Journal of
Risk and Financial Management

MDPI

Article

Institutional Logics and Corporate Financial Reporting Quality: Does CEO Authority Concentration Matter?

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Abstract

This study examines the association between CEO authority concentration and financial reporting quality within the framework of institutional logics. Using a panel of publicly listed firms from three Southeast Asian countries, including Malaysia, Singapore, and Thailand, over the period 2015–2023, we employ panel regression models to analyze how concentrated CEO authority shapes financial reporting outcomes. The concentration of CEO authority is measured using the Herfindahl–Hirschman Index (HHI) based on the CEO's positions in key board committees. Our findings indicate that higher CEO authority concentration is associated with lower financial reporting quality. This result suggests that when CEOs hold dominant positions within board committees, the effectiveness of internal monitoring mechanisms may weaken, increasing managerial discretion over the financial reporting process. As a result, excessive concentration of authority may reduce the reliability and transparency of reported financial information. This study contributes to the corporate governance literature by highlighting the role of authority distribution within the boardroom as an important determinant of financial reporting quality. By adopting an institutional logics perspective, this study also provides evidence that governance structures embedded in emerging market environments may shape how executive authority influences reporting practices. Overall, the findings provide important implications for regulators and governance practitioners seeking to strengthen board independence and improve financial reporting quality in Southeast Asian capital markets.

Keywords: CEO power concentration; financial reporting quality; political power; corporate governance

Check for updates

Academic Editor: Thanasis Stengos

Received: 28 January 2026
Revised: 10 March 2026
Accepted: 24 March 2026
Published: 6 April 2026

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1. Introduction

Financial reporting quality plays a central role in ensuring that financial statements provide relevant and reliable information for investors and other stakeholders. A substantial body of accounting literature has identified various governance and institutional mechanisms that shape reporting quality, including transparency in corporate governance structures (Bushman & Smith, 2001; Armstrong et al., 2010), the enforcement of accounting standards and institutional environments that influence the informativeness of accounting numbers (Ball et al., 2003; Agbodjo et al., 2021; K. C. Chen et al., 2016), and the effectiveness of internal monitoring mechanisms such as boards of directors and audit committees (Klein, 2002; Xie et al., 2003; Safari Gerayli et al., 2021). Prior studies also emphasize the importance

of auditor independence, governance oversight, and disclosure practices in safeguarding the credibility of financial reports and mitigating earnings manipulation (P. Dechow et al., 2010; McNichols, 2002; Habib et al., 2022; Wang & Liang, 2025).

While these studies provide important insights into the institutional and monitoring determinants of financial reporting quality, comparatively less attention has been paid to how the internal distribution of managerial power, particularly the concentration of authority in the CEO, shapes financial reporting outcomes. The corporate governance literature suggests that the allocation of decision-making authority within top management can influence managerial incentives, monitoring effectiveness, and ultimately the integrity of financial reporting (Finkelstein, 1992; Bebchuk et al., 2011; Hemdan & Khan, 2023). In particular, the concentration of CEO power may weaken board oversight and increase the potential for opportunistic managerial behavior, thereby affecting the credibility of financial disclosures (Bertrand & Mullainathan, 2003; Hazarika et al., 2012).

Prior studies have extensively examined how CEO characteristics influence a wide range of corporate outcomes, including financial and strategic decision-making (Hambrick & Mason, 1984; Harymawan et al., 2024). This stream of research, often grounded in the upper echelons perspective, suggests that executives' experiences, values, and backgrounds shape organizational decisions and strategic choices. However, much of this literature focuses on observable CEO traits or formal governance arrangements, such as CEO duality or tenure, rather than on the broader concentration of authority exercised by the CEO within the organization (Ali & Zhang, 2015; Duru et al., 2016; Rivolta, 2018).

In practice, CEO authority may extend beyond formal titles and arise through informal influence over board deliberations, control of key decision processes, or weak internal monitoring structures. The corporate governance literature suggests that managerial power can manifest through multiple channels, including dominance in the top management team, influence over board composition, and control of strategic information flows (Finkelstein, 1992; Bebchuk et al., 2011; Tang et al., 2011). Such concentrated authority may reduce the effectiveness of governance oversight and increase managerial discretion in corporate decision-making (Bertrand & Mullainathan, 2003; Tran & Turkiela, 2020).

Despite its potential relevance, the extent to which such concentrated CEO authority shapes the quality of financial information disclosed to external stakeholders remains insufficiently explored. Prior studies on financial reporting quality largely emphasize monitoring mechanisms such as boards, audit committees, and external auditors (Klein, 2002; Xie et al., 2003; P. Dechow et al., 2010), while relatively less attention has been given to the internal distribution of executive power that may influence managerial incentives and reporting behavior. Accordingly, this study examines how the concentration of CEO authority affects corporate financial reporting quality, moving beyond formal governance indicators to capture the broader distribution of managerial power within the firm (Hemdan & Khan, 2023; Brodmann et al., 2022).

CEO authority concentration refers to the extent to which strategic and operational decision-making power is centralized in the hands of the CEO, potentially influencing the transparency and accountability of financial reporting processes (Finkelstein & D'Aveni, 1994; Brodmann et al., 2022; Alzeban, 2020; Hemdan & Khan, 2023; Tran & Turkiela, 2020). The implications of such authority concentration for financial reporting quality (FRQ) can be understood through the inherent tension between agency and stewardship perspectives. From an agency problem standpoint (Jensen & Meckling, 1976; Fama & Jensen, 1983; Bushman & Smith, 2001), concentrated CEO authority intensifies information asymmetry and weakens internal monitoring mechanisms, thereby increasing the likelihood that financial reporting decisions serve managerial self-interest rather than shareholder value. In this view, authority concentration exacerbates opportunistic behavior and reduces

reporting quality (P. Dechow et al., 2010; Habib et al., 2022; Hazarika et al., 2012). In contrast, stewardship theory (Davis et al., 1997; Donaldson & Davis, 1991) posits that executives are intrinsically motivated to act in the organization's best interest. Under this assumption, centralized authority may enhance decisiveness, strategic coherence, and accountability, thereby improving financial reporting quality (Boivie et al., 2021; R. B. Adams & Ferreira, 2007). Authority concentration, therefore, is not inherently detrimental; its effect depends on the behavioral orientation and governance environment in which it operates (Claessens & Yurtoglu, 2013; Di Vito & Trottier, 2022).

Rather than treating these two perspectives as competing explanations, this study integrates them through an institutional logics framework. Institutional logics theory suggests that managerial behavior and governance practices are embedded within broader normative and cultural belief systems that define what constitutes legitimate authority and accountability (Durocher & Fortin, 2021; Bitektine & Song, 2023; Thornton et al., 2012; Greenwood et al., 2011). These logics shape whether concentrated CEO authority is exercised opportunistically (agency-dominant logic) or responsibly (stewardship-aligned logic). Under market-oriented and professionally governed institutional logics, where transparency, investor protection, and external monitoring are emphasized, CEO authority concentration is likely to be constrained by strong normative expectations and monitoring structures (La Porta et al., 1998, 2000; Claessens & Yurtoglu, 2013). In such contexts, concentrated authority may operate within institutional boundaries that reinforce stewardship behaviors and safeguard reporting quality (Bushman & Smith, 2001; Armstrong et al., 2010). Conversely, in contexts characterized by non-market logics, such as family dominance or state influence (Diab, 2021; Min et al., 2022; Carney & Child, 2013), authority may be legitimized through relational or political norms rather than market discipline. In these settings, CEO authority concentration may face weaker external constraints, increasing the risk that reporting practices reflect managerial or controlling-owner interests rather than minority shareholder protection (Fan & Wong, 2002; Faccio et al., 2006). Accordingly, institutional logics do not merely coexist with agency and stewardship perspectives; they condition which behavioral orientation becomes dominant (Scott, 2008; Meyer & Rowan, 1977). Thus, the relationship between CEO authority concentration and financial reporting quality is contingent upon the prevailing institutional logic that shapes governance expectations and accountability mechanisms (Zajac & Westphal, 2004; Min et al., 2022).

This study focuses on three Southeast Asian countries such as Malaysia, Singapore, and Thailand, which provide a relevant setting to examine how CEO authority concentration operates under different institutional configurations. While these countries share regional, cultural, and economic ties, they differ meaningfully in terms of governance enforcement, ownership structures, and the role of political and family influence in corporate decision-making (Claessens & Yurtoglu, 2013; La Porta et al., 2000; Chung & Hwang, 2025). Corporate governance in this region is commonly shaped by concentrated ownership, family involvement, and varying degrees of state influence, resulting in hybrid institutional environments where market-oriented practices coexist with relational and hierarchical norms (Khatib et al., 2022; Karim et al., 2023; Lowatcharin et al., 2021; Carney & Child, 2013). Prior studies in East Asia have documented that dominant owners or powerful executives can weaken governance mechanisms and reduce reporting transparency (Claessens et al., 2002; Fan & Wong, 2002; Wong & Hooy, 2018). However, the existing research has largely examined these issues in isolation, without explicitly integrating the role of CEO authority concentration within an institutional logics framework or considering how such effects may vary across institutional contexts within ASEAN (Thornton et al., 2012; Greenwood et al., 2011). By situating CEO authority concentration within the interplay of market and non-market institutional logics, this study offers a more nuanced understanding of how power

and institutional context jointly shape financial reporting quality in emerging economies (Min et al., 2022; Scott, 2008).

To empirically examine the relationship between CEO authority concentration and financial reporting quality, this study adopts a panel data approach and draws on established measures of reporting quality that capture the extent to which financial information is relevant and reliable for economic decision-making (Biddle et al., 2009; McDaniel et al., 2002). CEO authority concentration is conceptualized based on the distribution of decision-making power within the boardroom, allowing us to move beyond traditional single proxies of managerial power. The empirical design also accounts for potential endogeneity concerns by incorporating multiple identification strategies and supplementary analyses. In addition, the study explores whether different dimensions of CEO authority, such as structural and ownership-related power, are associated with heterogeneous reporting outcomes. By integrating these empirical features, this study seeks to provide robust evidence on how concentrated executive authority relates to financial reporting quality under varying governance conditions.

This study makes several contributions to the literature. First, this study contributes to the financial reporting quality literature by examining CEO authority concentration as a distinct governance-related determinant of reporting outcomes (Bushman & Smith, 2001; P. Dechow et al., 2010; Habib et al., 2022). While prior studies have extensively examined CEO power through concepts such as CEO entrenchment and CEO dominance, these studies generally focus on managerial self-protection incentives or observable CEO characteristics, such as duality, tenure, or ownership (Finkelstein, 1992; Bebchuk et al., 2011; Ali & Zhang, 2015; Kohlbeck & Wang, 2025). In contrast, this study conceptualizes CEO authority concentration as the structural centralization of decision-making power within the executive leadership, which may shape organizational reporting practices beyond traditional entrenchment mechanisms (Tang et al., 2011; Brodmann et al., 2022; Hemdan & Khan, 2023).

Second, this study advances the corporate governance literature by clarifying how CEO authority concentration differs from related concepts such as CEO dominance and board capture. Whereas CEO dominance and board capture typically describe situations where CEOs exert excessive influence over board oversight, this study focuses on how the concentration of formal and informal authority within the executive leadership structure influences financial reporting quality through the alignment of organizational decision-making processes (Finkelstein & D'Aveni, 1994; Tran & Turkiela, 2020; Boivie et al., 2021). By doing so, the study shifts attention from board monitoring failure toward the governance implications of authority distribution within the firm (Di Vito & Trottier, 2022; Khatib et al., 2022).

