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The relationship between CEO's reputation and firm abnormal earnings – evidence from Vietnam

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Abstract: The study explores the intersection between a CEO's reputation and the manipulation of firm abnormal earnings within the context of Vietnam. Drawing upon data derived from 1,959 observations encompassing 602 CEOs and 23 firms within Vietnamese listed companies from 2004 to 2021, the findings affirm a reciprocal relationship between a CEO's image and corporate abnormal earnings. A one-unit augmentation in corporate abnormal earnings during the current fiscal year corresponds to an 11.77-fold increase in the CEO's reputation within the same year. Conversely, a one-unit increase in the CEO's reputation during the current fiscal year results in a 0.02773-fold decrease in corporate abnormal earnings in the subsequent year. These research discoveries offer valuable insights into the repercussions of income manipulation and a CEO's heightened prominence within the business environment.

Keywords: corporate abnormal earnings; earnings management; real earnings; accrual earnings; CEO's reputation; CEO celebrity; CEO image; CEO identity; Vietnam; generalised least square; GLS.

JEL codes: M41; M42; G41.

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1 Introduction

Financial statements serve as a critical tool for evaluating a company's financial performance (Ngo et al., 2023a). A more comprehensive understanding of the fluctuations and distinctive effects on business performance over time can be attained by

examining the dimension of abnormal earnings. Factors contributing to abnormal earnings may encompass unusual events that significantly affect the bottom line, such as earnings from the sale of non-essential assets, compensation costs, or tax benefits. Scrutinising and assessing these elements offers a snapshot of the company's financial performance, supplying essential data for strategic planning, future forecasting, and corporate decision making. A substantial portion of the existing literature is dedicated to the advancement, validation, and improvement of empirical frameworks for determining the quality of earnings, as demonstrated by studies on the impact of macroeconomics and firm and board characteristics. An established methodology for gauging the quality of earnings involves estimating discretionary accruals (Ngo et al., 2022), which are essentially the residuals or error terms of regressions related to various characteristics of firms (Ngo et al., 2022, 2023c). Despite the significance of each approach, the development of models to measure earnings quality has faced considerable criticism. One of the primary limitations is the insufficient understanding of accruals' characteristics and the process of generating accrued expenses. This lack of comprehension may lead to substantial residuals in regression analysis being erroneously attributed to low earnings quality (Dechow et al., 2011; Ngo et al., 2022). Moreover, concerns about the poor specification of accrual-based models have been underscored by Dechow et al. (2011). Additionally, measurement errors are associated with the estimation of accruals, as noted by Hribar and Collins (2002), while statistical biases are present in the conclusions drawn about earnings management (McNichols and Stubben, 2018). It is noteworthy that the limited availability of data remains a constraint in the application of most models (Dechow et al., 2011; Amiram et al., 2014; Ngo et al., 2022). It is inevitable to mention the CEO's reputation when discussing a company's success and standing. This is due to the fact that a CEO's reputation can instil faith and confidence among the company's owners, investors, employees, and business partners. Trust and confidence in a CEO's ability to lead the company in the right direction are often inspired when they are perceived as moral, honest, and effective leaders. Furthermore, CEOs often act as the public face of the organisation, representing its values, goals, and management philosophy. The reputation of a CEO can enhance the corporate image and capture the interest of stakeholders and the general public. Conversely, a CEO with a poor reputation can significantly damage the company's standing and cultivate mistrust among stakeholders and customers. The CEO's capacity to attract and retain talent is contingent on their reputation. Employees prefer to work with and report to someone who is well-regarded and respected in their industry. This can aid companies in maintaining positive work environments, attracting exceptional individuals, fortifying their teams, and establishing credibility with local authorities and regulators. The current research in the field of CEO profiles and their influence on earnings quality is relatively underdeveloped, despite the existence of theories supporting this notion. It is logical to suppose that CEOs may impact financial statements, which depict financial performance, position, and cash flows, as they bear responsibility for the success of their companies. Recent research on the relationship between financial statements and managerial trust was conducted by Liang et al. (2018). They found that managers may be motivated to maximise stock prices when they retire due to finite tenure or concerns with the time horizon. Liang et al. (2018) also discovered that deceitful managers may choose to manipulate earnings, and companies with less reputable CEOs exhibit greater and more erratic discretionary

accruals. Consequently, CEO profiles can be scrutinised to comprehend the quality of earnings.

From these prior studies, there exists a research gap concerning the relationship between corporate earnings quality and CEO's reputation that warrants investigation. This type of research has not been undertaken previously. Therefore, exploring this relationship can provide a deeper understanding of how the earnings quality of a company can influence the reputation of its CEO, and vice versa, making novel contributions to the literature. This exploration can offer valuable insights for investors, analysts, and other stakeholders, aiding in making informed decisions about companies. Subsequently, we pose three research questions:

RQ1 Is there a two-way relationship between CEO's reputation and abnormal earnings?

RQ2 What is the extent of the influence of a CEO's reputation on abnormal earnings?

RQ3 What is the extent of the influence of abnormal earnings on a CEO's reputation?

Researching the interactions within CEO's reputation and corporate abnormal earnings in Vietnam could provide valuable insights into how a CEO's reputation can impact a company's financial reporting quality in the Vietnamese market. First, theoretically, this research could contribute to a better understanding of the link between CEO attractiveness and their capacity to influence business earnings. It can demonstrate a connection between the level of public interest in CEOs and their ability to influence decisions about compensation, particularly salary increases. From there, it is feasible to examine elements such as the significance of a firm's reputation, CEO's influence, and the expectations placed on the company's CEO by shareholders, clients, and the community. By offering fresh data on the CEO's role in corporate earnings decisions and related aspects, this study can advance agency theory. Second, in terms of the implications for governance, corporate governance could be enhanced by having a greater understanding of how CEO popularity affects the manipulation of earnings. Policies can be created to guarantee stakeholders are treated fairly and equally while increasing CEO accountability and transparency in managing earnings. The findings of research can help regulators and governments better understand how CEO popularity affects the manipulation of corporate earnings. For the purpose of ensuring efficiency and fairness in the distribution of earnings, this might support the adoption of new tax and management policies. Raising public trust in firms and business leaders can benefit from this research. The public can better comprehend the role and significance of company leaders in managing and distributing earnings by having a better understanding of CEO's effects on company's earnings manipulation.

