CEO TENURE AND FINANCIAL REPORTING QUALITY: EVIDENCE FROM VIETNAMESE COMMERCIAL BANKS

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Abstract: ***This study examines the impact of Chief Executive Officer (CEO) tenure on financial reporting quality (FRQ) in Vietnamese commercial banks over the period 2016-2023. Using the FGLS model, the findings reveal a negative association between CEO tenure and FRQ. These results highlight the necessity for banks to strengthen managerial monitoring and control mechanisms to ensure transparency and reliability in financial reporting.***

• Keywords: *financial reporting quality, CEO tenure, corporate governance, banking sector.*

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1. Introduction

Financial reporting quality (FRQ) plays a fundamental role in ensuring transparency and reducing information asymmetry in the banking sector, thereby supporting efficient resource allocation in the economy (Senan, 2024). In the context of increasing regulatory requirements and market expectations, maintaining high-quality financial reporting has become a critical challenge for banks, particularly in emerging markets such as Vietnam.

Within corporate governance structures, the Chief Executive Officer (CEO) holds a central position, as this role directly influences strategic decisions, financial policies, and the integrity of disclosed financial information (Davis & Garcia-Cestona, 2023). One important characteristic of the CEO is tenure, which reflects both the accumulation of managerial experience and the potential concentration of managerial power over time (Altunbaş et al., 2018).

In Vietnam, the Law on Credit Institutions allows CEOs to serve five-year terms with unlimited reappointment. This institutional setting raises an important question regarding the impact of CEO tenure on FRQ. Prolonged CEO tenure may contribute to improving FRQ through accumulated experience and stability, particularly in the context of the Vietnamese banking system.

2. Theoretical framework, literature review, and hypothesis development

Research on top management has focused on CEO tenure. This factor is regarded as an indirect measure of cognitive orientation, task engagement, and managerial power, which in turn influence decision-making and organizational performance (Zhang & Wiersema, 2009). Building on this perspective, prior studies have examined the relationship between CEO tenure and FRQ (Ashafoke et al., 2021; Iyoha & Akhor, 2022).

From the perspective of agency theory, the separation between ownership and control creates incentives for managers to act in their own interests rather than those of shareholders (Jensen & Meckling, 1976). As CEO tenure increases, managerial discretion may expand, leading to a higher likelihood of opportunistic behavior, including earnings management and reduced FRQ. Empirical evidence supports this relationship. Davis & Garcia-Cestona (2023) demonstrate that CEO tenure significantly influences earnings management behavior, with long-tenured CEOs more likely to intervene in firms' real activities, negatively affecting FRQ. Similarly, Altunbaş et al. (2018) find that CEO tenure has a positive association with banking misconduct, which in turn reduces FRQ. Collectively, prior studies provide consistent evidence that CEO tenure exerts a substantial impact on FRQ. Based on these arguments, this study proposes the following hypothesis:

H1: CEO tenure has a negative impact on the financial reporting quality of banks.

3. Research design

3.1. Sample selection and data collection

The study employs a panel dataset comprising 216 firm-year observations from 27 Vietnamese commercial banks over the period 2016-2023.

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Financial and corporate governance information was manually collected from financial statements, annual reports, and governance reports publicly disclosed on the official websites of the banks.

3.2. Measuring Financial Reporting Quality

To measure FRQ, following Beatty et al. (2019) and Oh & Park (2023), we employ the ratio between current-year loan loss provisions (LLP) and next-year gross charge-offs (GCO). A lower ratio indicates that reported provisions more accurately reflect expected losses, thereby implying higher FRQ. In line with this approach, FRQ is measured as:

$$\text{LLPvalid}_{it} = \left|\frac{\text{GCO}_{i,t+1}}{\text{LLP}_{it}} - 1\right| \quad (1)$$

Where i denotes the bank and t the year. FRQ captures the deviation between current-year loan loss provisions ($LLP_{i,t}$) and subsequent-year gross charge-offs ($GCO_{i,t+1}$). A higher value indicates a greater deviation, implying lower FRQ.