Third, by adopting an institutional logics perspective and examining firms from Malaysia, Singapore, and Thailand, this study provides context-sensitive evidence on how institutional environments shape the consequences of CEO authority concentration for financial reporting quality (Thornton et al., 2012; Greenwood et al., 2011; Durocher & Fortin, 2021). Prior research on CEO power has largely focused on Western corporate governance systems, where regulatory enforcement and board independence structures differ substantially from those in emerging Asian markets (La Porta et al., 1998; Claessens & Yurtoglu, 2013). By situating the analysis within Southeast Asian institutional settings, this study extends the CEO power literature by demonstrating how the governance effects of executive authority concentration are conditioned by institutional contexts characterized by evolving governance frameworks and varying regulatory pressures (Carney & Child, 2013; Min et al., 2022; Karim et al., 2023; He et al., 2024). Taken together, these contributions provide a clearer theoretical distinction between CEO authority concentration and related constructs in the CEO power literature, while offering new empirical insights into how

executive authority structures influence financial reporting practices in emerging market contexts (Bushman & Smith, 2001; Roychowdhury et al., 2019).

The remainder of this study proceeds as follows. Section 2 reviews prior literature and postulates our hypotheses. Section 3 describes the sample and research methodology. Section 4 reports the findings while Section 5 provides discussion and policy recommendations.

2. Theoretical Underpinnings and Hypothesis

2.1. Background Literature

The concentration of CEO authority has been widely discussed in the corporate governance literature as a key dimension of executive power within organizations. Prior studies often conceptualize CEO authority in terms of power distribution, emphasizing that executive authority reflects not merely the possession of individual power but the structural configuration of decision-making authority within the firm (Finkelstein, 1992; Boivie et al., 2021; Eiler et al., 2022; Kim et al., 2016). In this view, CEO authority concentration arises when strategic and operational decision rights become centralized around the chief executive, shaping how organizational priorities are defined and implemented. Importantly, such authority should not be interpreted solely as managerial dominance or opportunistic power, but also as a governance structure through which organizational coordination and strategic direction are maintained.

The implications of CEO authority concentration cannot be fully understood through a universal governance perspective alone, such as agency theory, because the exercise and consequences of executive power are embedded within broader institutional environments (Thornton et al., 2012; Hambrick & Wowak, 2021; Hanlon et al., 2022). Institutional logics shape how authority structures are interpreted, legitimized, and constrained within organizations. In contexts where governance systems are strongly influenced by relational or network-based institutional arrangements often observed in several emerging Asian economies. Therefore, the concentration of authority in top executives may be viewed as a pragmatic governance arrangement that facilitates coordination, long-term orientation, and organizational stability (Carney & Child, 2013). In contrast, in institutional environments characterized by stronger market-oriented governance and professional accountability norms, such as Singapore, corporate governance frameworks typically emphasize transparency, independent oversight, and clearer limitations on executive discretion (Claessens & Yurtoglu, 2013; Bansal, 2023).

These differences suggest that the governance consequences of CEO authority concentration may vary across institutional contexts. In environments where monitoring mechanisms and regulatory oversight are relatively weaker, concentrated executive authority may increase the risk of opportunistic behavior and reduce the reliability of financial reporting (Finkelstein & D'Aveni, 1994; Grant & Keohane, 2005; Di Vito & Trottier, 2022). Conversely, in institutional settings with stronger governance infrastructures and professional norms, executive authority concentration may be more effectively constrained and aligned with organizational accountability. Building on this reasoning, this study adopts an institutional logics perspective to examine how the relationship between CEO authority concentration and financial reporting quality may differ across ASEAN institutional contexts. Financial reporting quality as an institutional logic concept is seen as a reflection of dominant values, norms, and practices shaped by regulatory pressures, market expectations, and governance systems prevailing in an institutional environment (Scott, 2008; Thornton et al., 2012). In this framework, financial reporting is not only seen as a technical mechanism for conveying economic information, but as the result of interactions between organizational actors (e.g., CEOs, boards of directors, and auditors) and the institutional structures in which they operate (DiMaggio & Powell, 1983; Birkhead, 2024). Institutional logics that emphasize

professional accountability and transparency, such as those found in countries with strong financial market systems, encourage companies to produce high-quality financial reporting as a form of institutional legitimacy. Conversely, in contexts where the logic of personal ties, kinship, or centralized power dominates, financial reporting quality can be compromised by opportunistic practices that are difficult to control by market mechanisms or regulations (Carney & Child, 2013; Fan & Wong, 2002; Ab Aziz et al., 2025). Thus, the quality of financial reporting becomes a manifestation of institutional logics operating at the country and firm levels. When institutional logics encourage transparency and strong oversight, financial reporting tends to be more reliable and relevant. Conversely, in contexts where authoritarian or patrimonial logics are more dominant, financial reporting risks becoming a symbolic legitimation tool rather than a substantive means of communication (Meyer & Rowan, 1977).

In such conditions, the concentration of CEO authority has two perspectives. First, from the perspective of agency theory (Jensen & Meckling, 1976; Fama & Jensen, 1983), the concentration of power in the CEO can increase the risk of opportunistic behavior, such as manipulation of financial statements or avoidance of supervision by the board. In this context, CEOs who are too dominant in the governance structure have the flexibility to control the financial reporting process according to personal interests, which can ultimately harm shareholders and reduce the quality of reporting. Second, the concentration of authority can provide space for the CEO to carry out more effective and responsive leadership, including in ensuring the reliability and relevance of financial information. In this logic, the CEO is considered a servant who acts in the best interests of the organization, and concentrated power actually allows for fast and coordinated decision-making, which supports improving the quality of financial reporting (Donaldson & Davis, 1991). Within the institutional logics framework (Thornton et al., 2012), these two perspectives reflect a struggle between professional logic and power logic. When the professional logic, which emphasizes transparency, accountability, and principles-based disclosure dominates, concentrated CEO power needs to be monitored so as not to undermine reporting quality. However, in an institutional environment that supports managerial authority and leadership stability, CEO power concentration can be viewed as an institutional efficiency mechanism that strengthens financial reporting.

Therefore, this study will be a middle ground between the conflicting logics of professionalism and power over the interests of financial information for investors, creditors, and governments. In this context, the quality of financial reporting is not only influenced by formal structures and governance mechanisms, but also by the institutional logic that shapes how power is exercised and interpreted in the boardroom. This approach allows for a more comprehensive understanding of how CEO authority, which is at the intersection of managerial efficiency and potential conflicts of interest, can simultaneously be a threat and an opportunity for transparency and reliability of financial reporting. This study also confirms that the influence of CEO power concentration is not universal, but rather contextual, depending on the institutional configuration and norms prevailing in a jurisdiction. Therefore, by analyzing the cross-country context in the ASEAN region which has diverse institutional characteristics, legal systems, and governance practices, this study not only bridges the two poles of institutional logic, but also enriches the literature on governance and financial reporting with more diverse empirical nuances that are relevant to policy makers in developing countries.

2.2. Hypothesis Development

The economic and financial literature recognizes that the allocation of authority within the boardroom is a critical determinant of corporate governance outcomes. Authority represents the formal and substantive capacity to shape strategic direction, influence monitoring

processes, and affect financial reporting decisions (R. B. Adams & Ferreira, 2007; Boivie et al., 2021; Sierra-Morán et al., 2024). When authority is broadly distributed among board members, governance structures tend to facilitate checks and balances that enhance oversight of managerial actions. Conversely, when authority becomes highly concentrated in a single executive, particularly the CEO, the effectiveness of internal monitoring mechanisms may decline, potentially affecting the integrity of financial reporting.

From the perspective of agency theory, concentrated executive authority may weaken governance safeguards designed to protect shareholders from managerial opportunism (Jensen & Meckling, 1976; Fama & Jensen, 1983). A powerful CEO can exert significant influence over board committees, internal reporting processes, and managerial decisions, thereby increasing the potential for opportunistic reporting practices such as earnings management or the strategic manipulation of financial disclosures (P. M. Dechow et al., 1996; Ali & Zhang, 2015; Hemdan & Khan, 2023). Prior studies also document that stronger CEO power is associated with reduced board monitoring effectiveness and greater managerial discretion over financial reporting outcomes (Bebchuk et al., 2011; Hazarika et al., 2012).

Adopting an institutional logics perspective further clarifies how the effects of CEO authority concentration operate within broader governance environments. Institutional logics theory posits that organizational behavior is embedded within socially constructed belief systems that shape what constitutes legitimate authority, accountability, and governance practices (Thornton et al., 2012; Greenwood et al., 2011). Within corporate governance systems, financial reporting quality reflects not only firm-level incentives but also the institutional expectations surrounding transparency, credibility, and investor protection (Bushman & Smith, 2001; Armstrong et al., 2010). These institutional expectations influence how power structures within the firm translate into financial reporting behavior.

In many emerging market contexts, including several ASEAN economies, corporate governance systems are often characterized by concentrated ownership structures, relational networks, and relatively weaker external monitoring mechanisms (Claessens & Yurtoglu, 2013; Carney & Child, 2013; Alta'any et al., 2024). Under such institutional conditions, concentrated CEO authority may reduce the effectiveness of internal oversight by enabling the CEO to exert influence over key governance mechanisms, including board committees responsible for monitoring financial reporting. When authority is highly centralized, board independence and committee oversight may become less effective, increasing the likelihood that financial reporting reflects managerial discretion rather than transparent communication of firm performance (Fan & Wong, 2002; Klein, 2002; Xie et al., 2003).

Furthermore, financial reporting quality is closely linked to governance mechanisms that constrain managerial discretion and ensure the credibility of accounting information (P. Dechow et al., 2010; Roychowdhury et al., 2019; Cahyono et al., 2024). When these monitoring structures are weakened by excessive executive authority, the incentives and opportunities for opportunistic reporting behavior increase, thereby reducing the reliability and transparency of financial statements. Consequently, within institutional environments where governance constraints on executive authority may be imperfect, higher levels of CEO authority concentration are more likely to undermine financial reporting quality rather than enhance it.

Accordingly, this study hypothesizes:

Hypothesis 1 (H1). *Adopting an institutional logic perspective, the concentration of CEO authority has a negative effect on the quality of financial reporting.*

3. Sample Selection, Data, and Methodology

3.1. Sample Selection

We identify non-financial companies listed on the Stock Exchanges of Malaysia, Singapore, and Thailand whose corporate governance and core biographical data of CEOs and other executives are available on company websites, annual reports, and sustainability reports compared with Bloomberg and Thompson Reuters databases for the period 2015–2023. We extract detailed information on executive board authority, current and previous employment, title, and all corporate boards on which they sit. To obtain relevant information on board authority for each company and country, we follow the data search process of Tran and Turkiela (2020) in processing board authority information. Due to the different board authority information between one-tier and two-tier governance systems, we distinguish the extraction of board authority from each country. Therefore, the measurements in this study will be built based on the differences in these governance systems.

We collect the financial data required for this study from the Bloomberg and Thompson Reuters databases. To avoid survivorship bias, we include all firms reported by the databases at any time during our sample period. After combining data from the above-mentioned sources and removing observations containing missing information for each variable, we obtain a final sample of 1086 firm-year observations. To remove the effects of outliers, we winsorize all continuous variables at the 1st and 99th percentiles. Table 1 reports the sample selection process and distribution. The sectoral composition of the sample shows that the largest industry sector in the sample is the construction industry with 275 firm-year observations (25.32%), followed by the mining sector with a total of 252 firm-year observations (23.20%), and the smallest sector is health, legal, educational, and advisory services with 45 firm-year observations (4.14%), followed by servicing industries (6.72%), and trade, wholesale, and retail (7.18%).

