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The Relationship between Chief Financial Officer (CFO) Characteristics and Financial Reporting Quality[1]

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Research Paper

INTRODUCTION

Users of financial statements analyze the current situation and predict the future performance of the company, check information about commercial enterprises and one of the most important sources of information used by them is the financial reports of the aforementioned companies. If the financial reports are not of the required quality, increase information asymmetry and as a result, stock market fluctuations and transaction costs increase due to the adverse selection problem. Due to the wide use of financial reports by analysts, investors, and other users, their quality has always been the focus of researchers and professional authorities. Considering the importance of the quality of financial reporting and its impact on reducing information asymmetry and reducing decision risk, it is necessary to identify the factors affecting it.

On the other hand, Studies conducted regarding management and economics emphasized to role of chief financial officers in creating value for the company and it is concluded that differences in attitudes, knowledge, and experience of CFOs, can lead to different strategic decisions by them. Some existing literature acknowledges that CFO transfer their knowledge and experience. They play a significant role in the strategic decisions of the company in terms of financial, investment, and operational policies. Compared to other managers in the organization, expertise, and scientific capacities in the field of finance, as well as the personal motivations of CFOs. It will have a significant impact on financial reporting on what information and when it needs to be reported.

About the importance of the position of CFOs and their impact on the economic and financial decisions of the company, especially in the field of financial reporting, it is necessary to understand their impact on the quality of financial reporting; Therefore, in the current research, investigated the impact of some characteristics of CFOs, including the tenure, gender and audit history of CFOs, on the quality of financial reporting.

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MATERIALS AND METHODS

The purpose of this research is to answer the following questions:

- Is there a relationship between the tenure of the financial manager and the quality of financial reporting?
- Is there a relationship between the gender of the financial manager and the quality of financial reporting?
- Is there a relationship between the audit history of the financial manager and the quality of financial reporting?

To answer these questions and test the hypotheses, the data of 135 companies admitted to the Tehran Stock Exchange from 2015 to 2022 were collected and analyzed using multiple regression. Also, in the present study, to measure the financial reporting quality variable, an optional accrual items index (Kaznik model) is used. In addition, the characteristics of the financial manager include tenure, gender, and audit history of financial managers.

RESULTS AND DISCUSSION

The results of the hypothesis test show that increasing the tenure of CFOs, decreases the quality of financial reporting. Research results are analyzed as follows increasing the tenure has caused the influence of the financial manager in the organization and this issue can cause unfair reports to secure the interests of the aforementioned managers. On the other hand, the research results show that the presence of a female financial manager in the company leads to a decrease in the quality of financial reporting. It is argued that female financial managers when adopting aggressive financial policies, analyze its benefits and costs well and act more professionally. Finally, although the results of the research show the negative impact of the financial manager's audit history on the quality of financial reporting, these results are not statistically significant.

CONCLUSION

According to the results of this research and also the role and position of CFOs and its effect on the quality of financial reporting, capital market supervisors are suggested to improve the quality of financial reporting and determine a framework to increase their accountability. Therefore, it is recommended that the Securities and Exchange Organization consider the responsibilities of financial managers in the existing regulations such as the corporate governance guidelines and consider the necessary regulations in line with its executive guarantee. Also, auditors are advised to consider the financial manager index of the company as an effective factor in the quality of financial reporting and consequently the risk of non-detection of the audit in planning and estimating the audit risk.

Keywords: Quality of financial reporting, Tenure of CFO, Gender of CFO, Audit history, Discretionary accruals.

JEL Classification: G32 ،G39.