To enrich the analysis, we employ an additional measure of FRQ. Specifically, the study uses discretionary loan loss provisions (DLLP) as a proxy for FRQ, where higher discretionary provisions indicate lower reporting quality. The measurement approach is based on the credit risk provisioning models proposed by Beatty & Liao (2014). The residuals from these regression models are treated as DLLP, and their absolute values serve as the primary indicator of banks' FRQ.

$$LLP_{i,t} = \alpha_0 + \alpha_1 \Delta NPA_{i,t+1} + \alpha_2 \Delta NPA_{i,t} + \alpha_3 \Delta NPA_{i,t-1} + \alpha_4 \Delta NPA_{i,t-2} + \alpha_5 SIZE_{i,t-1} + \alpha_6 \Delta Loan_{i,t} + \alpha_7 \Delta GDP_t + \alpha_8 HPI_RET_t + \alpha_9 \Delta UNEMP_{i,t} + \alpha_{10} ALW_{t-1} + \varepsilon_{i,t} \quad (2)$$

Loan loss provisions (LLP) are scaled by lagged total assets, while changes in non-performing assets (ΔNPA) are measured relative to lagged total assets. Bank size (SIZE) is captured by the natural logarithm of total assets, and changes in total loans (ΔLoan) are expressed as the variation in total loans divided by lagged total assets. Macroeconomic conditions are incorporated through the change in gross domestic product (ΔGDP), the annual return on the housing price index (HPI_RET), and the change in the unemployment rate (ΔUNEMP). In addition, the allowance for loan losses from the prior year (ALW) is included to account for historical provisioning behavior.

3.3. Research Model

Based on the theoretical framework and prior arguments, the study proposes the following empirical model:

$$Y_{it} = \beta_0 + \beta_1 TENURE_{it} + \beta_2 BDSIZE_{it} + \beta_3 SBSIZE_{it} + \beta_4 LNSIZE_{it} + \beta_5 LEV_{it} + \beta_6 Listage_{it} + \varepsilon_i \quad (3)$$

In the model, Y_{it} represents FRQ, which is proxied by $LLP\ valid_{it}$ and DLLP, as specified in Equations (1) and (2). The main independent variable is CEO tenure (TENURE), defined as the number of years the CEO has served in the position. The model further incorporates several control variables that have been identified in prior research as relevant to FRQ (Ashafoke et al., 2021; Bai et al., 2023). These variables comprise board size (BDSIZE), captured by the total number of directors; supervisory board size (SBSIZE), measured by the number of its members; bank size (LNSIZE), expressed as the natural logarithm of total assets; financial leverage (LEV), calculated as the ratio of total liabilities to total assets; and listing age (Listage), represented by the natural logarithm of years since listing. In addition, a COVID-19 dummy variable is included, taking the value of 1 for the period from 2020 to 2023 and 0 otherwise.

4. Results

The descriptive statistics presented in Table 1 indicate that the variable LLPvalid has a mean value of 0.689, reflecting a relatively large discrepancy between credit risk provisions and actual loan losses in the subsequent year. This indicates that banks have limited ability to accurately forecast credit losses, indicating relatively low FRQ. The average CEO tenure is 4.731 years, indicating that CEOs typically serve approximately one term. The average board size (BDSIZE) is seven members, while the supervisory board size (SBSIZE) has an average of three members, indicating general compliance with governance regulations. In addition, bank size (LNSIZE) has a mean value of 11.281, the average financial leverage ratio (LEV) is 0.916 and the average listing age (Listage) is around 5. These results reflect the general characteristics of scale, financial structure, and development level of the banks in the sample.

Table 1. Descriptive Statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
LLPvalid	216	0.689	0.415	0.004	2.527
TENURE	216	4.731	3.984	1	20
BDSIZE	216	7.092	1.573	4	11
SBSIZE	216	3.292	0.573	2	5
LNSIZE	216	11.281	0.480	10.279	12.362
LEV	216	0.916	0.030	0.815	0.959
Listage	216	4.375	4.812	0	17
COVID-19	216	0.5	0.501	0	1

Source: Author's calculations

Prior to estimating the model, the study examines potential multicollinearity among the independent

variables using the correlation matrix and variance inflation factors (VIFs). Table 2 shows that the correlation coefficients among the variables are all below 0.7, and the variance inflation factors (VIFs) are less than 2, indicating that multicollinearity is not a serious issue in the model.