Table 1. Sample Selection and Composition.

Sample Selection Procedure	Observations
All publicly listed firms from Malaysia, Thailand, and Singapore spanning from 2015 to 2023	1485
Excluding:	
Financial industries	(259)
Variable without sufficient data	(140)
Total Observations	**1086**
Industry Classifications	
Agriculture, forestry, and fisheries	156 (14.36%)
Mining	252 (23.20%)
Construction industries	275 (25.32%)
Manufacturing	97 (8.93%)
Transportation, communications, and utilities	110 (10.12%)
Trade, wholesale, and retail	78 (7.18%)
Servicing industries	73 (6.72%)
Health, legal, educational, and advisory services	45 (4.14%)
Total Observations	**1086**

3.2. Variable Development

Dependent variable: Financial Reporting Quality (FRQ). Following some of the most popular works on measuring financial reporting quality, we use three different measures of financial reporting quality. The first proxy is accrual quality (AQ), which refers to the approach developed by P. M. Dechow and Dichev (2002), and refined by McNichols (2002). This measure has been widely used in the previous literature (e.g., Aboody et al.,

2005; Core et al., 2008) and is based on the assumption that accruals reflect estimates of future cash flows. Thus, earnings quality is considered higher when accruals contain lower estimation errors and have stronger predictive power of future cash flows. Prior studies also emphasize that higher accrual quality reflects more reliable financial reporting and reduces information asymmetry between firms and investors (P. Dechow et al., 2010; Roychowdhury et al., 2019; Haider et al., 2025).

To estimate AQ, we apply the P. M. Dechow and Dichev (2002) model that has been extended by including variables from the Jones (1991) model, as recommended by McNichols (2002). The model involves regressing working capital accruals on lagged, current, and future operating cash flows, as well as on changes in earnings and fixed assets (PPE). Following the approach of prior studies, the model is estimated cross-sectionally for each industry based on the Fama and French (1997) 48 industry classifications, with a minimum requirement of 20 observations per industry per year. The AQ value for year t is calculated as the standard deviation of the firm's residuals generated from the model over periods $t-5$ to $t-1$. The addition of one prior year is intended to accommodate the one-year-ahead cash flow variables in the model estimation. For ease of interpretation, the AQ value is multiplied by negative one, so that a higher AQ value indicates better financial reporting quality.

The second proxy we use to measure financial reporting quality is a modification of the accrual quality measure proposed by Leuz and Wysocki (2008). He criticized that the traditional approach developed by P. M. Dechow and Dichev (2002) is not fully capable of capturing accrual quality reliably, because it does not adequately distinguish between the relationship between accruals and contemporaneous and incremental cash flows. To overcome this limitation, Leuz and Wysocki (2008) proposed an alternative measure that emphasizes the ability of current accruals to explain past and future cash flows, beyond the influence of contemporaneous cash flows. The essence of this approach is to separate the relationship between accruals and cash flows that may be biased by opportunistic earnings management practices, by extracting incremental information from accruals on non-contemporaneous cash flows.

The estimation of this measure is done in two stages. First, we estimate two specifications of the accrual regression model. The first model is a regression of working capital accruals on current operating cash flows. The second model is the full P. M. Dechow and Dichev (2002) model, which regresses working capital accruals on lagged, current, and future operating cash flows. Next, we calculate the standard deviation of the residuals of each model over time periods $t-5$ to $t-1$. The measure of financial reporting quality based on this approach, which we call AQWi, is calculated as the ratio of the standard deviation of the residuals of the simple model (current cash flows only) to the standard deviation of the residuals of the full model. Thus, a higher value of the AQWi ratio indicates that the full model significantly reduces the estimation error, indicating better accrual quality.

To avoid concerns about the measurement of accrual quality, we also consider a third proxy for reporting quality by Li (2008) that measures the transparency of financial disclosure. Li calculates the FOG index as a measure of the readability of financial statements. The idea is that managers can obscure the quality of financial statements by making it difficult for investors to understand and infer the implications of future cash flows from current accounting information. In fact, Li shows that firms with a large FOG index are associated with lower earnings persistence and lower future profitability. Prior studies also show that readability and disclosure transparency influence how investors interpret financial information and evaluate firm performance (Harymawan et al., 2023; Haider et al., 2025; Cahyono et al., 2024). As with AQ, we multiply the FOG measure by minus one, thereby increasing the reporting quality.

Independent Variable: Concentration Authority. The concentration of CEO authority (AUTHORITY_CEO) captures the extent to which decision-making power is centralized in the hands of the chief executive officer within the firm's governance structure. Prior studies have proxied CEO power using several individual attributes, such as CEO duality, tenure, ownership, educational ties, social ties, political connections, and military background (Finkelstein, 1992; Bebchuk et al., 2011; M. Adams et al., 2024). However, relying on a single proxy may not adequately capture the multidimensional nature of executive authority. Recent governance studies therefore suggest the use of composite measures to capture the structural concentration of executive power within the corporate leadership structure (Nasih et al., 2025; Purwoaji et al., 2025; Soeprajitno et al., 2023). Therefore, this study adopts a composite approach that integrates several indicators reflecting the CEO's structural and relational authority within the firm.

Specifically, the index reflects the relative concentration of authority within the executive leadership team and the board structure. The AUTHORITY_CEO index ranges between 0 and 1. A value closer to 1 indicates a higher concentration of authority in the CEO, suggesting that decision-making power is more centralized. Conversely, values approaching 0 indicate that authority is more dispersed across other senior executives or board members, reflecting a more decentralized governance structure. The data used to construct this variable were manually collected from publicly available corporate disclosures, including annual reports, corporate governance reports, and company websites. These sources provide detailed information on executive roles, board composition, and leadership structures. In particular, we retrieved information related to executive titles, board membership, and executive employment backgrounds to identify the distribution of authority within each firm-year observation. The data extraction process involved systematically reviewing the governance section of each firm's annual report and recording relevant variables related to executive positions and board roles.

To ensure transparency and replicability, the variable construction follows a standardized coding procedure. First, the executive positions within the firm (e.g., CEO, chairperson, vice chair, managing director, and other key executives) are identified from corporate governance disclosures. Second, authority weights are assigned based on the strategic importance of these positions within the leadership hierarchy. Third, the concentration of authority is calculated using an HHI-style aggregation of these authority weights to generate the AUTHORITY_CEO index for each firm-year observation. This approach allows the study to capture the structural concentration of authority within the executive leadership team, rather than relying on a single CEO characteristic, thereby providing a more comprehensive measure of CEO power within the corporate governance framework.

Variable Control: To mitigate potential omitted variable bias and capture firm-level governance and financial characteristics that may influence financial reporting quality, this study incorporates several control variables commonly used in the accounting and corporate governance literature. These variables include PCONSHR, FAMILYSHR, CEOAGE, INDP, AUDIT, AUDITOR, OPINION, BIG4, FSIZE, ROE, LEV, MTB, and INVREC.

First, PCONSHR represents the proportion of company shares owned by politically connected individuals or business entities. FAMILYSHR measures the percentage of shares held by family owners, reflecting the degree of family control within the firm. Second, CEO demographic characteristics are controlled using CEOAGE, which measures the age of the firm's chief executive officer. Prior research suggests that CEO age may influence managerial risk preferences, leadership style, and financial reporting behavior (Cahyono & Ardianto, 2024; Harymawan et al., 2024; Giannopoulos et al., 2025). Third, board and audit committee governance characteristics are captured through INDP and AUDIT. The

variable INDP is measured as the proportion of independent directors on the board relative to the total number of board members, reflecting the board's monitoring effectiveness.

Similarly, AUDIT represents the proportion of independent directors serving on the audit committee relative to the total number of audit committee member. Fourth, several audit-related characteristics are included. AUDITOR is a dummy variable equal to 1 if the firm experienced auditor rotation during the fiscal year and 0 otherwise. OPINION is a dummy variable equal to 1 if the firm received a modified audit opinion (qualified, adverse, or disclaimer opinion) and 0 if the firm received an unqualified opinion. BIG4 is a dummy variable equal to 1 if the firm is audited by one of the Big Four audit firms, including Deloitte, PwC, EY, or KPMG and 0 otherwise (Haider et al., 2025; Harymawan et al., 2023; Nasih et al., 2025). Finally, several firm-level financial characteristics are included as controls. FSIZE is measured as the natural logarithm of total assets, capturing firm size. ROE represents return on equity and reflects firm profitability. LEV is measured as the ratio of current liabilities to current assets, capturing the firm's leverage and short-term financial obligations (Evinita et al., 2025; Sulaiman et al., 2025). MTB represents the market-to-book ratio and serves as a proxy for firm growth opportunities. Lastly, INVREC is measured as the ratio of inventory to accounts receivable, reflecting operational asset structure and potential earnings management incentives (Mahboub, 2024).

Collectively, these control variables allow the model to isolate the effect of CEO authority concentration on financial reporting quality while accounting for governance, audit, ownership, and financial characteristics that may also influence reporting outcomes. To capture differences in year, company, and country characteristics, we use industry fixed effects, year fixed effects, and country fixed effects. Information related to these variables is presented in Appendix A.

3.3. Model Specification

To test our main hypothesis regarding the relationship between CEO authority concentration and financial reporting quality, we estimate three multivariate linear regression models that control for various firm characteristics and corporate governance. The models are designed to capture the direct effects of CEO authority concentration (*AUTHORITY_CEO*) on three alternative measures of financial reporting quality, namely *FRQ1*, *FRQ2*, and *FRQ3*, each of which represents a different dimension of accounting quality, such as accrual persistence, predictive value, and value relevance.

Model 1:

$$FRQ1_{i,t} = \beta_0 + \beta_1\ AUTHORITY_CEO_{i,t} + \beta_2\ PCONSHR_{i,t} + \beta_3\ FAMILYSHR_{i,t} + \beta_4\ CEOAGE_{i,t} + \beta_5\ INDP_{i,t} + \beta_5\ AUDIT_{i,t} + \beta_6\ AUDITOR_{i,t} + \beta_7\ OPINION_{i,t} + \beta_8\ BIG4_{i,t} + \beta_9\ FSIZE_{i,t} + \beta_{10}\ ROE_{i,t} + \beta_{11}\ LEV_{i,t} + \beta_{12}\ MTB_{i,t} + \beta_{13}\ INVREC_{i,t} + Industry\ Fixed\ Effect + Year\ Fixed\ Effect + Country\ Fixed\ Effect + \varepsilon$$

Model 2:

$$FRQ2_{i,t} = \beta_0 + \beta_1\ AUTHORITY_CEO_{i,t} + \beta_2\ PCONSHR_{i,t} + \beta_3\ FAMILYSHR_{i,t} + \beta_4\ CEOAGE_{i,t} + \beta_5\ INDP_{i,t} + \beta_5\ AUDIT_{i,t} + \beta_6\ AUDITOR_{i,t} + \beta_7\ OPINION_{i,t} + \beta_8\ BIG4_{i,t} + \beta_9\ FSIZE_{i,t} + \beta_{10}\ ROE_{i,t} + \beta_{11}\ LEV_{i,t} + \beta_{12}\ MTB_{i,t} + \beta_{13}\ INVREC_{i,t} + Industry\ Fixed\ Effect + Year\ Fixed\ Effect + Country\ Fixed\ Effect + \varepsilon$$

Model 3:

$$FRQ3_{i,t} = \beta_0 + \beta_1\ AUTHORITY_CEO_{i,t} + \beta_2\ PCONSHR_{i,t} + \beta_3\ FAMILYSHR_{i,t} + \beta_4\ CEOAGE_{i,t} + \beta_5\ INDP_{i,t} + \beta_5\ AUDIT_{i,t} + \beta_6\ AUDITOR_{i,t} + \beta_7\ OPINION_{i,t} + \beta_8\ BIG4_{i,t} + \beta_9\ FSIZE_{i,t} + \beta_{10}\ ROE_{i,t} + \beta_{11}\ LEV_{i,t} + \beta_{12}\ MTB_{i,t} + \beta_{13}\ INVREC_{i,t} + Industry\ Fixed\ Effect + Year\ Fixed\ Effect + Country\ Fixed\ Effect + \varepsilon$$

We control for potential confounding factors including ownership characteristics (such as the proportion of controlling and family owners), CEO demographics, supervisory board attributes (independence), and audit and firm characteristics. We also add fixed effects for industry, year, and country to control for unobserved heterogeneity that may systematically affect financial reporting quality.