The remainder of the paper is organised as follows: Section 2 presents the theoretical background and reviews prior research. Section 3 describes the data, sample, and methodology, while Section 4 reports the results of the model and the validity tests of our proxies. Section 5 summarises the results, discusses the managerial implications, and outlines research limitations. Recommendations for future directions will be presented in Section 6.

2 Literature review

2.1 Theoretical underpinning

2.1.1 Stakeholder theory

According to the thinking framework and management model known as 'stakeholder theory', a company not only has a duty to its shareholders but also must take into account and address the rights and interests of all other stakeholders who have an influence on the corporate operation (Seligman, 2018). This idea posits that stakeholders encompass organisations and individuals with a direct or indirect connection to the business, such as shareholders, employees, clients, suppliers, local communities, society, non-governmental organisations, and the environment. In line with stakeholder theory, the company should prioritise the expectations, aspirations, and interests of all these stakeholders rather than concentrating solely on the interests of shareholders (Adomako et al., 2019). The concept of stakeholders recognises that an enterprise's operations not only impact the financial interests of its shareholders but also have effects on the social environment and society at large. Long-term business performance is considered to require sustainable management practices and compliance with stakeholder rights and expectations (Durugbo and Amankwah-Amoah, 2019).

Earnings manipulation within a company can have a negative impact on stakeholders, including employees, clients, suppliers, and the surrounding community. For example, if a corporation unfairly and disproportionately raises the CEO's pay in comparison to the company's growth, this may lead to an unequal distribution of benefits to employees and foster mistrust among other interested parties. Transparency and corporate accountability for stakeholders are highly valued in stakeholder theory. Earnings manipulation may signify a lack of transparency in decision-making and revenue distribution, potentially eroding stakeholders' trust in the company. However, stakeholder theory promotes corporate transparency in earnings decision making and encourages corporate accountability to stakeholders. Stakeholder relationships, as well as the company's brand and image, are affected by earnings manipulation. When a corporation is accused of manipulating its earnings, it may face mistrust, controversy, and unfavourable press. This can diminish the value of a brand, impact connections with clients, shareholders, and local communities, and make it challenging to run a sustainable company (Adomako et al., 2019).

2.1.2 Identity theory

The role of the self and individual identity in social behaviour and relationships is the central focus of identity theory, a theory in sociology and social psychology. According to this theory (Burke and Tully, 1977), our identities and our sense of self determine our actions and how we communicate with others. Identity theory defines a person's personal identity as the set of perceptions, attitudes, and ideas they associate with themselves. Gender, nationality, race, religion, occupation, social role, and various other characteristics all contribute to shaping our identity. It plays a significant role in shaping who we are and influences how we perceive the world and ourselves (Stets and Burke, 2000). Our behaviour and interactions with others are often influenced by how we perceive our own and others' identities. We often seek to express and protect our

identities through our behaviour and social interactions, particularly when these identities are deeply ingrained and widely accepted in society. Identity theory also underscores the importance of identity congruence in fostering personal peace and pride. Internal conflict and self-dissatisfaction may arise when we believe that our identity is not accepted or does not align with our social surroundings. Consequently, our development and experiences are heavily influenced by the identification and validation of distinct identities.

According to identity theory, individuals often act and communicate based on their perceptions of their identities. This holds true for the CEO as well, who may consider their personal identity crucial to their position and influence within the organisation. Shareholders, employees, and other stakeholders may develop trust and confidence as a result of a CEO's consistent identity (Stets and Burke, 2000). The CEO's personal reputation can influence stakeholders' judgement and trust. The CEO's reputation can grow stronger if they are perceived as reliable, possess leadership skills, and uphold moral standards and ideals. On the other hand, if the CEO has a poor reputation, for instance, if they have engaged in deceit or manipulation, this can harm both their reputation and that of the company. A CEO's reputation can influence relationships with stakeholders such as clients, shareholders, employees, and business partners, fostering trust. The reputation of a CEO acting as a devoted, committed, and trustworthy leader may result in a climate of good engagement and support from stakeholders (Shao et al., 2022).

2.2 The impact of CEO's reputation on corporate abnormal earnings

When reviewing about the effect of CEO's reputation on corporate abnormal earnings, Li et al. (2016) indicate a positive impact while Cianci and Kaplan (2010) shows negative relationship. Nevertheless, the study by Li et al. (2016) that examines CEO popularity's impacts, business reputation on financial results found that CEO popularity has a better sustained impact compared to firm reputation when analysing data from 150 top-notch listed firms in Taiwan from 2003 to 2014. Depending on specific industry, different CEO reputations or firm reputations have varying effects on the performance of the company. It is found that electronic industry has the highest reputation and financial field has the least significant. Either corporate's or its CEO's reputation has an individual effect that enhances the business's financial outcomes. Nevertheless, when the reputation of a company is poor, the influence of CEO also has a favourable effect on its financial results. The CEO reputation's impact is bigger than firm's image, especially in electronic field. The credibility of CEO is likely to be the more crucial factor. Thus, the paper's recommendation simply is that 'choosing well' is always better than 'doing good' (Weng and Chen, 2016). Additionally, Kumar et al.'s study from 2021 that looked at how CEO celebrity status affected companies' tendency to practice corporate social responsibility) revealed that CEO celebrity status also had a beneficial impact on their compensation and future career chances. According to this line of research, the desire of a famous CEO to preserve his or her standing in the society and image may affect a firm's strategic decisions. Our research outcome aims to demonstrate that influenced CEO might absorb his or her responsibilities, norms related to one's famous identities, and possesses a strong drive to act in tandem with these standards, that makes impression management more appealing to them. The outcomes provide understanding of the exact strategies used by famous CEOs to mould shareholders, analysts and public' perceptions (Kumar et al.,

2021). On the other hand, Cianci and Kaplan's (2010) research looked at how non-professional investors' assessments of CEOs were impacted by their prior reputations and the believability of management's justifications for poor performance. The study shows that while the CEO's reputation was already good, the plausibility of management's explanation had no effect on perceptions of management's reputation. The credibility of management's explanation did have a substantial impact on management reputation assessments both when the CEO's pre-existing reputation was negative and when the CEO did not have one.