Table 2. Correlation matrix

Variable	LLPvalid	TENURE	BDSIZE	SBSIZE	LNSIZE	LEV	Listage	VIF
LLPvalid	1							
TENURE	-0.005	1						1.08
BDSIZE	0.289	-0.161	1					1.38
SBSIZE	-0.000	0.069	0.243	1				1.26
LNSIZE	0.192	0.080	0.448	0.147	1			1.91
LEV	0.056	-0.025	0.062	-0.017	0.185	1		1.06
Listage	0.064	-0.016	0.346	0.380	0.612	0.209	1	1.92
COVID-19	0.177	-0.016	-0.006	-0.089	0.252	-0.122	0.302	1.26

Source: Author's compilation.

The results of the regression model selection are presented in Table 3. To determine the appropriate model specification, the study employs the F-test, Hausman test, Modified Wald test, and Wooldridge test. The results indicate that the feasible generalized least squares (FGLS) method, which accounts for heteroskedasticity, is selected to test the research hypotheses.

Table 3: Model selection results

Test	p-value	Conclusion
F-test	0.000	Fixed Effects Model (FEM)
Hausman test	0.015	Fixed Effects Model (FEM)
Modified Wald test	0.000	Presence of heteroskedasticity
Wooldridge test	0.189	No autocorrelation

Source: Author's compilation.

The regression results on the relationship between CEO tenure and FRQ are presented in Table 4, with LLPvalid employed as a proxy for FRQ. The coefficient of TENURE is positive and statistically significant, indicating that CEO tenure is positively associated with LLPvalid. This suggests that longer CEO tenure increases the deviation between loan loss provisions and subsequent loan charge-offs, thereby reducing FRQ. These findings support Hypothesis H1.

Regarding the control variables, board size (BDSIZE), bank size (LNSIZE), and the COVID-19 dummy exhibit negative effects on LLPvalid, suggesting that larger banks, boards with more members, and the COVID-19 period are associated with lower provisioning deviations and thus higher FRQ. Conversely, listing age (Listage) shows a positive and statistically significant relationship with LLPvalid, indicating that more seasoned listed banks tend to have higher provisioning deviations, resulting in lower FRQ. Meanwhile, supervisory board size (SBSIZE) and financial leverage (LEV) are not statistically significant.

Table 4: Regression results on CEO tenure and FRQ

LLPvalid	Coefficient	Standard Error	z-statistic	p-value
TENURE	0.049	0.014	3.51	0.000
BDSIZE	-0.035	0.009	-3.73	0.000
SBSIZE	0.005	0.031	0.18	0.860
LNSIZE	-0.329	0.037	-8.87	0.000
LEV	-0.398	0.613	-0.65	0.516
Listage	0.141	0.017	8.3	0.000
COVID-19	-0.094	0.026	-3.6	0.000
_cons	5.058	0.659	7.67	0.000

Source: Author's compilation.

5. Additional analyses

According to current regulations, a CEO's tenure lasts five years before reappointment. Table 5 reports the frequency distribution of the variable TENURE across different terms. To analyze differences in FRQ across tenure levels and to examine whether the relationship is linear and directional, the study classifies the sample into two groups: TENURE1, comprising CEOs in their first term, and TENURE2, comprising CEOs serving from the second term onward.

Table 5: Descriptive statistics of CEO tenure

TENURE	Frequency	Percentage
≤ 5 years	146	67.59%
5 < tenure ≤ 10 years	48	22.22%
10 < tenure ≤ 15 years	17	7.88%
15 < tenure ≤ 20 years	5	2.31%
Total	216	100%

Source: Author's compilation

The regression results in Table 6 illustrate the impact of CEO tenure groups on FRQ. Specifically, for the TENURE1 group (CEOs in their first term), the coefficient is positive and statistically significant at the 5% level, indicating higher deviations in loan loss provisions and thus lower FRQ. In contrast, for the TENURE2 group (CEOs in their second term and beyond), the results show no statistically significant effect. These findings suggest that the decline in FRQ occurs primarily during the initial tenure of CEOs, while no substantial impact is observed in subsequent terms.