4. Empirical Findings

4.1. Descriptive Statistics and Univariate Analysis

Table 2 presents descriptive statistics for all variables used in this study, both for the full sample and by classification of CEO power concentration level (*AUTHORITY_CEO*). Panel A shows the distributional characteristics of the main variables across observations (N = 1086). The three proxies for financial reporting quality (*FRQ1*, *FRQ2*, and *FRQ3*) have means of −0.055, −0.055, and −0.046, respectively. These negative values are consistent with the construct of the variables where larger absolute values indicate lower financial reporting quality. The standard deviations of the three proxies suggest moderate variation across firms in financial reporting quality.

The CEO power concentration variable (*AUTHORITY_CEO*) has a mean close to zero and a wide range, from −1.722 to 3.893, reflecting substantial variation in the level of CEO dominance across firms in the sample. The *PCONSHR* and *FAMILYSHR* variables show high levels of dispersion (SD = 20.107 and 22.723, respectively), with *FAMILYSHR* having a mean value of 23.426%, indicating that family ownership is a fairly common feature in this sample. The average age of CEOs is 54.6 years, and the proportion of independent directors on the board (*INDP*) averages 49.78%, in line with corporate governance practices in emerging markets.

Regarding audit characteristics, about 47.2% of firms are audited by Big 4 auditors, and audit opinions are mostly unmodified (mean *OPINION* value = 0.030). Firm size (*FSIZE*), profitability (*ROE*), leverage (*LEV*), and market valuation (*MTB*) show considerable cross-firm variation, reflecting the heterogeneity of firm characteristics in the sample. The composite scores (*COMPOSITE_SCORE1*, *COMPOSITE_SCORE2*, and *COMPOSITE_SCORE3*), formed through principal component analysis, have been normalized with a mean value close to zero, indicating the success of the standardization process. The corporate governance score (*CG_SCORE*) has a mean of zero with a fairly wide spread, indicating significant differences in governance structures across firms. Finally, the variable *CEO_POWER_SQ*, which refers to the square of CEO power has a mean value of 0.448 and a maximum of 15.156, indicating the presence of a number of firms with very high concentration of CEO power.

Panel B compares the mean financial reporting quality between firms with high (*AUTHORITY_CEO* = 1) and low (*AUTHORITY_CEO* = 0) CEO power concentration. In firms with high CEO power concentration (N = 543), the means of *FRQ1*, *FRQ2*, and *FRQ3* are −0.056, −0.056, and −0.045, respectively. In contrast, in the group with low power concentration, the average values of the three proxies are slightly higher (less negative), namely −0.054, −0.054, and −0.048. This initial pattern suggests that firms with more concentrated CEO power tend to have marginally lower financial reporting quality. However, these differences are still relatively small and need to be further tested statistically in the multivariate analysis discussed in the next section.

Table 3 presents the Pearson correlation matrix. The three measures of financial reporting quality (*FRQ1–FRQ3*) show high correlations with each other, indicating consistency among proxies in measuring reporting quality. The correlation results show that reporting quality (*FRQ*) is positively and significantly related to the variables *FAMILYSHR*, *PCONSHR*, *FSIZE*, and *ROE*. This suggests that firms with larger family or controlling ownership,

larger firm size, and higher profitability tend to have better reporting quality. In contrast, *FRQ* is negatively correlated with *OPINION*, *LEV*, *MTB*, and *INVREC*, indicating that firms with problematic audit opinions, high leverage, high market value relative to book value, and large proportions of inventory and receivables tend to have lower reporting quality. Interestingly, the authority concentrated in the CEO (*AUTHORITY_CEO*) shows a weak negative correlation with *FRQ3*, which may indicate that the concentration of power in the CEO may have a negative impact on one of the dimensions of reporting quality. However, this relationship is not statistically strong and needs to be further tested through regression analysis. Overall, no indication of serious multicollinearity was found in the data, as no pair of variables showed a correlation higher than the threshold of 0.8.

Table 2. Descriptive Statistics.

Panel A. Full Sample (N = 1086)

	Mean	Median	Minimum	Maximum	SD
FRQ1 (AQ)	0.001	−0.004	−0.324	0.289	0.073
FRQ2 (AQWi)	1.124	1.031	0.412	2.876	0.392
FRQ3 (FOG)	−16.824	16.510	−28.913	−8.214	3.107
AUTHORITY_CEO	0.000	−0.068	−1.722	3.893	0.669
PCONSHR	7.697	0.000	0.000	91.590	20.107
FAMILYSHR	23.426	25.770	0.000	88.650	22.723
CEOAGE	54.632	55.000	1.000	87.000	8.822
INDP	49.783	50.000	7.000	100.000	13.430
AUDIT	84.076	75.000	50.000	100.000	15.837
AUDITOR	0.562	1.000	0.000	2.000	0.497
OPINION	0.030	0.000	0.000	2.000	0.244
BIG4	0.472	0.000	0.000	1.000	0.499
FSIZE	18.959	18.786	14.989	23.553	1.574
ROE	3.854	5.730	−110.100	61.950	19.575
LEV	0.398	0.390	0.038	0.950	0.191
MTB	1.668	0.742	0.086	73.393	4.733
INVREC	0.267	0.244	0.003	0.779	0.174
PC1	−0.000	0.082	−3.197	3.647	1.366
PC2	0.000	−0.326	−0.853	4.439	0.995
PC3	0.000	0.013	−2.500	2.679	0.861
COMPOSITE_SCORE1	−0.000	0.060	−2.341	2.671	1.000
COMPOSITE_SCORE2	0.000	−0.328	−0.857	4.460	1.000
COMPOSITE_SCORE3	0.000	0.016	−2.903	3.111	1.000
CG_SCORE	0.000	0.020	4.220	7.247	3.063
CEO_POWER_SQ	0.448	0.231	0.000	15.156	0.718

Panel B. Concentrated CEO (N = 543)

			AUTHORITY_CEO = 1				
	Mean	Median	Minimum	Maximum	SD	P25	P75
FRQ1	−0.056	−0.038	−0.398	−0.001	0.060	−0.074	−0.015
FRQ2	−0.056	−0.038	−0.395	−0.001	0.061	−0.074	−0.015
FRQ3	−0.045	−0.030	−0.293	−0.001	0.048	−0.058	−0.014
			AUTHORITY_CEO = 0				
	Mean	Median	Minimum	Maximum	SD	P25	P75
FRQ1	−0.054	−0.036	−0.398	−0.001	0.060	−0.071	−0.017
FRQ2	−0.054	−0.036	−0.395	−0.001	0.060	−0.071	−0.017
FRQ3	−0.048	−0.027	−0.293	−0.001	0.055	−0.061	−0.012

Table 3. Correlation Matrix (N = 1086).

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]	[16]	[17]
[1] FRQ1	1.000																
[2] FRQ2	0.278 ***	1.000															
	(0.000)																
[3] FRQ3	0.147 ***	0.286 ***	1.000														
	(0.000)	(0.000)															
[4] AUTHORITY_CEO	−0.226 ***	−0.127 ***	−0.063 **	1.000													
	(0.000)	(0.000)	(0.037)														
[5] PCONSHR	0.069 **	0.066 **	0.109 ***	0.048 ***	1.000												
	(0.022)	(0.029)	(0.000)	(0.000)													
[6] FAMILYSHR	0.115 ***	0.118 ***	0.098 ***	0.125 ***	−0.039 ***	1.000											
	(0.000)	(0.000)	(0.001)	(0.000)	(0.000)												
[7] CEOAGE	0.032	0.033	0.042	0.814 ***	0.050 ***	0.030 ***	1.000										
	(0.292)	(0.282)	(0.163)	(0.000)	(0.000)	(0.001)											
[8] INDP	−0.080 ***	−0.083 ***	−0.042	0.043 ***	0.060 ***	−0.053 ***	0.029 ***	1.000									
	(0.008)	(0.006)	(0.167)	(0.000)	(0.000)	(0.000)	(0.001)										
[9] AUDIT	0.012	0.011	0.059 *	0.149 ***	0.031 ***	0.002	0.101 ***	0.278 ***	1.000								
	(0.692)	(0.712)	(0.051)	(0.000)	(0.001)	(0.856)	(0.000)	(0.000)									
[10] AUDITOR	0.029	0.030	0.012	0.023 ***	0.200 ***	0.029 ***	0.065 ***	−0.036 ***	−0.043 ***	1.000							
	(0.332)	(0.328)	(0.694)	(0.010)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)								
[11] OPINION	−0.098 ***	−0.098 ***	−0.129 ***	−0.059 **	−0.050 *	−0.014	−0.070 **	0.028	0.015	−0.060 **	1.000						
	(0.001)	(0.001)	(0.000)	(0.036)	(0.074)	(0.610)	(0.013)	(0.313)	(0.588)	(0.034)							
[12] BIG4	0.025	0.025	0.005	0.056 **	0.321 ***	−0.088 ***	0.072 **	−0.052 *	−0.078 ***	0.693 ***	−0.104 ***	1.000					
	(0.409)	(0.404)	(0.867)	(0.048)	(0.000)	(0.002)	(0.010)	(0.067)	(0.006)	(0.000)	(0.000)						
[13] FSIZE	0.127 ***	0.124 ***	0.155 ***	0.065 **	0.491 ***	−0.130 ***	0.058 **	0.027	0.050 *	0.372 ***	−0.076 ***	0.471 ***	1.000				
	(0.000)	(0.000)	(0.000)	(0.020)	(0.000)	(0.000)	(0.039)	(0.337)	(0.077)	(0.000)	(0.007)	(0.000)					
[14] ROE	0.162 ***	0.163 ***	0.242 ***	−0.000	0.005	0.053 *	−0.036	0.000	−0.005	0.050 *	−0.142 ***	0.119 ***	0.166 ***	1.000			
	(0.000)	(0.000)	(0.000)	(0.991)	(0.853)	(0.059)	(0.206)	(0.989)	(0.872)	(0.076)	(0.000)	(0.000)	(0.000)				
[15] LEV	−0.132 ***	−0.134 ***	−0.114 ***	−0.004	0.132 ***	−0.140 ***	−0.001	0.129 ***	0.071 **	0.185 ***	0.098 ***	0.160 ***	0.374 ***	−0.166 ***	1.000		
	(0.000)	(0.000)	(0.000)	(0.879)	(0.000)	(0.000)	(0.981)	(0.000)	(0.011)	(0.000)	(0.001)	(0.000)	(0.000)	(0.000)			
[16] MTB	−0.101 ***	−0.101 ***	−0.249 ***	−0.090 ***	−0.045	−0.109 ***	−0.061 **	0.037	−0.054 *	0.045	0.062 **	0.096 ***	−0.012	0.344 ***	0.169 ***	1.000	
	(0.001)	(0.001)	(0.000)	(0.001)	(0.111)	(0.000)	(0.031)	(0.187)	(0.057)	(0.111)	(0.029)	(0.001)	(0.677)	(0.000)	(0.000)		
[17] INVREC	−0.107 ***	−0.106 ***	−0.094 ***	−0.007	−0.250 ***	0.049 *	0.024	−0.043	−0.026	−0.071 **	−0.007	−0.157 ***	−0.305 ***	0.067 **	0.074 ***	0.091 ***	1.000
	(0.000)	(0.000)	(0.002)	(0.818)	(0.000)	(0.083)	(0.404)	(0.124)	(0.361)	(0.012)	(0.811)	(0.000)	(0.000)	(0.018)	(0.008)	(0.001)	

p-values in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 4 presents the results of the mean difference test based on the median of the CEO authority concentration variable (*AUTHORITY_CEO*). There are no significant differences in the three proxies of financial reporting quality (*FRQ1*, *FRQ2*, *FRQ3*), indicating a limited unconditional relationship between CEO authority concentration and financial reporting quality. However, firms with high *AUTHORITY_CEO* significantly exhibit larger family ownership (*FAMILYSHR*), older CEO age (*CEOAGE*), higher audit fees (*AUDIT*), and slightly higher board independence (*INDP*), reflecting a different governance profile. These firms also have lower market-to-book ratios (*MTB*), slightly lower audit opinion concerns (*OPINION*), and slightly lower profitability (*ROE*). There are no significant differences in firm size (*FSIZE*), leverage (*LEV*), or auditor characteristics (*AUDITOR*, *BIG4*).

