description of the independent variables

Source: Authors' elaboration.

Variable	Symbols	Measurement
BOD size	SIZE	Total number of members in BOD
The duality between the chairperson of BOD and the CEO	DUAL	1: if the chairperson of BOD is also CEO 0: if the chairperson of BOD does not concurrently hold the position of CEO
Independence of BOD	INDEP	The number of independent BOD members to the total number of BOD members
Females in BOD	FEMA	The number of females in BOD to total BOD members
Financial expertise of BOD	PROF	The number of financial expertise of BOD with a financial accounting or business administration to the total number of BOD members
Meetings of BOD	MEET	The number of meetings held by BOD in a financial year
Foreigners in BOD	FORE	The number of foreigners in BOD to total BOD members

3. RESULTS

According to Table 2, the DA of VLCs in 2016–2020 is at an average of 0.167318. The gap between the minimum and maximum is relatively high, indicating a significant difference in the level of DA between companies. For the independent variables, *SIZE* has between 3 and 10 members and on average about 6 members; *DUAL* is accounted for a relative weight of 22.68% on average; *INDEP* has an average rate of 18.41%; *FEMA* has an average weight of 16.08%; *PROF* has an average of about 46.73%; *MEET* has approximately 15 meetings; *FORE* has an average rate of 21.73%. In general, the data related to the independent variables are con-

sistent with the provisions of the current law on enterprises (Vietnamese National Assembly, 2020).

The analysis results from Table 3 show that DA has a negative correlation with BOD size, the duality between the chairperson of BOD and the CEO, females in BOD, and financial expertise of BOD, but a positive correlation between DA and the remaining variables is shown. The correlation coefficient between the dependent variable and the independent variables, as well as between the independent variables, is at a medium level, and the correlation coefficients of the remaining pairs of variables are low. Therefore, it is not possible to have multicollinearity (Hair et al., 1995).

Table 2. Descriptive statistics

Source: Authors' elaboration.

Variable	Obs	Mean	Std. dev.	Min	Max
DA	915	.167318	.1414452	-.690467	1.64094
SIZE	915	6.184403	1.034847	3	10
DUAL	915	.226804	0.146128	0	1
INDEP	915	.184139	.164138	0	.840162
FEMA	915	.160841	.154932	0	.3041765
PROF	915	.467318	.304681	.126597	.7412904
MEET	915	14.764028	10.094132	2	170
FORE	915	.217316	.093261	0	.405016

Table 3. Correlation matrix

Source: Authors' elaboration.

Variable	DA	SIZE	DUAL	INDEP	FEMA	PROF	MEET	FORE
DA	1.0000	–	–	–	–	–	–	–
SIZE	–0.1316	1.0000	–	–	–	–	–	–
DUAL	–0.1062	–0.1705	1.0000	–	–	–	–	–
INDEP	0.1904	0.2193	–0.1806	1.0000	–	–	–	–
FEMA	–0.2014	0.2049	0.3671	–0.1216	1.0000	–	–	–
PROF	–0.1947	–0.1462	0.1287	–0.1904	0.3871	1.0000	–	–
MEET	0.3605	0.1328	0.1032	–0.1736	–0.1267	0.3041	1.0000	–
FORE	0.1681	0.3446	0.2407	0.1682	–0.1374	–0.1812	–0.1742	1.0000

In order to limit some defects of the model, the paper conducts regression by FGLS. The results from Table 4 show that *INDEP*, *MEET*, and *FORE* positively affect DA.

Table 4. Regression of FGLS

Source: Authors' elaboration.

DA	Coef.	Std. err.	z	P > z
<i>SIZE</i>	-.140276	.094137	-0.62	1.208
<i>DUAL</i>	-.104735	.074165	-0.37	1.457
<i>INDEP</i>	.219403	.040197	3.12	0.000
<i>FEMA</i>	-.180436	.021168	-0.18	1.842
<i>PROF</i>	-.104197	.011974	-3.01	0.000
<i>MEET</i>	.086617	.037815	3.64	0.000
<i>FORE</i>	.091487	.084627	0.84	1.094

The regression model on the impact of BOD characteristics on the DA of VLCs is determined by:

$$DA = 0.219403 \cdot INDEP + 0.086617 \cdot MEET + 0.091487 \cdot FORE. \quad (3)$$

To check the model's defects, the paper uses the variance exaggeration factor VIF to determine multicollinearity. A threshold value is considered multicollinearity when the independent variable has a VIF greater than or equal to 5. The results from Table 5 show that the VIF of all the independent variables is less than 1.5. Therefore, combined with the data, it is confirmed that the research model does not have multicollinearity (Hair et al., 1995).

Table 5. VIF of the model

Source: Authors' elaboration.

Variable	VIF	1/VIF
<i>SIZE</i>	1.10	0.912861
<i>DUAL</i>	1.03	0.960472
<i>INDEP</i>	1.24	0.796147
<i>FEMA</i>	1.06	0.936017
<i>PROF</i>	1.13	0.897143
<i>MEET</i>	1.45	0.642759
<i>FORE</i>	1.04	0.947091

Besides, the paper also checks the distribution of residuals. The shape of the graph in Figure 1 shows that the residuals in the model are normally distributed.

There are three accepted hypotheses of the model: *H3*, *H6*, and *H7*; specifically, *INDEP*, *MEET*, and *FORE* have a positive effect on DA.

Table 6. Hypotheses testing results

Source: Authors' elaboration.