Therefore, Hypothesis 1 is proposed as below:

H1 There is a significant effect of CEO's reputation on corporate abnormal earnings.

2.3 The impact of abnormal earnings on CEO's reputation

When reviewing papers of abnormal earnings' influence on the reputation of CEO, Nguyen et al.'s (2021) research indicates positive impact, while the research of Francis et al. (2008) shows negative effect. On the one hand, Nguyen et al. (2021) indicate conflicting results between CEO's reputation and earnings' calibre. Cai et al. (2020) discover such 'superstar' CEOs can manipulate reported earnings in the company financial statement and extort larger reimbursement, demonstrate the link between a good reputation and bad earnings quality. In a comparable way, McNichols and Stubben (2018) discover an adverse correlation among long-term organisational outcomes and the reputation of 'celebrity' CEOs. The aforementioned results are still anomalous, nevertheless, as other researches (Francis et al., 2008; Jian and Lee, 2011; Milbourn, 2003) have found a favourable correlation between image and financial reporting quality. In fact, Francis et al. (2008) found that companies with low financial reporting quality are more likely to recruit better-respected new CEOs than the outgoing one, after recruiting a respectable CEO, such companies do not modify earnings in the long run. Francis et al.'s (2008) research indicates that reputed CEOs contribute to an improvement in earnings quality since the hiring firms' earnings management tactics end. Despite the conflicting results described above, this research proposes that respectable CEOs have a higher likelihood of manipulate excellent earnings quality. Francis et al. (2008)'s findings are in line with Jian and Lee (2011), which also found that trustworthy CEOs produce superior institutional results. This is because they stand to lose more if they engage in activities that harm the organisations they work for (in terms of pay, future career opportunities, etc.). Only a few research have found an inverse association, and these studies have used carefully chosen populations. For instance, Wade et al. (2006) employed a selection of CEOs who have been named as CEOs of the year, while Malmendier and Tate (2009) used a number of CEOs who had won awards. The generalisability of the results is constrained by the particularity of these purposive samples. The direction of the relationship among financial reporting quality and CEO popularity also relies on the economic view of point that a person adopts (Francis et al., 2008). In this section, we take a look at three of these viewpoints that are caused by identity theory, rent extraction, and manager-firm matching. According to the efficient contracting theory, a greater presence of reputable CEOs is likely associated with higher discretionary earnings quality compared to less reputable CEOs. This is because reputable CEOs have more at stake in terms of their reputation and potential compensation. Consequently, they are more inclined to ensure that reported discretionary earnings accurately reflect the underlying

economic realities of their company, rather than using discretion to artificially enhance the company's image. This theory builds upon the model proposed by Fama (1980), which suggests that observers can infer personal qualities such as credibility from an agent's past performance and historical background. With this knowledge, the agent is motivated to take actions that alter the market's perceptions. In other words, when the past is applied to integrate modern ideas, current action has a memory, and this causes an agency value of reputation to arise. When the capital value of the repercussions of such an activity exceeds the advantage of disclosing poor quality earnings, the deterioration of image acts as a preventative. Recent data also indicates that the effects of low earnings quality on the capital market are not insignificant. According to Francis et al. (2004, 2005), enterprises with the poorest earnings quality have considerably higher capital expenses than those with the highest earnings quality. We anticipate that the labour market will reduce the CEO's future pay in order to make up for the resulting rise in the firm's cost of capital that a CEO artificially lowers earnings quality by deliberately abusing reporting discretion. The rent extraction approach, on the other hand, contends that a focus on professional advancement drives reputable CEOs to control earnings to fulfill performance standards (Jennifer et al., 2020). The expectations of market and analyst for upcoming company results are more likely to rise as a result of possessing a famous CEO (Malmendier and Tate, 2007). It may become more challenging for CEOs to achieve or surpass these expectations if they exploit their status as a famous person to demand rent payments from the company and let the rewards of success divert them from managing the business successfully. Furthermore, the CEO's status is likely to suffer if performance consistently falls short of expectations. We therefore hypothesise that reputable CEOs are more prone than other CEOs to influence earnings. These evidences show that reputable leaders tend to be related with lower quality of discretionary earnings to the extent that activities taken to reach or smash goals affect financial report quality. This is based on the idea that boards of directors choose CEOs. The reputation of the CEO already in place as well as firm-specific characteristics is included in the selection criteria utilised by boards (Allgood and Farrell, 2003). In terms of financial statement quality, we anticipate that companies with low innate earnings quality will choose reputable CEOs since they are better equipped to run these businesses than CEOs with a bad or non-existent reputation. Consequently, the phenomenon of selection leads to a similar outcome, wherein more reputable leaders tend to be linked to companies with lower quality of earnings. However, the underlying rationale behind this association is markedly different.

As a result, the paper proposes Hypothesis 2:

H2 There is a significant impact of corporate abnormal earnings on CEO's reputation.