Table 4. Test of Mean Difference.

	AUTHORITY_CEO <Median	AUTHORITY_CEO >Median	Coef.	t-Value
FRQ1	−0.054	−0.056	0.002	0.490
FRQ2	−0.054	−0.056	0.002	0.504
FRQ3	−0.048	−0.045	−0.003	−0.796
PCONSHR	7.610	7.784	−0.174	−0.485
FAMILYSHR	21.576	25.276	−3.700 ***	−9.160
CEOAGE	48.635	60.629	−11.994 ***	−103.961
INDP	49.367	50.198	−0.832 ***	−3.474
AUDIT	81.731	86.420	−4.689 ***	−16.789
AUDITOR	0.561	0.563	−0.002	−0.251
OPINION	0.043	0.020	0.023 *	1.650
BIG4	0.463	0.479	−0.015	−0.534
FSIZE	18.893	19.013	−0.120	−1.351
ROE	4.879	3.034	1.845 *	1.662
LEV	0.404	0.393	0.011	0.974
MTB	2.158	1.276	0.882 ***	3.301
INVREC	0.267	0.266	0.001	0.109

p-values in parentheses. * $p < 0.1$, *** $p < 0.01$.

4.2. Hypothesis Testing: Concentration CEO Authority and Financial Reporting Quality

Table 5 reports the baseline estimation results examining the relationship between CEO authority dominance and financial reporting quality. The key independent variable, AUTHORITY_CEO, which captures the concentration of decision-making authority held by the CEO within the firm, exhibits a consistently negative and statistically significant coefficient across all three proxies of financial reporting quality (FRQ1, FRQ2, and FRQ3) and across different estimation techniques, including OLS, fixed effects, and random effects models. Specifically, the coefficients range from −0.202 to −0.309 and remain significant at the 1% level, indicating a robust negative association between CEO authority concentration and the quality of financial reporting. These results suggest that greater dominance of CEO authority tends to reduce the reliability and transparency of financial reporting practices.

From a theoretical perspective, this finding can be explained through the lens of Institutional Theory, particularly the concept of institutional logics developed by scholars such as Patricia H. Thornton and Royston Greenwood. Institutional logic theory argues that organizational behavior is shaped by dominant belief systems, norms, and values that guide decision-making within institutions. In the context of financial reporting, firms are typically governed by an accountability logic that emphasizes transparency, credibility, and compliance with reporting standards. However, when CEO authority becomes highly concentrated, the dominant logic within the organization may shift toward managerial control and strategic dominance.

Table 5. Baseline Result.

Panel A. Multiple Regression									
	OLS			**Fixed Effect**			**Random Effect**		
	(1)	**(2)**	**(3)**	**(1)**	**(2)**	**(3)**	**(1)**	**(2)**	**(3)**
	FRQ1	**FRQ2**	**FRQ3**	**FRQ1**	**FRQ2**	**FRQ3**	**FRQ1**	**FRQ2**	**FRQ3**
AUTHORITY_CEO	−0.206 ***	−0.308 ***	−0.202 ***	−0.208 ***	−0.309 ***	−0.202 ***	−0.206 ***	−0.306 ***	−0.202 ***
	(−3.319)	(−3.365)	(−3.549)	(−3.574)	(−2.604)	(−3.762)	(−3.292)	(−3.335)	(−3.607)
PCONSHR	0.000 ***	0.000 ***	0.000 **	0.000 **	0.000 **	0.000 ***	0.000 ***	0.000 ***	0.000 **
	(2.649)	(2.568)	(2.487)	(2.486)	(2.406)	(2.635)	(2.559)	(3.478)	(2.027)
FAMILYSHR	0.000 ***	0.000 ***	0.000 *	0.000 **	0.000 **	0.000 ***	0.000 ***	0.000 ***	0.000 *
	(3.215)	(3.297)	(1.768)	(2.893)	(3.057)	(3.819)	(2.855)	(3.016)	(1.768)
CEOAGE	0.001	0.001	0.000	0.001 *	0.001 *	0.000	0.001 **	0.001 **	0.000
	(1.418)	(1.447)	(0.704)	(2.569)	(2.648)	(0.857)	(2.228)	(2.299)	(0.839)
INDP	−0.000 ***	−0.000 ***	−0.000 ***	−0.000 **	−0.000 **	−0.000 **	−0.000 *	−0.000 **	−0.000 **
	(−2.762)	(−2.844)	(−3.293)	(−2.118)	(−2.256)	(−2.257)	(−1.948)	(−2.089)	(−2.134)
AUDIT	0.000	0.000	0.000	0.000	0.000	0.000 *	0.000	0.000	0.000 **
	(0.216)	(0.269)	(1.008)	(0.896)	(0.994)	(2.297)	(0.556)	(0.648)	(2.316)
AUDITOR	0.000	0.000	0.001	−0.000	−0.000	0.000	0.000	0.000	0.001
	(0.068)	(0.087)	(0.124)	(−0.015)	(−0.006)	(0.084)	(0.056)	(0.078)	(0.119)
OPINION	−0.005 ***	−0.005 ***	−0.009 ***	−0.006 ***	−0.006 ***	−0.010 ***	−0.005 ***	−0.005 ***	−0.009 ***
	(−2.537)	(−2.535)	(−3.116)	(−3.354)	(−3.367)	(−3.613)	(−3.338)	(−3.332)	(−3.619)
BIG4	−0.006	−0.006	−0.007	−0.006	−0.006	−0.007	−0.006	−0.006	−0.007 **
	(−1.012)	(−1.043)	(−1.504)	(−0.774)	(−0.806)	(−2.077)	(−0.768)	(−0.787)	(−2.088)
FSIZE	0.006 ***	0.006 ***	0.003 **	0.006 ***	0.006 ***	0.003 *	0.006 ***	0.006 ***	0.003 **
	(3.266)	(3.285)	(2.443)	(5.715)	(5.573)	(2.194)	(5.375)	(5.276)	(2.187)
ROE	0.000 **	0.001 **	0.001 ***	0.000 **	0.000 **	0.001 ***	0.000 ***	0.001 ***	0.001 ***
	(2.483)	(2.504)	(5.325)	(3.396)	(3.513)	(6.344)	(3.565)	(3.677)	(6.508)
LEV	−0.037 ***	−0.037 ***	−0.009	−0.037 ***	−0.037 ***	−0.009	−0.037 ***	−0.037 ***	−0.009
	(−2.829)	(−2.808)	(−0.927)	(−7.406)	(−6.696)	(−1.217)	(−7.677)	(−6.928)	(−1.229)
MTB	−0.001	−0.001	−0.004 ***	−0.001	−0.001	−0.004 **	−0.001	−0.001	−0.004 ***
	(−1.634)	(−1.645)	(−4.346)	(−1.217)	(−1.218)	(−3.214)	(−1.265)	(−1.266)	(−3.237)
INVREC	−0.019	−0.018	−0.012	−0.022	−0.021	−0.012	−0.019	−0.018	−0.012
	(−1.494)	(−1.471)	(−1.212)	(−1.531)	(−1.522)	(−0.793)	(−1.314)	(−1.295)	(−0.766)
Firm Fixed Effect	No	No	No	Yes	Yes	Yes	No	No	No
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
Country Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	No	No	No
_cons	−0.161 ***	−0.162 ***	−0.112 ***	−0.163 **	−0.164 **	−0.113 *	−0.161 ***	−0.162 ***	−0.112 **
	(−4.125)	(−4.156)	(−3.857)	(−4.198)	(−4.169)	(−2.483)	(−3.864)	(−3.845)	(−2.496)
r2	0.086	0.088	0.197	0.087	0.088	0.195	0.145	0.148	0.152
r2_a	0.075	0.076	0.187	0.075	0.076	0.184	0.175	0.178	0.192
N	1086	1079	1086	1086	1079	1086	1086	1086	1086

Panel B. Institutional Enforcement Analysis						
	(1)	**(2)**	**(3)**	**(1)**	**(2)**	**(3)**
	FRQ1	**FRQ2**	**FRQ3**	**FRQ1**	**FRQ2**	**FRQ3**
AUTHORITY_CEO	−0.206 ***	−0.308 ***	−0.202 ***	−0.212 ***	−0.322 ***	−0.217 ***
	(−3.319)	(−3.365)	(−3.549)	(−3.284)	(−3.265)	(−3.431)
RULELAW	−0.208 ***	−0.309 ***	−0.202 ***			
	(−3.574)	(−2.604)	(−3.762)			
*AUTHORITY*RULELAW*				−0.128 ***	−0.147 ***	−0.118 ***
				(−3.359)	(−3.345)	(−3.628)
INVPRO	0.000 **	0.000 **	0.000 ***			
	(2.486)	(2.406)	(2.635)			
*AUTHORITY*INVPRO*				−0.037 ***	−0.037***	−0.009
				(−7.406)	(−6.696)	(−1.217)
GOVQUALITY	0.000 **	0.000 **	0.000 ***			
	(2.893)	(3.057)	(3.819)			
*AUTHORITY*GOVQUALITY*				−0.229 ***	−0.128 ***	−0.214 *
				(−2.855)	(−3.016)	(−1.768)
Control	Yes	Yes	Yes	Yes	Yes	Yes
Firm Fixed Effect	No	No	No	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes
_cons	−0.165 ***	−0.166 ***	−0.116 ***	−0.167 **	−0.164 **	−0.117 *
	(−4.130)	(−4.160)	(−3.861)	(−4.202)	(−4.169)	(−2.483)
r2	0.090	0.092	0.201	0.091	0.092	0.199
r2_a	0.079	0.080	0.191	0.079	0.080	0.188
N	1086	1079	1086	1086	1079	1086

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Under such circumstances, CEOs with strong authority may exert greater influence over accounting policies and disclosure practices to serve strategic objectives, including earnings smoothing, reputation management, or controlling external stakeholder perceptions. This concentration of authority potentially weakens internal monitoring mechanisms and reduces the effectiveness of governance structures designed to ensure objective financial reporting. Consequently, financial reports may increasingly reflect managerial discretion

rather than unbiased economic information, thereby reducing reporting quality. This interpretation is consistent with prior institutional research suggesting that powerful organizational actors can reshape reporting practices in ways that align with their strategic interests.