Hypotheses	Results
<i>H1</i> (BOD size)	No meaning
<i>H2</i> (The duality between the chairperson of BOD and the CEO)	No meaning
<i>H3</i> (Independence of BOD)	Meaning (positive)
<i>H4</i> (Females in BOD)	No meaning
<i>H5</i> (Financial expertise of BOD)	No meaning
<i>H6</i> (Meetings of BOD)	Meaning (positive)
<i>H7</i> (Foreigners in BOD)	Meaning (positive)

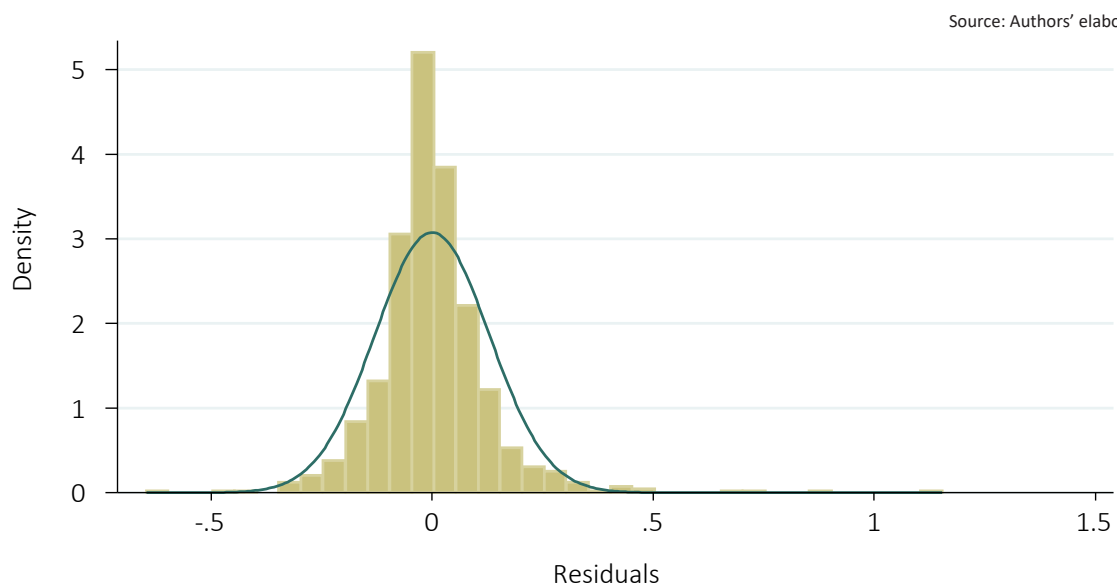


Figure 1. Distribution chart of residuals

4. DISCUSSION

The results show that the factors belonging to BOD characteristics that impact DA include the independence of BOD, meetings of BOD, and foreigners in BOD. In addition, the independence of BOD, meetings of BOD, and foreigners in BOD positively affect DA.

Concerning the independence of BOD, the result shows the positive influence of BOD independence on DA. The results are consistent with Liu (2012), Bala and Kumai (2015), and Al-Rassas and Kamardin (2015). Thus, when the company's BOD has more independent members, the DA is higher. According to the current law on enterprises (Vietnamese National Assembly, 2020), guidelines on corporate governance apply to regulated public companies. The decision on the BOD member structure of listed companies must ensure that at least one-third of BOD members are independent members. Therefore, listed companies should pay attention to the proportion of independent members in the BOD. In addition, it is necessary to monitor the DA behavior of the managers.

Concerning meetings of BOD, the results show that the meetings of BOD have a positive effect on DA. When a company's BOD has many meetings during the financial year, the level of DA will be higher. The result is similar to Gulzar (2011) and Daghnsi et al. (2016). Listed companies can base

on these notes to improve as well as strengthen the control over the DA of foreigners in BOD by disseminating and updating clearly and unifying the accounting policies being used at the enterprises by current regulations. The BOD's compliance with legal regulations like the law on enterprises (Vietnamese National Assembly, 2020) should be considered a top goal in economic decisions related to the company's business activities.

Concerning foreigners in BOD, there is a positive impact of foreigners in BOD on DA. Thus, when the company's BOD has foreign members, the level of DA will be higher than that of the BOD without foreign members. It can be explained by the lack of knowledge of local accounting rules, as well as the language problem of foreign members (Hooghiemstra et al., 2019). These results are similar to Hamid and Bello (2019). To have better quality meetings, companies should focus on the content. Moreover, they should come up with specific and clear solutions to thoroughly solve the outstanding problems, thereby contributing to the quality of the meetings and improving the management ability to control well the company's activities and DA behavior of managers. In addition, it is vital to have a transparent and clear discussion about accounting policies and related regulations. It will be the foundation for raising awareness of the responsibilities of BOD members in all related decisions.

CONCLUSION

The characteristics of the BOD have an important influence on decisions regarding the financial policies of companies. DA is one of the issues of concern and is affected by BOD. The paper verifies that BOD characteristics, including the independence of BOD, the meetings of BOD, and the foreigners in BOD, positively affect DA. The result also indicates that the independence of BOD is one of the three most influential factors. To improve information quality and enhance investor confidence in attracting capital for VLCs, Vietnamese state agencies should control the DA of VLCs by completing some provisions of the current law on enterprises. State agencies should strictly punish VLCs with AD to prevent acts that affect the trust of information users. It will contribute to improving the transparent information environment.

AUTHOR CONTRIBUTIONS

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