3 Research methodology

3.1 Research model

To answer the potential concern of reverse causality stemming from renowned CEOs characterised by subpar earnings quality, it is estimated the subsequent system of simultaneous equations as follows:

$$\text{Earnings Quality}_{t+n} = f(\text{CEO Reputation}_t, \text{Control}(k)_t) \quad (1)$$

$$\text{CEO Reputation}_t = f(\text{Earnings Quality}_{t+n}, \text{Control}(l)_t) \quad (2)$$

The initial equation aims to model total earnings quality through a function incorporating CEO reputation and a set of k-specific factors that may influence the underlying abnormal earnings. These factors include leverage ratio, sales growth, profitability ratio, operating cash flows, firm age and total assets. The correlation coefficient of the CEO reputation variable in equation (1) can be interpreted as indicating the influence of the CEO's fame on the unexplained portion of the company's financial statement, facilitated by the incorporation of the k-specific factors in the regression. With the earnings quality proxies, larger or smaller values indicate lower or better earnings quality. The concept that reputable leaders are connected with higher discretionary earnings finds support among observation of a negative coefficient linking CEO reputation to firm's earnings quality in equation (1). Contrarily, a positive correlation is in line with the rent extraction theory, which asserts that well-known CEOs are linked to lower-quality discretionary earnings. It should be highlighted that in order to allay worries over the path of a probable relationship between cause and effect, this paper establishes a connection between CEO reputation at time (*t*) and corporate earnings quality in the future. Our goal is to investigate the relationship between the current CEO's reputation and the quality of upcoming earnings.

Equation (2) aims to investigate the likelihood that a CEO's reputation may be influenced by the quality of future total earnings, which consists of both inherited and voluntary elements as well as control variables, which include instrumental variables that are specific to the CEO that are believed to affect firm image. A favourable coefficient connection between total abnormal earnings and CEO's popularity is proposed by both the matching and rent extraction hypotheses. When employing a metric of inherent corporate abnormal earnings as the independent variable in the second equation instead of the overall earnings quality measure, we have achieved comparable results. The estimated value derived from a regression of firm's earnings quality on fundamental elements is what we define as our inherent earnings quality measure. For two reasons, it is believed that utilising the total amount of earnings quality in equation (2) is more appropriate than employing a metric of inherent earnings quality. Firstly, incorporating earnings quality in equation (2) preserves the prospective concurrent correlation as demonstrated in the first equation. Second, presenting outcomes caused by a total earnings quality measurement is more prudent because it prevents the reader from getting the impression, defining an unknown proportion of financial statement quality that is attributable to the CEO. This is reason being that guaranteeing comprehensiveness of inherent variables.

Our research aims to recognise the discretionary element of earnings quality to differentiate between rent extraction and matching as explanations for a positive link between CEO's image and abnormal earnings.

3.2 Data collection

The top-ranking officers of every listed company in Vietnam from 2004 through 2021, as determined by the Viet Stock database, make up our sample. CEO's role is assumed to be

the highest-ranking position in the company by default. In order to obtain the name of the CEO, we read the management reports and audited consolidated financial reports for each quarter. We also take note of the CEO's tenure to have accurate data on the CEO's name for each quarter. The president, chief operational officer, chief financial officer, and chair of the board are not included when a CEO is selected. CEOs of subsidiaries and divisions are also not included between 2004 and 2021, when more than one individual holds the title of CEO. Our sample consists of 602 CEO years in total, or 1,995 observations on average each year. There are 23 firms represented in the sample of observations. For unusual income manipulation data in businesses, we gather data from Viet Stock, from the audited consolidated financial statements of listed firms on Vietnam stock market from the second quarter of 2004 to the second quarter of 2021. We exclude companies in the financial sector such as banks, securities, insurance, and electricity industries (Ngo et al., 2023a). After collecting all the data, we remove invalid data and winsorise at 1% and 99%.

3.3 CEO's reputation measurement

We measure CEO's reputation measurement according to Lee et al. (2020). Firstly, we manually collected CEO names from the quarterly financial reports and management reports of the companies. Utilising the CEO's name data, we identified either the CEO's name alone or the CEO's name along with the company name. Subsequently, we accessed Google Trends (<https://trends.google.com>) and entered the CEO's name in the search bar. The search parameters were set to 'over the world' for the searching range and 'from 2004 until now' for the period, aligning with the desired time range corresponding to the respective quarter. After conducting the search and selecting the desired parameters, click on the three dots in the upper-right corner of the chart or graph labeled 'level of interest over time'. Choose the 'download' option and save the file in CSV format. The 'level of interest over time' is defined such that 100 signify the highest level of popularity for that term. To calculate the total search volume for each month of the quarter, aggregate the data from the corresponding three months. This will represent the total search volume for the CEO during that quarter. When downloading the search data from Google, we consider searches in the form of news, images, videos, along with the keyword 'CEO name + company name', from 2004 to the present, across all provinces in Vietnam. We observe the number of search queries related to the CEO's name and company on Google. A high number of searches may indicate public interest and the importance of the CEO and the company. Additionally, we observe the trend of increasing or decreasing search volumes for these keywords on Google, which reflects the growth and interest in the CEO and the company. Similarly, when comparing the search volumes of the CEO and the company with competing rivals in the industry or similar positions, it can provide information about their relative popularity compared to direct competitors. The search data is displayed on a monthly basis, and we aggregate the months within a quarter to measure the CEO's reputation for the firm at time (t). Next, we perform similar calculations for the CEO's reputation for the firm at time (t + 1).

3.4 Corporate abnormal earnings measurement

We use the real earnings management model of Ngo et al. (2022) and the accrual-based earnings management model of Dechow et al. (2010) to measure abnormal earnings. As

the amount of earnings quality is computed without making any an earlier expectation about the purpose of corporate abnormal earnings, discretionary accruals, which we utilise for the accrual-based measure, are appropriate for our research. The non-discretionary accruals are estimated by applying modified Jones model, and the discretionary accruals are then calculated by subtraction from the total accruals.

$$\frac{TA_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{\Delta Sales_{i,t} - \Delta AR_{i,t}}{TA_{i,t-1}} + \beta_3 \times \frac{PPE_{i,t}}{TA_{i,t-1}} + \beta_4 \times ROA_{i,t-1} + \varepsilon_{i,t} \quad (3)$$

where firm and year are represented by the subscripts *i* and *t*, respectively. Δ indicates the difference from the prior year. Assets stands for total assets; sales for annual sales; AR for net accounts receivable; PPE for all fixed assets; ROA for return on assets, which is involved in the model as suggested by Kothari et al. (2005); and TA for total accruals, which are calculated using equation (2) in accordance with Ngo et al. (2022) and Pavlopoulos et al. (2019).