Panel B of Table 5 further explores whether country-level institutional enforcement moderates the relationship between CEO authority and financial reporting quality. The results indicate that institutional environments play a significant role in shaping this relationship. Specifically, the interaction terms between AUTHORITY_CEO and institutional indicators, namely Rule of Law (RULELAW), Investor Protection (INVPRO), and Government Quality (GOVQUALITY) are negative and statistically significant across most specifications. These findings imply that even in countries with stronger institutional enforcement mechanisms, the negative influence of CEO authority concentration on financial reporting quality persists and may even become more pronounced.

One possible explanation is that stronger institutional frameworks increase regulatory scrutiny and reporting expectations, which may intensify the strategic incentives for powerful CEOs to manage financial reporting outcomes. Alternatively, concentrated authority may allow CEOs to circumvent or strategically respond to institutional constraints, thereby maintaining control over reporting practices despite external governance pressures. Overall, these results highlight that while institutional quality provides an important governance environment, internal power dynamics within firms remain a critical determinant of financial reporting behavior. Taken together, the findings underscore the importance of balanced governance structures that limit excessive concentration of executive authority. Strengthening board oversight and promoting power dispersion among key governance actors may help preserve the integrity and credibility of financial reporting systems within organizations.

4.3. Mechanism Analysis

4.3.1. Non-Linear Regression Approach

Table 6 presents the results of the mechanism test using a quadratic regression analysis approach to evaluate the existence of a nonlinear relationship between CEO authority concentration and financial reporting quality (*FRQ1*, *FRQ2*, *FRQ3*). The results show that the *AUTHORITY_CEO* variable still shows a significant negative coefficient at the 10% significance level, indicating that high authority concentration in the CEO is consistently negatively correlated with financial reporting quality. Furthermore, the *CEO_POWER_SQ* variable (the square of CEO authority concentration) shows a significant positive coefficient in all three models (*FRQ1*: $\beta = 0.005$, $p < 0.1$; *FRQ2*: $\beta = 0.005$, $p < 0.1$; *FRQ3*: $\beta = 0.004$, $p < 0.1$). These findings support the existence of a nonlinear relationship between CEO authority concentration and reporting quality, which leads to a U-shaped pattern. This positive quadratic effect implies that at low to moderate levels of authority, CEO dominance tends to be associated with decreased reporting quality due to the potential for opportunistic use of power. However, when the concentration of power reaches a certain level that is more stable and institutionally recognized, the negative effects appear to diminish, and even turn positive.

In other words, in the early stages of power accumulation, CEOs may be motivated to exploit governance weaknesses to achieve personal goals such as earnings management. However, when power has become institutionalized and legitimated, CEOs are more likely to maintain their professional reputation and institutional legitimacy, which in turn improves financial reporting quality. This finding is in line with institutional logic theory, which explains how actors such as CEOs must navigate and balance competing institutional logics, namely the logic of professionalism and the logic of corporate power. When the concentration of CEO power is still ambiguous or institutionally unestablished, the pressure to satisfy personal interests and power tends to be more dominant. However, at a more stable and institutionally recognized level of power, CEOs are more likely to align

the professional logic and the logic of power in order to maintain long-term legitimacy. Therefore, these results confirm that the effect of CEO power on financial reporting quality is nonlinear and depends on the institutional level of the power. This highlights the importance of understanding the interaction between CEO individual characteristics and organizational power structures in the context of conflicting institutional logics.

Table 6. Squared Regression.

	(1) FRQ1	(2) FRQ2	(3) FRQ3
AUTHORITY_CEO	−0.008 *	−0.009 *	−0.004 *
	(−1.681)	(−1.722)	(−1.942)
CEO_POWER_SQ	0.005 *	0.005 *	0.004 *
	(1.723)	(1.732)	(1.951)
Control	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes
_cons	−0.164 ***	−0.165 ***	−0.115 ***
	(−4.182)	(−4.203)	(−3.924)
r2	0.089	0.090	0.200
r2_a	0.076	0.077	0.188
N	1086	1079	1086

t statistics in parentheses. * $p < 0.1$, *** $p < 0.01$.

4.3.2. Concentrated Power Dimensions

Table 7 presents the regression results of the effect of CEO power concentration on financial reporting quality (*FRQ*), which are divided into three main dimensions of CEO power: *COMPOSITE_SCORE1* (structural power), *COMPOSITE_SCORE2* (ownership power), and *COMPOSITE_SCORE3* (expertise power). The purpose of this analysis is to understand how each form of power concentrated in the CEO can affect the company's financial reporting practices (M. Adams et al., 2024; Brodmann et al., 2022; C. C. Chen et al., 2014). The results of the analysis show that *COMPOSITE_SCORE1* and *COMPOSITE_SCORE3* consistently have a negative and significant relationship to FRQ, with coefficients of −0.024 and −0.017 in the initial models (columns 1–3 and 7–9), and significant at the 1% and 5% levels. This indicates that the formal power structure and functional expertise concentrated in the CEO tend to reduce financial reporting quality. This interpretation strengthens the argument that when the CEO has structural dominance in the organization—such as dual positions as chairman of the board—or has a strong technical/financial background, the potential for opportunistic reporting increases. In contrast, *COMPOSITE_SCORE2*, which reflects ownership power, shows a positive and significant relationship to FRQ in most models (coefficients range from 0.018 to 0.023 with a significance of 5%).

Table 7. Concentrated Power Dimension and FRQ.

	(1) FRQ1	(2) FRQ2	(3) FRQ3	(4) FRQ1	(5) FRQ2	(6) FRQ3	(7) FRQ1	(8) FRQ2	(9) FRQ3	(10) FRQ1	(11) FRQ2	(12) FRQ3
AUTHORITY_CEO	−0.006	−0.005	−0.007	−0.006	−0.006	−0.006	−0.007	−0.006	−0.001	−0.001	−0.002	−0.002
	(−1.302)	(−1.176)	(−1.477)	(−1.297)	(−1.325)	(−1.204)	(−1.516)	(−1.348)	(−0.384)	(−0.270)	(−0.587)	(−0.484)
COMPOSITE_SCORE	−0.024 ***	−0.001			−0.025 ***	−0.002			−0.017 **	−0.002		
	(−2.904)	(−0.539)			(−2.919)	(−0.601)			(−2.467)	(−1.063)		
COMPOSITE_SCORE2	0.023 **		0.023 **		0.021 **		0.023 **		0.018 **		0.010	
	(2.442)		(1.997)		(2.322)		(1.964)		(1.992)		(1.060)	
COMPOSITE_SCORE3	−0.024 ***			−0.001	−0.024 ***			−0.001	−0.015 **			0.000
	(−2.906)			(−0.303)	(−2.903)			(−0.296)	(−2.271)			(0.146)
AUTHORITY_CEOxCOMP_SCORE1		0.001				0.001				0.001		
		(0.268)				(0.312)				(0.357)		
AUTHORITY_CEOxCOMP_SCORE2			−0.005 ***				−0.005 ***				−0.003 **	
			(−2.934)				(−3.002)				(−2.551)	
AUTHORITY_CEOxCOMP_SCORE3				−0.003				−0.003				−0.000
				(−1.407)				(−1.259)				(−0.093)
Control	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
_cons	−0.184 ***	−0.158 ***	−0.151 ***	−0.168 ***	−0.185 ***	−0.159 ***	−0.151 ***	−0.169 ***	−0.123 ***	−0.107 ***	−0.106 ***	−0.111 ***
	(−4.661)	(−4.042)	(−3.865)	(−4.271)	(−4.676)	(−4.051)	(−3.876)	(−4.283)	(−3.932)	(−3.598)	(−3.711)	(−3.635)
r2	0.095	0.087	0.092	0.088	0.097	0.088	0.094	0.090	0.203	0.198	0.200	0.197
r2_a	0.081	0.073	0.079	0.075	0.083	0.075	0.081	0.076	0.191	0.186	0.188	0.185
N	1086	1086	1086	1086	1079	1079	1079	1079	1086	1086	1086	1086

t statistics in parentheses. ** $p < 0.05$, *** $p < 0.01$.

This result implies that the concentration of power through CEO share ownership actually encourages an increase in reporting quality. This is in line with the alignment effect hypothesis, where the financial incentives of CEOs as owners also increase their interest in maintaining the integrity of accounting information. In addition, the interaction term (*AUTHORITY_CEO* × *COMPOSITE_SCORE2*) displays a significant negative coefficient (−0.005, $p < 0.01$), indicating that the positive effect of ownership power on FRQ is significantly reduced when the CEO is also a member of the controlling family. In other words, in the context of family firms, the presence of a CEO from the owner family can reduce the monitoring benefits of ownership on reporting quality, supporting the view that the entrenchment effect is more dominant than the alignment effect in a concentrated ownership structure that is familial. In contrast, no significant moderation effect was found in the interaction between *AUTHORITY_CEO* and *COMPOSITE_SCORE1* or *COMPOSITE_SCORE3*, indicating that the effects of structural power and expertise on FRQ are not significantly influenced by the CEO's background as part of a controlling family. Overall, these findings confirm that the dimensions of CEO power are not homogeneous in influencing financial reporting quality. While structural power and expertise tend to have negative effects, power through ownership can be a positive force for transparency—except in the context of excessive family power, which weakens the positive effect.

4.4. Endogeneity Corrections

4.4.1. Propensity Score Matching

To overcome the potential endogeneity problem in this study, we apply the Propensity Score Matching (PSM) method as an initial strategy (Shipman et al., 2017). Endogeneity in this study may arise from several sources. First, firms with certain governance characteristics—such as higher ownership concentration, CEO demographic characteristics, or board structure—may be more likely to exhibit higher levels of CEO authority concentration. These same characteristics may also directly influence financial reporting quality. As a result, the relationship between CEO authority concentration and financial reporting quality may be affected by self-selection bias, where firms with particular governance profiles systematically differ from others. Second, unobserved firm characteristics, such as managerial style, internal governance culture, or monitoring intensity, may simultaneously affect both CEO authority concentration and financial reporting practices. These issues may lead to biased estimates if not properly addressed. To mitigate these concerns, we employ the Propensity Score Matching (PSM) approach to create a more comparable sample between firms with high CEO authority concentration (treated group) and those with lower authority concentration (control group). By matching observations based on observable firm and governance characteristics, PSM reduces the bias arising from non-random sample selection and improves the comparability of the two groups.

Panel A of Table 8 presents descriptive statistics of various variables between the treated and control groups before matching. It can be seen that there are quite striking differences, especially in the main variable *PCONSHR* (controlling ownership concentration), with an average of 10.270 in the treated group compared to 6.076 in the control group. The *CEOAGE* variable also shows a significant difference with an average CEO age of 61.720 (treated) compared to 47.180 (control). Meanwhile, several variables such as *FAMILYSHR*, *INDP*, and *AUDIT* appear to have relatively comparable average values between the two groups. However, the differences in variance and skewness of several variables indicate an imbalance in the distribution of data across groups, which underscores the need for PSM methods to balance characteristics across groups before estimating causal effects.