Table 6: Regression results of CEO tenure

LLPvalid	Coefficient	Standard Error	z-statistic	p-value
TENURE1	**0.021**	**0.010**	**2.01**	**0.044**
TENURE2	0.008	0.006	1.18	0.236
BDSIZE	-0.035	0.009	-3.75	0.000
SBSIZE	0.002	0.031	0.05	0.958
LNSIZE	-0.339	0.038	-8.78	0.000
LEV	-0.567	0.632	-0.90	0.370
Listage	0.147	0.018	8.21	0.000
COVID-19	-0.095	0.026	-3.67	0.000
_cons	5.260	0.717	7.33	0.000

Source: Author's compilation

6. Robustness test

To enhance the robustness of the analysis, an alternative measure of the dependent variable is employed, in which DLLP is defined as the absolute

value of discretionary accruals. The regression results reported in Table 7 show that the coefficient of TENURE remains positive and statistically significant with respect to DLLP. Given that DLLP is inversely related to FRQ, this finding implies that CEO tenure has a negative effect on FRQ. In other words, longer CEO tenure is associated with higher discretionary loan loss provisions, reflecting lower reporting quality. This result is consistent with the baseline model, indicating that the estimated effect of CEO tenure does not change across different model specifications. Overall, the consistency of the findings across models supports the robustness of the empirical results and reinforces the reliability of the relationship between CEO tenure and FRQ.

Table 7: Robustness test results

Variable	LLPvalid	DLLP
TENURE	0.049***	0.0002**
BDSIZE	-0.035***	-0.0003***
SBSIZE	0.005	-0.0009***
LNSIZE	-0.330***	-0.0003
LEV	-0.398	-0.0175***
Listage	0.141***	0.0011***
COVID-19	-0.094***	-0.0009***

Source: Author's compilation

7. Discussion

This study examines the relationship between CEO tenure and FRQ. The empirical findings indicate that CEO tenure is positively associated with LLPvalid, suggesting a deterioration in FRQ. This result is consistent with agency theory, which posits that the accumulation of managerial power over time may intensify agency conflicts and weaken monitoring mechanisms.

However, this finding contrasts with the evidence reported by Iyoha & Akhor (2022), who document no significant relationship between CEO tenure and FRQ in Nigerian banks. It also differs from Ashafoke et al. (2021), who find a positive association between CEO tenure and FRQ. In line with our results, Davis & Garcia-Cestona (2023) provide evidence that FRQ declines as CEO tenure increases.

Furthermore, the results suggest that the reduction in FRQ emerges in the early stages of CEO tenure. This finding is consistent with Ali & Zhang (2015), who argue that opportunistic reporting behavior is more likely during the initial years of a CEO's tenure. In the banking sector, such behavior may be reflected in the estimation of loan loss provisions that are less aligned with realized credit losses, thereby increasing the likelihood of earnings management and reducing FRQ.

Conclusion

This study examines the relationship between CEO tenure and FRQ in the banking sector. The empirical results indicate that CEO tenure is negatively associated with FRQ, suggesting that longer tenure may be linked to a decline in the reliability of financial reporting. Additional analyses further reveal that this deterioration in reporting quality occurs early in the CEO's tenure, highlighting potential incentives for opportunistic financial reporting during the initial years.

Based on these findings, this study proposes several managerial implications to enhance FRQ. Commercial banks in Vietnam should strengthen internal monitoring systems and board oversight over CEOs to ensure the accuracy and transparency of financial reporting. At the regulatory level, authorities should continuously review and enforce corporate governance practices to mitigate opportunistic behavior by top executives. Furthermore, investors should consider CEO tenure as an important governance indicator when evaluating FRQ and making investment decisions.

In addition to the contributions achieved, this study is subject to several limitations, including a relatively small sample size and the use of specific proxies for financial reporting quality, which may not fully capture all dimensions of information quality. Therefore, future research may extend the scope of analysis by incorporating additional governance variables and employing alternative measures to enhance the robustness of the results.

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