Real earnings management and discretionary accruals are both used in recent studies on earnings management. Real earnings management metrics are computed in three perspectives (Roychowdhury, 2006): sales manipulation, overproduction, and reduction of discretionary expenditures. First, businesses should boost their sales income by offering price reductions or more accommodating credit terms. Companies can increase profits by cutting fixed costs per unit by engaging in excessive manufacturing. Finally, companies can declare high current earnings by cutting back on discretionary costs like SG&A, R&D, and advertising. As a result, we use the models described in equations (4), (5), and (6) to estimate real earnings management.

$$\frac{CFO_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{Sales_{i,t}}{TA_{i,t-1}} + \beta_3 \times \frac{\Delta Sales_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t} \quad (4)$$

$$\frac{Prod_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{Sales_{i,t}}{TA_{i,t-1}} + \beta_3 \times \frac{\Delta Sales_{i,t}}{TA_{i,t-1}} + \beta_4 \times \frac{\Delta Sales_{i,t-1}}{TA_{i,t-1}} + \varepsilon_{i,t} \quad (5)$$

$$\frac{DISEXP_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{Sales_{i,t-1}}{TA_{i,t-1}} + \varepsilon_{i,t} \quad (6)$$

where CFO stands for cash flow from operations, PROD for production costs (including cost of goods and inventory adjustments), and DISEXP for discretionary spending (such those needed for R&D). In order to estimate these models with year and firm-fixed effects for the whole sample, we follow Ngo et al. (2023a). This approach has the advantage of reducing the bias caused by omitted variables in the initial real earnings management metrics. The residuals from equations (3) to (6) show the abnormally high levels of production costs (Ab_PROD), cash flow from operations (Ab_CFO), and discretionary spending (Ab_DISEXP). We aggregate Ab_PROD, Ab_CFO (multiplied by -1), and Ab_DISEXP (multiplied by -1) in accordance with earlier research (Lo et al., 2017; Ngo et al., 2022, 2023c) to obtain a unified direction and capture the total measure of real earnings management.

3.5 *Control variables measurement*

According prior researches, we use leverage ratio (DE; LEV); sales growth (SG); return on assets (ROA); operating cash flows (OCF); firm age (Age); firm size (TA) as control variables.

- *Leverage ratio:* the leverage ratio has historically served as a crucial aspect of financial management. Beyond relying solely on investments from shareholders, borrowing has traditionally served as a means for firms to secure additional funds to enhance performance and address agency conflicts between managerial and investor interests. Financial leverage metrics, such as the liability-to-equity ratio, offer insights into a company's financial structure. This ratio reflects the extent to which borrowings have contributed to the expansion of assets and signifies the utilisation of external financing by the company. Consequently, the level of financial leverage directly influences the ability to effectively manage profitability (Lanouar, 2013; Fathi, 2013).
- *Sales growth:* sales growth poses a significant challenge for businesses, as they face increasing pressure from the market to sustain this growth trajectory. This pressure often compels companies to intensify their efforts, potentially resorting to manipulating earnings in order to meet stakeholders' expectations (Gavana et al., 2022).
- *Return on assets:* according to Ngo et al. (2023a, 2023c), the extent of earnings management directly impacts an entity's financial performance. Various indicators such as return on assets, revenue growth, and company growth are utilised to assess financial outcomes and have been found to exhibit a positive correlation with earnings.
- *Operating cash flows:* the manipulation of earnings tends to be more prevalent in companies with higher operating cash flows. This is because in such situations, the board of directors tends to scrutinise accruals more extensively than usual, potentially resulting in anomalous earnings (Ngo et al., 2023a, 223c).
- *Firm age:* businesses with a longer history often accumulate more experience and deeper understanding of business operations. This enables them to apply more effective management strategies and have a better ability to establish realistic financial goals. Conversely, younger businesses may lack the experience and extensive knowledge in financial management and income control, leading to a higher likelihood of income manipulation (Yu et al., 2018).
- *Firm size:* firm size is a determinant influencing the economic decisions of stakeholders regarding financial statements (Dang et al., 2018). As the size of a corporation expands, there is typically a greater degree of separation between ownership and management. This increased separation often leads to a higher priority being placed on generating financial statements to serve the interests of managers rather than those of financial statement users, resulting in a wider gap between ownership and management. Additionally, larger companies tend to engage in a greater volume of economic transactions involving substantial amounts compared to smaller entities. Therefore, when a bigger company modifies its accounting practices, it affects profit margins. Empirical evidence that a large firm

reports false earnings was presented by Myers et al. in 2007. Therefore, there exists a positive association between earnings manipulation and firm size.

To summarise, Appendix – variable's measurement will present tabular presentation with variable names, measurement methods, as well as reference sources.

4 Results

4.1 Descriptive statistics

With data on CEO reputation characteristics, financial statement information, and stock return data from Vietstock, Table 1 offers descriptive statistics for a sample of 486 business capital investment announcements made between 2004 and 2021. Data on businesses listed on the Ho Chi Minh Stock Exchange (HOSE) and the Ha Noi Stock Exchange (HNX) is collected, or the number of searching keywords related to the CEO's name and firms on Google from Google Trend database. Total observation is 1,995 observations from 23 firms and with data of 602 CEOs.