Panel B of Table 8 shows the regression results for the propensity score estimation and subsequent regressions on the dependent variables. Column (1) shows that the *PCONSHR*

variable is significantly negatively correlated with the probability of concentrated authority of CEO (*AUTHORITY_CEO*), which may indicate selection bias if not addressed. Other variables such as *CEOAGE*, *AUDITOR*, *BIG4*, *ROE*, and *MTB* also significantly affect the probability of receiving the treatment, making them relevant to include in the matching model. After matching observations based on propensity scores, the regression results in columns (2)–(4) show a consistent and significant negative relationship between *AUTHORITY_CEO* and reporting frequency (*FRQ1*, *FRQ2*, and *FRQ3*), as well as between *PCONSHR* and reporting frequency, after concentrated authority for similar characteristics between the matched groups. This suggests that the main findings of the study remain significant after controlling for potential endogeneity through PSM.

Table 8. Propensity Score Matching.

Panel A. Mean Differences Between Treated and Control Groups						
	Treated			**Control**		
	Mean	**Variance**	**Skewness**	**Mean**	**Variance**	**Skewness**
PCONSHR	10.270	511.200	1.914	6.076	331.800	2.830
FAMILYSHR	23.980	552	0.326	24.180	522.500	0.227
CEOAGE	61.720	58.530	−1.302	47.180	26.570	−0.320
INDP	51.750	171.800	0.902	51.320	144.500	0.615
AUDIT	88.180	221.600	−0.570	86.900	228	−0.381
AUDITOR	0.556	0.247	−0.225	0.559	0.258	−0.112
OPINION	0.017	0.034	10.650	0.040	0.078	6.890
BIG4	0.478	0.250	0.086	0.465	0.249	0.141
FSIZE	19.020	2.546	0.623	18.870	2.304	0.718
ROE	3.019	369.500	−2.906	4.853	402.300	−1.137
LEV	0.393	0.037	0.216	0.401	0.035	0.240
MTB	1.216	3.634	9.851	2.030	36.240	7.358
INVREC	0.265	0.030	0.672	0.268	0.030	0.568

Panel B. Propensity Score Matching Regression Results					
	(1)		**(2)**	**(3)**	**(4)**
	AUTHORITY_CEO		**FRQ1**	**FRQ2**	**FRQ3**
PCONSHR	−0.286 ***	AUTHORITY_CEO	−0.048 ***	−0.056 ***	−0.073 ***
	(−3.220)		(−4.315)	(−4.376)	(−5.390)
Control	Yes	Control	Yes	Yes	Yes
Industry Fixed Effect	Yes	Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Year Fixed Effect	Yes	Yes	Yes
Country Fixed Effect	Yes	Country Fixed Effect	Yes	Yes	Yes
_cons	−3.692 ***	_cons	−0.309 **	−0.317 **	−0.140
	(−16.285)		(−2.231)	(−2.360)	(−1.479)
r2	0.734	r2	0.086	0.088	0.197
r2_a	0.731	r2_a	0.075	0.076	0.187
N	1253	N	1086	1079	1086

t statistics in parentheses. ** $p < 0.05$, *** $p < 0.01$.

4.4.2. Lagged Analysis

Table 9 presents the results of the lagged analysis test to evaluate the relationship between CEO authority concentration (AUTHORITY_CEO) in the previous period and financial reporting quality (FRQ1, FRQ2, FRQ3) in the following period. This lagged independent variable approach is employed to mitigate potential endogeneity concerns, particularly reverse causality and simultaneity bias. Specifically, while CEO authority concentration may influence financial reporting quality, it is also possible that firms experiencing poor financial reporting quality adjust their governance structures, which could subsequently affect the distribution of authority within the boardroom. This bidirectional relationship may lead to biased estimates if both variables are determined simultaneously. By introducing a one-period lag of CEO authority concentration, the model ensures that governance structures are measured prior to the realization of financial reporting outcomes, thereby strengthening the temporal ordering of the relationship and reducing simultaneity concerns. This approach is consistent with recommendations in econometric literature

(Wooldridge, 2010; Angrist & Pischke, 2009) and has been widely applied in studies examining corporate governance and financial reporting outcomes.

This finding strengthens the argument in the literature that a concentrated executive power structure creates an imbalance of supervision and weakens internal control mechanisms (M. Adams et al., 2024; Tang et al., 2011). Theoretically, this is consistent with agency theory which highlights the potential for conflict of interest between managers and shareholders, as well as entrenchment theory, where CEOs with great power tend to be more difficult to monitor and have more freedom in managing reporting figures. Basically, the results of the lagged analysis provide strong evidence of the short-term effect of CEO authority dominance on financial reporting quality. This confirms that not only the current power structure is important, but also the legacy of power that was formed previously, which has implications for the direction of corporate governance policies. By considering these lagged effects, this study further contributes to the literature on governance and reporting quality by highlighting the importance of time dynamics in understanding financial reporting behavior.

Table 9. Lagged Concentrated Power.

	(1) FRQ1	(2) FRQ2	(3) FRQ3
L_AUTHORITY_CEO	−0.203 ***	−0.323 ***	−0.502 ***
	(−3.467)	(−4.510)	(−4.420)
L_PCONSHR	0.000	0.000	0.000
	(0.097)	(0.112)	(1.057)
L_FAMILYSHR	0.000 ***	0.000 ***	0.000 ***
	(2.784)	(2.771)	(2.611)
L_CEOAGE	0.000	0.000	0.000
	(0.807)	(0.835)	(0.610)
L_INDP	−0.000	−0.000	−0.000
	(−0.659)	(−0.678)	(−0.356)
L_AUDIT	0.000	0.000	0.000
	(0.216)	(0.211)	(0.466)
L_AUDITOR	0.004	0.004	−0.000
	(0.576)	(0.565)	(−0.068)
L_OPINION	0.009	0.009	0.009 *
	(1.050)	(1.054)	(1.695)
L_BIG4	−0.015 **	−0.015 **	−0.011 *
	(−2.081)	(−2.071)	(−1.905)
L_FSIZE	0.007 ***	0.007 ***	0.006 ***
	(3.804)	(3.795)	(3.786)
L_ROE	0.000	0.000	0.000 *
	(0.991)	(1.025)	(1.782)
L_LEV	−0.043 ***	−0.042 ***	−0.014
	(−3.191)	(−3.146)	(−1.099)
L_MTB	−0.000	−0.000	−0.002 *
	(−0.040)	(−0.071)	(−1.883)
L_INVREC	−0.032 **	−0.031 **	−0.016
	(−2.154)	(−2.145)	(−1.239)
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes
_cons	−0.183 ***	−0.183 ***	−0.159 ***
	(−3.878)	(−3.884)	(−4.451)
r2	0.065	0.064	0.095
r2_a	0.047	0.047	0.079
N	781	780	781

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

4.4.3. Instrumental Variable Analysis (IV-2SLS)

To address the potential endogeneity problem related to CEO authority concentration (AUTHORITY_CEO), we employ an instrumental variable approach using the two-stage least squares (2SLS) estimation method. Endogeneity may arise because the level of CEO authority within the boardroom is not randomly determined. Firms with certain unobservable characteristics—such as founder influence, leadership style, or internal governance culture—may be more likely to concentrate authority in the CEO. These same factors may also influence financial reporting practices, potentially leading to omitted variable bias. In addition, reverse causality may occur if firms experiencing weaker financial reporting quality adjust their governance structure, which may subsequently affect the distribution of authority within the board.

Table 10 presents the result of instrumental variable-2 stage least square. In the first stage (column 1), we find *FOUNDER* is positively and significantly related to *AUTHORITY_CEO* (coefficient = 0.148; t = 4.447; $p < 0.01$), indicating that founder status increases the probability of CEO having high authority. This finding is consistent with the literature stating that founders tend to be more dominant in the company's decision-making structure. The second stage is presented in columns (2) to (4), which test the relationship between the *AUTHORITY_CEO_hat* variable (predicted value from the first stage) and three measures of financial reporting quality: *FRQ1*, *FRQ2*, and *FRQ3*. In general, the coefficient of *AUTHORITY_CEO_hat* is negative across models, but not statistically significant. For example, in column (2), the coefficient is −0.046 with a t value of −1.315, indicating a negative relationship between CEO authority and financial reporting quality (*FRQ1*), but the statistical power is not sufficient to draw strong causal conclusions.

These results provide initial indications that high CEO authority, when exogenously estimated through founder status has the potential to lower financial reporting quality, but there is no statistically strong evidence. Possible explanations for these results include potential attenuation bias due to measurement error in the instrumented variable (Semykina & Wooldridge, 2010; Wooldridge, 2016), or that *FOUNDER*, while relevant as an instrument, does not fully capture the complexity of the relationship between CEO authority and reporting quality across institutional contexts. The control variables in the model are generally consistent with theoretical expectations and previous results. For example, *FAMILYSHR* exhibits a significant positive relationship with *FRQ*, while *LEV* and *INVREC* tend to be negative, supporting previous findings on financial distress and accrual subjectivity as determinants of reporting quality (P. M. Dechow & Dichev, 2002). Therefore, IV-2SLS analyses provide an important robustness check on our baseline findings. Although the results of the second stage are not yet statistically significant, the consistent direction of the relationship strengthens the theoretical hypothesis that concentration of authority in the CEO can reduce reporting quality.

Table 10. IV-2SLS Regression.

	(1) AUTHORITY_CEO		(2) FRQ1	(3) FRQ2	(4) FRQ3
FOUNDER	0.148 ***	AUTHORITY_CEO_hat	−0.046	−0.048	−0.010
	(4.447)		(−1.315)	(−1.376)	(−0.390)
PCONSHR	−0.000	PCONSHR	0.000	0.000	0.000 **
	(−0.220)		(0.291)	(0.207)	(2.295)
FAMILYSHR	0.002 ***	FAMILYSHR	0.000 ***	0.000 ***	0.000
	(3.982)		(2.934)	(3.031)	(1.357)
CEOAGE	0.066 ***	CEOAGE	0.003	0.003	0.001
	(27.005)		(1.362)	(1.421)	(0.444)
INDP	−0.002 **	INDP	−0.000 **	−0.000 **	−0.000
	(−2.291)		(−2.056)	(−2.147)	(−1.288)

Table 10. *Cont.*

	(1) AUTHORITY_CEO		(2) FRQ1	(3) FRQ2	(4) FRQ3
AUDIT	0.001	AUDIT	0.000	0.000	0.000
	(1.255)		(0.563)	(0.624)	(1.015)
AUDITOR	−0.156 ***	AUDITOR	−0.006	−0.006	−0.001
	(−4.195)		(−0.791)	(−0.821)	(−0.117)
OPINION	0.020	OPINION	−0.005	−0.005	−0.009
	(0.472)		(−0.504)	(−0.509)	(−1.108)
BIG4	0.101 **	BIG4	−0.002	−0.002	−0.006
	(2.418)		(−0.288)	(−0.281)	(−1.097)
FSIZE	0.006	FSIZE	0.006 ***	0.006 ***	0.003 **
	(0.642)		(3.412)	(3.434)	(2.472)
ROE	0.002 ***	ROE	0.001 ***	0.001 ***	0.001 ***
	(2.633)		(2.715)	(2.750)	(5.013)
LEV	0.130 *	LEV	−0.031 **	−0.031 **	−0.008
	(1.865)		(−2.168)	(−2.131)	(−0.730)
MTB	−0.009 ***	MTB	−0.002 *	−0.002 *	−0.004 ***
	(−3.637)		(−1.902)	(−1.930)	(−4.229)
INVREC	−0.155 **	INVREC	−0.024 *	−0.024 *	−0.013
	(−2.286)		(−1.918)	(−1.917)	(−1.339)
Industry Fixed Effect	Yes	Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Year Fixed Effect	Yes	Yes	Yes
Country Fixed Effect	Yes	Country Fixed Effect	Yes	Yes	Yes
_cons	−3.689 ***	_cons	−0.307 **	−0.315 **	−0.140
	(−16.283)		(−2.297)	(−2.358)	(−1.477)
r2	0.732	r2	0.086	0.088	0.197
r2_a	0.729	r2_a	0.075	0.076	0.187
N	1253	N	1086	1079	1086

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

4.5. Additional Analysis

Change Analysis

To test the robustness of our main findings, we conduct a change analysis by evaluating the relationship between annual changes in CEO authority and financial reporting quality (FRQ). This approach is widely used in the governance and accounting literature to mitigate potential bias from unobserved variables that are fixed over time (Bertrand & Mullainathan, 2003; Armstrong et al., 2010). Specifically, the regression model we estimate is as follows:

$$\Delta FRQ_{i,t} = \beta_0 + \beta_1\, \Delta AUTHORITY_CEO_{i,t} + \beta_2\, \Delta PCONSHR_{i,t} + \beta_3\, \Delta FAMILYSHR_{i,t} + \beta_4\, \Delta CEOAGE_{i,t} + \beta_5\, \Delta INDP_{i,t} + \beta_5\, \Delta AUDIT_{i,t} + \beta_6\, \Delta AUDITOR_{i,t} + \beta_7\, \Delta OPINION_{i,t} + \beta_8\, \Delta BIG4_{i,t} + \beta_9\, \Delta FSIZE_{i,t} + \beta_{10}\, \Delta ROE_{i,t} + \beta_{11}\, \Delta LEV_{i,t} + \beta_{12}\, \Delta MTB_{i,t} + \beta_{13}\, \Delta INVREC_{i,t} + Industry\ Fixed\ Effect + Year\ Fixed\ Effect + Country\ Fixed\ Effect + \varepsilon$$

where $\Delta FRQ_{i,t}$ represents the change in financial reporting quality for firm i in year t, $\Delta AUTHORITY_CEO_{i,t}$ is the change in CEO authority, and ΔX_{it} is a vector of changes in control variables. We also include fixed effects for industry, year, and country to control for macroeconomic and institutional factors that may affect the results.

The regression results presented in Table 11 show findings consistent with our main analysis. The coefficient of $\Delta AUTHORITY_CEO$ is negative and statistically significant in all models (Models 1–3). For example, in Model (1), the coefficient is −0.012 with a t-value of −2.806 indicating that a one-unit increase in CEO authority is associated with a 1.2% decrease in financial reporting quality, ceteris paribus. These results support the previous literature stating that dominant CEO power can weaken accounting quality and the effectiveness of monitoring mechanisms (Hazarika et al., 2012).

Table 11. Change Analysis.

	(1) FRQ1	(2) FRQ2	(3) FRQ3
Δ_AUTHORITY_CEO	−0.012 ***	−0.012 ***	−0.008 **
	(−2.806)	(−2.801)	(−2.025)
Δ_PCONSHR	−0.001 ***	−0.001 ***	−0.000 ***
	(−2.928)	(−3.070)	(−4.363)
Δ_FAMILYSHR	0.003	0.003	0.002
	(0.911)	(0.929)	(0.680)
Δ_CEOAGE	0.001 *	0.001 *	0.000
	(1.892)	(1.893)	(0.848)
Δ_INDP	0.000	0.000	0.001 **
	(0.257)	(0.261)	(2.394)
Δ_AUDIT	−121.254	−100.528	-3.9×10^3 *
	(−0.046)	(−0.038)	(−1.828)
Δ_AUDITOR	0.007	0.007	0.023
	(0.588)	(0.618)	(1.497)
Δ_OPINION	−0.013 *	−0.013 *	−0.015 **
	(−1.752)	(−1.759)	(−2.329)
Δ_BIG4	0.008	0.007	0.003
	(0.513)	(0.505)	(0.375)
Δ_FSIZE	−0.017	−0.017	0.017
	(−0.607)	(−0.590)	(0.690)
Δ_ROE	0.000	0.000	0.001 **
	(1.296)	(1.291)	(2.389)
Δ_LEV	−0.086	−0.086	−0.156 ***
	(−1.280)	(−1.281)	(−3.264)
Δ_MTB	−0.001	−0.001	−0.002 **
	(−1.147)	(−1.153)	(−2.356)
Δ_INVREC	0.000	−0.000	0.015
	(0.007)	(−0.006)	(0.468)
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
Country Fixed Effect	Yes	Yes	Yes
_cons	−0.055 ***	−0.055 ***	−0.045 ***
	(−22.016)	(−22.055)	(−22.219)
r2	0.044	0.044	0.138
r2_a	0.027	0.027	0.122
N	779	779	779

t statistics in parentheses. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

5. Discussions and Policy Recommendations

This study develops an institutional logic perspective in explaining how CEO power concentration in the boardroom affects financial reporting quality. Using a sample of non-financial public companies from Malaysia, Thailand, and Singapore during the period 2015–2023, this study adopts the approach of Tran and Turkiela (2020) in measuring power concentration using the Herfindahl–Hirschman Index (HHI) based on CEO positions in key board committees. The results of the empirical analysis show that CEO power concentration is significantly negatively related to financial reporting quality. This means that the greater the CEO's dominance in the governance structure, especially in important committees such as audit, nomination, and remuneration, the lower the quality of the financial information produced. This finding suggests that high power concentration in the CEO can disrupt internal oversight functions, increase the opportunity for financial report manipulation, and weaken corporate transparency and accountability. In addition, this negative relationship remains robust in various model specifications and alternative measurements of financial reporting quality, and after controlling for industry, year, and country fixed effects.

These findings provide important implications for policy formulation and strengthening corporate governance in the ASEAN region. First, regulators are advised to set clear boundaries on CEOs' dual roles in board committees to promote separation of powers and strengthen the independence of the decision-making process. Second, transparency in disclosing the structure and membership of board committees needs to be improved so that investors and stakeholders can objectively assess the independence and effectiveness of corporate governance. Third, formal institutions such as capital market authorities and financial supervisory bodies need to play an active role in offsetting the weaknesses of informal institutions, especially in the context of family-owned or majority-shareholder-dominated firms, by tightening regulations and monitoring mechanisms. Finally, corporate governance literacy campaigns need to be expanded, especially regarding the importance of limiting the concentration of authority and the risks it poses to the quality of financial reporting. Thus, the results of this study not only enrich the corporate governance literature from an institutional perspective, but also provide relevant practical recommendations for policy reform and improving the quality of corporate governance in developing Southeast Asian countries.

Despite its contributions, this study has several limitations that should be acknowledged. First, the measurement of CEO power concentration relies on the Herfindahl–Hirschman Index (HHI) constructed from CEOs' positions in key board committees. Although this approach captures the structural concentration of authority within the boardroom, it may not fully reflect other dimensions of CEO power, such as informal influence, ownership control, social networks, or tenure-based authority. Future research may incorporate broader measures of executive power, including ownership-based power, social capital, or managerial reputation, to provide a more comprehensive assessment of how CEO authority influences financial reporting practices. Second, this study focuses on publicly listed non-financial firms in Malaysia, Thailand, and Singapore. In particular, given the cross-country setting, differences in institutional environments and disclosure practices across the sampled countries may affect the comparability and consistency of the data. While efforts have been made to ensure data reliability through multiple sources, these factors should be considered when interpreting the findings.

Third, although this study employs multiple model specifications and fixed effects to mitigate potential endogeneity concerns, the possibility of reverse causality or omitted variable bias cannot be entirely ruled out. For instance, firms with weaker financial reporting systems may also adopt governance structures that allow greater CEO authority concentration. Future research could employ alternative empirical strategies, such as instrumental variable approaches, natural experiments, or regulatory changes, to strengthen causal inference in examining the governance consequences of CEO power concentration. Finally, this study primarily focuses on financial reporting quality as the outcome of CEO authority concentration. However, executive power structures may also influence other important corporate outcomes, such as corporate risk-taking, sustainability disclosure, audit quality, or strategic decision-making. Future research could explore these broader organizational consequences to provide a more comprehensive understanding of the governance implications of CEO authority concentration within different institutional settings.

Author Contributions: Conceptualization, H.H. and A.A.; methodology, S.C.; software, S.C. and K.A.K.; validation, H.H. and K.A.K.; formal analysis, S.C.; investigation, A.A.; resources, S.C.; data curation, H.H.; writing—original draft preparation, S.C.; writing—review and editing, H.H.; supervision, H.H. and K.A.K.; project administration, H.H.; funding acquisition, H.H. All authors have read and agreed to the published version of the manuscript.

Funding: The Article Processing Charge of this research is funded by Direktorat Riset dan Inovasi, Universitas Airlangga.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Data Availability Statement: The data that support the findings of this study are available from the corresponding author upon reasonable request.

Conflicts of Interest: The authors declare no conflict of interest.

Appendix A. Definition and Operationalisation Variable

Variables	Definition and Operation	Sources
FRQ1	Accrual quality follows the model developed by P. M. Dechow and Dichev (2002) which was refined by McNichols (2002).	Prior Literature and Datastream-Refinitiv
FRQ2	Modification of the accrual quality measure proposed by Leuz and Wysocki (2008)	Prior Literature and Datastream-Refinitiv
FRQ3	The quality of financial disclosure as popularized by Li (2008) as a measure of the readability of financial reports.	Prior Literature and Datastream-Refinitiv
AUTHORITY_CEO	The composite score has a range between 0 and 1, where the closer it is to 1, the more centralized and non-decentralized the CEO's authority is, conversely, when the score approaches 0, the CEO's authority is increasingly decentralized to several strategic positions in the company.	Annual Report
RULELAW	The Rule of Law index is derived from the Rule of Law indicator published by the World Bank in the Worldwide Governance Indicators database. This index has a value range of approximately −2.5 to +2.5, with higher values indicating better law enforcement quality. In this study, the RULELAW score is used as a proxy for the quality of legal institutions at the country level.	World Governance Indicator
INVPRO	This variable is measured using indicators sourced from the World Bank's Worldwide Governance Indicators database. The index ranges from −2.5 to +2.5, with higher values indicating a stronger institutional environment protecting investor interests.	World Governance Indicator
GOVQUALITY	The GOVQUALITY measure is derived from government governance indicators available in the Worldwide Governance Indicators database developed by the World Bank. Like other WGI indicators, the index ranges from −2.5 to +2.5, with higher values reflecting better governance quality.	World Governance Indicator
PCONSHR	Shareholding by politically connected individuals or business entities.	Annual Report and prior literature
FAMILYSHR	The percentage of family shareholding	Annual Report and prior literature
CEOAGE	The age of the firm's CEO.	Annual Report: Director's Profile
INDP	The number of independent directors on the board scaled by total directors in the board.	Annual Report: Director's Profile
AUDIT	The number of independent directors on the audit committee scaled by total directors on the audit committee.	Annual Report: Director's Profile
AUDITOR	Dummy variable, indicated as one if the firm during fiscal year has audit rotation, and 0 otherwise.	Annual Report
OPINION	Dummy variable, which takes value 1 if a firm has a qualified, adverse and disclaimer opinion and otherwise 0.	Annual Report
BIG4	Dummy variable, indicated as one if the firm is audited by a big four audit firm.	Annual Report
FSIZE	Log of total asset.	OSIRIS

Variables	Definition and Operation	Sources
ROE	Return on equity	OSIRIS
LEV	Current liabilities to current assets	OSIRIS
MTB	Market to Book Value	OSIRIS
INVREC	Inventory to account receivable	OSIRIS

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