Table 1 Descriptive statistics

<i>Variable</i>	<i>Obs</i>	<i>Mean</i>	<i>Std. dev.</i>	<i>Min</i>	<i>Max</i>
<i>Measuring abnormal earnings</i>					
AEJJ _(i,t)	1,995	0.45	0.44	0.01	6.68
AEDD _(i,t)	1,995	27.04	0.82	20.53	29.97
<i>Measuring CEO's reputation</i>					
Repu	1,995	290.73	174.98	1.00	637.00
<i>Control variables</i>					
DE	1,995	1.64	1.63	0.03	11.78
LEV	1,995	0.51	0.21	0.03	0.92
SG	1,995	3.66	1.19	−1.00	4.26
ROA	1,995	0.02	0.03	−0.15	0.33
OCF	1,995	0.02	0.21	−3.39	1.43
Age	1,995	6.88	3.62	3.00	15.50
TA	1,995	27.37	1.62	23.50	31.28

The means of AEJJ_(i,t) and AEDD_(i,t) are 0.45 and 27.04, respectively, which are consistent with research of Ngo et al. (2023c) about the abnormal earnings on the financial statement quality. The mean of CEO's reputation is 290.73 million searching shows that the average of searching the CEO's names on Google in each quarter is quite high, and we take the min of searching starting from a million of key searching according to Lee et al. (2020). DE is calculated by long term debt-to-equity ratio has average of 1.64 which shows that most of firms prefer using debts rather than equity. LEV is calculated by total debts divided by total assets, showing that total debts take average 51% of total assets. SG stands for sales growth and has the average of 3.66 times. The mean of ROA is 2% suggests that the company is moderately effective at generating profits from its assets. OCF stands for (operating cash flows at the fiscal year minus

operating cash flows at the preceding year) then divided by operating cash flows at the preceding year. Age is the number of years when firms have published on the stock exchange till quarter 2 of 2022, which has the average of 6.88 years and maximum of 15.50 years. TA is natural logarithm of total assets, with the average of 27.27.

Table 2 shows the Pearson correlation results. We can see there are significant relationships between abnormal earnings and CEO's reputation which supports our hypothesis.

Table 2 Pearson correlation

	<i>AEJJ_{it}</i>	<i>AEDD_{it}</i>	<i>repu</i>	<i>TA</i>	<i>Age</i>	<i>DE</i>	<i>LEV</i>	<i>SG</i>	<i>ROA</i>	<i>OCF</i>
<i>AEJJ_{it}</i>	1									
<i>AEDD_{it}</i>	-0.1159 0.0000	1								
<i>repu</i>	0.0136 0.0003	0.0909 0.0007	1							
<i>TA</i>	0.1178 0.0000	0.1188 0.0000	0.1158 0.0000	1						
<i>Age</i>	-0.0424 0.0659	0.2425 0.0000	0.0401 0.0796	0.2336 0.0000	1					
<i>DE</i>	0.1581 0.0000	0.2209 0.0000	0.0735 0.0014	0.2008 0.0000	-0.0231 0.3302	1				
<i>LEV</i>	0.1909 0.0000	0.1597 0.0000	0.0519 0.0241	0.3269 0.0000	0.0222 0.3496	0.836 0.0000	1			
<i>SG</i>	0.0015 0.9501	-0.014 0.6103	0.0059 0.8005	0.0209 0.3705	0.0152 0.5264	-0.0146 0.5314	-0.01 0.6664	1		
<i>ROA</i>	-0.0839 0.0003	0.0273 0.3193	0.0299 0.197	-0.1164 0.0000	-0.0538 0.0243	-0.2984 0.0000	-0.4106 0.0000	0.008 0.7329	1	
<i>OCF</i>	-0.0499 0.0312	-0.0027 0.9203	0.0117 0.6100	-0.044 0.0612	-0.0713 0.0025	-0.0291 0.2150	-0.0751 0.0014	-0.0153 0.5190	0.0319 0.1778	1

4.2 *The impact of CEO's reputation on corporate abnormal earnings*

Table 3 shows the research results of Hypothesis 1. First of all, we run the OLS, and test with VIF which shows that max VIF is 3.95. Then we run fixed effect model (FEM) and apply F-test to choose between OLS and fixed effect model. F-test of 45.32*** shows that FEM is more suitable. After that, random effect model (REM) was applied, with the Hausman test, Breusch and Pagan test and Wooldridge test, finally we choose generalised least square (GLS) for the model. We can see from Table 3 that CEO's reputation has negative impact on abnormal earnings in the next fiscal year (correlation coefficient is -0.02773***). When the CEO's reputation increases, certain impacts and influences can affect the abnormal income manipulation behaviour of the company in the following year. With the heightened reputation, there is increased scrutiny and monitoring from

shareholders, investors, and other stakeholders. This creates a stricter environment for financial control within the company. The company and CEO face concerns about transparency and honesty in financial reporting. To maintain and enhance their reputation, the CEO may tend to limit or prevent abnormal income manipulation behaviour in the following year. Moreover, as the CEO becomes more renowned, stakeholders take an interest in the company's activities and seek detailed information about its financial operations. Such thorough evaluations and analysis can highlight signs or patterns of income manipulation. The CEO becomes aware of the attention and underlying risks and may choose appropriate actions to avoid manipulation behaviours. With the CEO's increased fame, managers and regulatory authorities may pay closer attention to the company and its CEO. This can result in increased pressure from financial rules and regulations. Stricter rules and regulations can make income manipulation more difficult and increase the risk of detection. The CEO may have a clear understanding of these risks and restrict manipulation behaviours in the following year to comply with rules and regulations. The CEO's rising fame is closely tied to their image and reputation. A scandal or discovery of income manipulation behaviour can cause significant damage to the carefully built image and reputation. Therefore, to safeguard their personal and company's image, the CEO may limit or prevent abnormal income manipulation behaviour in the following year. These results are consistent with Cianci and Kaplan (2010).

Table 3 The impact of CEO's reputation on corporate abnormal earnings

$AEDD_{(i,t+1)}$	<i>OLS</i>	<i>FEM</i>	<i>REM</i>	<i>GLS</i>
Repu	-0.02773*** (3.04)	0.021 0.36	0.008 0.13	-0.02773*** (3.06)
DE	0.0635884*** 3.35	0.0813029*** 4.83	0.0752336*** 4.59	0.0635884*** 3.36
LEV	-0.3779432*** 2.61	(0.131774) 0.89	(0.165169) 1.15	-0.3779432*** 2.62
SG	(0.000102) 0.90	(0.000031) 0.46	(0.000030) 0.46	(0.000102) 0.91
ROA	1.88712*** 3.31	0.413533 1.03	0.377902 0.94	1.88712*** 3.32
OCF	(0.018393) 0.25	(0.043122) 0.94	(0.044665) 0.97	(0.018393) 0.25
Age	0.0161328*** 3.31	0.0088955* 1.89	0.005743 1.33	0.0161328*** 3.32
TA	(0.001818) 0.17	-0.085803** 2.51	-0.049002* 1.85	(0.001818) -0.18
_cons	0.000395* 0.001	2.125025* 2.38	1.211225* 1.73	0.000395** 0.001

Note: ***p < 0.01, **p < 0.05, *p < 0.1, ns: non-significant.

Table 3 The impact of CEO's reputation on corporate abnormal earnings (continued)

Max VIF	3.95
F-test	45.32***
Hausman test	4.36 ^{ns}
Breusch and Pagan Lagrangian multiplier test	6,236.2***
Wooldridge test for autocorrelation	29.11***

Note: ***p < 0.01, **p < 0.05, *p < 0.1, ns: non-significant.

Table 4 The impact of corporate abnormal earnings on CEO's reputation

<i>Repu</i> _(i,t)	<i>OLS</i>	<i>FEM</i>	<i>REM</i>	<i>GLS</i>
AEDD _(i,t)	11.67*	15.76**	14.25**	11.77**
	1.93	2.05	1.97	1.94
DE	11.40*	(5.23)	0.77	11.40**
	1.87	0.61	0.10	1.88
LEV	(22.23)	(78.37)	(45.80)	(22.23)
	0.49	1.07	0.73	0.49
SG	0.01	0.01	0.01	0.01
	0.21	0.39	0.34	0.21
ROA	335.37*	(66.99)	(0.22)	335.37*
	1.86	0.33	0.001	1.87
OCF	21.99	24.14	26.54	21.99
	0.95	1.04	1.17	0.96
Age	(0.47)	2.86	3.83**	(0.47)***
	0.30	1.23	2.03	0.30
TA	12.51	38.81*	18.42**	12.51
	3.81	2.53	2.46	3.82
_cons	(383.81)**	(1,168.87)***	(612.52)**	(384.88)**
	2.15	2.56	2.26	2.16
Max VIF				4.07
F-test				5.93***
Hausman test				9.23 ^{ns}
Breusch and Pagan Lagrangian multiplier test				466.01***
Wooldridge test for autocorrelation				20.9***

Note: ***p < 0.01, **p < 0.05, *p < 0.1, ns: non-significant.

4.3 *The impact of corporate abnormal earnings on CEO's reputation*

Table 4 shows the research results of Hypothesis 2. First of all, we run the OLS, and test with VIF which shows that max VIF is 4.07. Then we run FEM and apply F-test to choose between OLS and FEM. F-test of 5.93*** shows that FEM is more suitable. After that, REM was applied, with the Hausman test, Breusch and Pagan test and Wooldridge test, finally we choose GLS for the model. We can see from Table 4 that abnormal

earnings have positive impact on CEO's reputation in the same fiscal year (correlation coefficient is 11.77**). Income manipulation in a company can lead to an increase in the CEO's reputation in that year for the following reasons. When a company manipulates income, the CEO can generate higher profit figures than the actual ones. In the short term, this can create a positive impression and result in a favourable assessment of the CEO's management abilities and performance. The CEO may be seen as a successful and talented leader who has 'polished' financial figures to achieve good results. Income manipulation can temporarily increase the company's profitability, especially in the fiscal year being evaluated. When the company has high profits and strong growth, it can attract the attention of shareholders, investors, and the public. The CEO is viewed as someone who has achieved short-term success for the company and may receive recognition and high evaluations in that year. Some investors may not scrutinise or recognise the reality of income manipulation. If they only focus on high profit figures, they may consider the CEO as an exceptionally successful individual and decide to invest in the company. The interest and interaction with such investors can increase the CEO's reputation. When the company has high profits and rapid growth, it often garners media and public attention. The media may write about the company's success and the CEO's role in achieving those results. Positive attention and news coverage from the media can create a positive image of the CEO and increase their fame. However, income manipulation can also lead to long-term negative consequences, including loss of trust from shareholders, legal implications, and impact on the company's sustainability. These results are consistent with Francis et al. (2008) and Nguyen et al. (2021).

5 Discussion and managerial implication

5.1 Discussion

The paper explores the nexus of a CEO's reputation and the manipulation of abnormal earnings of firms. Regarding research question 1, the results confirm a two-way relationship among CEO's image and corporate abnormal earnings. The plausibility of corporate abnormal earnings influences the CEO's reputation in the same fiscal year, and a favourable CEO reputation in year (t) decreases the level of manipulating abnormal earnings in the following year ($t + 1$). Regarding research question 2, an increase of 1 unit in the CEO's reputation in the current fiscal year leads to a decrease in corporate abnormal earnings in the next year by a factor of 0.02773***. Regarding research question 3, a 1-unit increase in corporate abnormal earnings in the current fiscal year corresponds to an increase in the CEO's reputation in the same year by a factor of 11.77**. These findings highlight the interconnectedness between CEO reputation and abnormal earnings, and provide insights into the dynamics and influences of these factors on each other.

When a company manipulates income, the CEO can generate higher profit figures than the actual ones. In the short term, this can create a positive impression and result in a favorable assessment of the CEO's management abilities and performance. These results are consistent with Francis et al. (2008) and Nguyen et al. (2021). However, with the CEO's increased fame, managers and regulatory authorities may pay closer attention to the company and its CEO. This can result in increased pressure from financial rules and regulations. Stricter rules and regulations can make income manipulation more difficult

and increase the risk of detection. These results are consistent with Cianci and Kaplan (2010).

5.2 Managerial implications

In the context of listed companies in Vietnam, the aforementioned research results hold significant importance in understanding the impact of income manipulation on CEOs and companies, as well as the influence of a CEO's increased fame on income manipulation behaviour. In Vietnam, income manipulation can yield short-term benefits for CEOs in terms of reputation-building and positive evaluations. As the CEO becomes more renowned, strengthened financial rules and regulations can create higher pressure and risks associated with engaging in income manipulation behaviour. These research findings provide valuable insights into the impact of income manipulation and a CEO's increased fame within the business environment of listed companies in Vietnam. They can support the development of effective policies, regulations, and financial management to prevent manipulation behaviour and ensure transparency and reliability in the financial information of listed companies.

These findings are significant in terms of managerial implications in terms of reputation management, ethical financial reporting, long-term focus, stakeholder engagement, and compliance and risk management. CEOs and managers should recognise the value of their reputation and its impact on their behaviour and the company's performance. They should strive to maintain a positive reputation by aligning their actions with stakeholders' expectations and societal norms. This includes ensuring the plausibility of corporate abnormal earnings and avoiding manipulative practices that can damage their reputation. Engaging with stakeholders, including shareholders, investors, and regulatory authorities, is crucial. Proactive communication and transparency about the company's financial performance can help manage expectations and build trust. By actively addressing concerns and demonstrating commitment to ethical practices, managers can enhance the company's reputation and mitigate the risks associated with abnormal earnings manipulation.

5.3 Theoretical contribution

Our results support and contribute to both the agency theory and identity theory. First, agency theory focuses on the relationship between principals (shareholders) and agents (CEOs) and aims to align their interests. The results indicate that judgements about a company's expected future financial statement quality, specifically the plausibility of abnormal earnings, impact the CEO's reputation in the same fiscal year. This suggests that when the CEO's actions are perceived to be aligned with the interests of shareholders, their reputation improves. This finding supports the notion that CEO reputation can serve as an indicator of their commitment to acting in the best interests of shareholders. In the agency relationship, monitoring and accountability mechanisms are crucial. The findings demonstrate that a positive reputation of the CEO in the current year influences their behaviour in the following year. Specifically, a favourable reputation in year (t) leads to a decrease in the manipulation of abnormal earnings in the subsequent year ($t + 1$). This implies that CEO reputation serves as a form of monitoring and accountability tool, as a CEO with a positive reputation is less likely to engage in manipulative practices in the future. It reinforces the idea that reputational concerns can

deter opportunistic behaviour and promote responsible actions by CEOs. Agency theory also addresses the issue of information asymmetry between principals and agents. The study's findings highlight those judgements about the quality of financial statements, particularly abnormal earnings, play a role in shaping CEO reputation. This suggests that a transparent and credible financial reporting system can contribute to reducing information asymmetry, as it enables stakeholders to form accurate judgements about the company's financial performance. CEOs who are perceived to produce plausible abnormal earnings are more likely to enhance their reputation and signal transparency to stakeholders. The findings align with agency theory by illustrating the significance of CEO reputation, the quality of financial statement, and their influence on the agency relationship. Second, identity theory emphasises the role of self-identity and how it relates to individuals' behaviour. The results indicate that judgements about a company's expected future financial statement quality, particularly the plausibility of abnormal earnings, impact the CEO's reputation in the same fiscal year. This suggests that the CEO's reputation is influenced by how their actions align with societal expectations and norms. A positive reputation reflects a congruence between the CEO's behaviour and the expectations of stakeholders, enhancing their self-identity and reinforcing their positive reputation. Therefore, the findings align with identity theory by illustrating the significance of self-identity, social identity, and perceptions in shaping the behaviour and reputation of CEOs. They emphasise the role of reputation as a reflection of congruence between individual behaviour and societal expectations. The findings also underscore the influence of social groups and stakeholders in shaping CEO behaviour and the importance of aligning behaviour with desired identity.

6 Limitation

The association between a CEO's reputation and abnormal earnings in listed companies is intricate, potentially influenced by various factors. This research contributes to existing theory, offering implications for investors, managers, and the relevant market. Nonetheless, a limitation of the study lies in measuring CEO reputation through the calculation of the number of search keywords such as 'name of CEO and name of company' on Google. This data only provides a limited perspective on reputation. Consequently, future research could enhance the measurement of CEO reputation by incorporating machine learning techniques for a more comprehensive analysis.

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Appendix

Variables measurement

<i>Variables</i>	<i>Measurement</i>	<i>Reference</i>
<i>Dependent and independent variables</i>		
CEO's reputation	Number of search queries related to the CEO's name and company on Google	Lee et al. (2020)
Corporate abnormal earnings	The discretionary accruals are then calculated by subtraction from the total accruals. $\frac{TA_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{\Delta Sales_{i,t} - \Delta AR_{i,t}}{TA_{i,t-1}} + \beta_3 \times \frac{PPE_{i,t}}{TA_{i,t-1}} + \beta_4 \times ROA_{i,t-1} + \varepsilon_{i,t}$ To estimate real earnings management: $\frac{CFO_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{Sales_{i,t}}{TA_{i,t-1}} + \beta_3 \times \frac{\Delta Sales_{i,t}}{TA_{i,t-1}} + \varepsilon_{i,t}$ $\frac{Prod_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{Sales_{i,t}}{TA_{i,t-1}} + \beta_3 \times \frac{\Delta Sales_{i,t}}{TA_{i,t-1}} + \beta_4 \times \frac{\Delta Sales_{i,t-1}}{TA_{i,t-1}} + \varepsilon_{i,t}$ $\frac{DISEXP_{i,t}}{TA_{i,t-1}} = \beta_0 + \beta_1 \times \frac{1}{TA_{i,t-1}} + \beta_2 \times \frac{Sales_{i,t-1}}{TA_{i,t-1}} + \varepsilon_{i,t}$	Ngo et al. (2022)
<i>Control variables</i>		
Leverage ratio	Liability-to-equity ratio	Lanouar (2013) and Fathi (2013)
Sales growth	(Sales in the fiscal year – Sales in previous year)/Sales in previous year	Gavana et al. (2022)
ROA	Return on assets	Ngo et al. (2023a, 2023c)
Operating cash flows	Operating cash flows in the fiscal year	Ngo et al. (2023a, 2023c)
Firm age	No. of year from establishment date	Yu et al. (2018)
Firm size	Natural logarithm of firm total assets	Dang et al. (2018)