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Do Board Friendliness and Economic Development Affect Firm Abnormal Earnings?

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***Abstract*—This research examines the effect of board friendliness and economic development on the quality of earnings reports using the Vietstock database of all listed firms on the HOSE and HNX in Vietnam from 2011 to 2021. We discovered that higher-quality earnings reports result from firm executives who have previously worked for the same organization, whereas lower-quality financial reports can be the result of directors who acted opportunistically or the development of local GDP and firm growth or directors who graduated from the same university. There is also a negative/positive association between alumni directors/ex-coworking directors and firm's current and future operating cash flows. Finally, firms with misreported financial statements, particularly earnings, spread among well-connected firm executives who operate as channels for the knowledge transfer regarding the practice.**

***Index Terms*—Earnings management, Board friendliness, Economy development**

I. Introduction

Nowadays, legislators, investors, practitioners, and academics are paying increasing attention to earnings management since earnings are important in terms of increasing investor confidence, company value (Eugster & Wagner, 2021; Orazalin & Akhmetzhanov, 2019); offering information about the financial statement's quality (Eugster & Wagner, 2021; Maglio et al., 2020; Orazalin & Akhmetzhanov, 2019); showing the incentive of the management (Eugster & Wagner, 2021); reflecting the degree to which a business is willing to take risks (Alhadab et al., 2015; Campa & Hajbaba, 2016; Huang et al., 2019; Kim et al., 2021; Kothari et al., 2016); calculating the cost of debt for a company and the number of loan spreads (Kim et al., 2021; Orazalin & Akhmetzhanov, 2019); forecasting a company's future profits (Alhadab et al., 2015; Eugster & Wagner, 2021; Kothari et al., 2016; Neifar & Utz, 2019); anticipating pecuniary resources and future yield from activities for a company (Alhadab et al., 2015; Kothari et al., 2016); and forecasting upcoming financial difficulties (Li et al., 2021); especially in distinct groupings of seasoned equity offering and non-seasoned equity offering (Bertomeu et al., 2021).

First, one of the most significant performance metrics for investors and the most essential thing for CFOs is earnings which helps present the accuracy of financial data externally, leads to improved performance and increases the firm value (Eugster & Wagner, 2021; Orazalin & Akhmetzhanov, 2019). Second, the market may utilize prior earnings behavior as a more sophisticated "litmus test" of management's adherence to accurate information. Less activity-based earning management and higher quality accruals are seen in more socially responsible businesses, both of which have an influence on financial reporting quality and, as a result, on the cost of capital (Eugster & Wagner, 2021; Maglio et al., 2020; Orazalin & Akhmetzhanov, 2019). Third, managers have distinct motivations to participate in earnings management which shareholders are aware of. It is demonstrated that when a factor conceals information against the financial incentives, their level of inner integrity is higher (Eugster & Wagner, 2021). As a result of recognizing and considering earnings as a risk-increasing activity, reputable and relationship banks expect increasingly bigger margins for earnings management. The most popular approach for overstating earnings is to reduce discretionary costs like Costs of R&D and marketing, general and managerial expenses (Alhadab et al., 2015; Campa & Hajbaba, 2016; Huang et al., 2019; Kim et al., 2021; Kothari et al., 2016). Furthermore, earnings management is critical in defining a company's credit rating, calculating its debt cost and presenting the level of loan spreads in both accruals and actual earnings (Kim et al., 2021; Orazalin & Akhmetzhanov, 2019). Also, businesses that use real earnings management to just achieve standards have greater operational effectiveness in the future than firms that do not use which might be explained by managers using earning management as a signal (Alhadab et al., 2015; Eugster & Wagner, 2021; Kothari et al., 2016; Neifar & Utz, 2019). Besides, since reduced discretionary costs, particularly R&D can boost earnings while also allowing a company to claim greater profit margins and cash flow from operations, managers prefer to manipulate real-world activities over accrual-based activities (Alhadab et al., 2015; Kothari et al., 2016). It is possible to conclude that real earning management is an efficient predictor of future financial difficulty, according to the empirical findings of (Li et al., 2021). Because larger firms have greater resources to spend in lawsuit situations, larger businesses are scrutinized harder. Companies with seasoned equity offerings generate more money, in part because they have greater capital market incentives than companies without seasoned equity offerings and non-seasoned equity offering groups (Bertomeu et al., 2021). To conclude, in recent years, the investigation of earnings management and other internal, external factors has been a relevant issue.

Since earning administration plays a crucial role in financial records to shareholders as well as corporate governance, Over the last few decades, it has been one of the most prominent subjects in finance and accounting literature. In non-financial industries, previous researches have documented a positive connection between earning manipulation and a variety of external factors such as outside investor rights (C. C. S. Chen et al., 2020), social trust (S. Chen et al., 2021), market concentration (El Diri et al., 2020; Tasneem Sajjad, Nasir Abbas, Shahzad Hussain, Sabeeh Ullah, 2019) and media coverage (S. Chen et al., 2021). Furthermore, previous research demonstrated that environmental conditions and climate risk positively influence firms' engagements in earnings management (Ding et al., 2021). On the other hand, relevant literature has focused on inside-related factors such as board characteristics (Kapoor & Goel, 2017), CEO attributes (Alam et al., 2020; Cai et al., 2019; Li & Kuo, 2017; Oskouei & Sureshjani, 2021), firm policy (Yung & Root, 2019), financial regulation (García Lara et al., 2020), corporate governance (El Diri et al., 2020; Tasneem Sajjad, Nasir Abbas, Shahzad Hussain, SabeehUllah, 2019), corporate social responsibility (R. C. Y. Chen & Hung, 2021; Hickman et al., 2021), audit committee organization (Kapoor & Goel, 2017), equity incentives and equity pay (Lee & Hwang, 2019; Li & Kuo, 2017). Although these studies have investigated a number of board characteristic components including board size, board independence, board busyness, board meetings (Kapoor & Goel, 2017), board gender (Fan et al., 2019) and board internationalization (Hooghiemstra et al., 2019), there are no published papers that examined whether earning management is associated with board friendliness.

The study of (Chen et al., 2021) using 28,074 firm-year observations of Chinese non-financial firms during 2001–2016 has recognized that social trust negatively influences on earnings, and this impact is larger for companies with a poor legal environment and a lot of media coverage. According to (Chen et al., 2020), the paper investigates a robust association between earnings management and country factors including market monitoring, investor protection, and liquidity using the sample of 430 American Depository Receipts firms in the United States from 2000 to 2017. Their initial findings are that organizations with a strong legal foundation, strong outside investor rights, strong institutional ownership, and more financial analysts following are negatively affecting earnings management. Besides that, (Yung & Root, 2019) discovered a strong connection between policy uncertainty and alteration of financial reports in a global context by estimating 81,395 firms across 18 countries for the period of 2001-2014. Firms enhance earning manipulations when regime uncertainty is high and in reverse, while the uncertainty of policy will dampen the next-year earnings. They utilize 75,790 observations of 12,874 unique firms in 43 countries to assess the influence of external investment on earnings (Zhang et al., 2020). They identified proof that a company's reliance on outside capital is positively associated. According to (Ding et al., 2021), From 2005 to 2017, the paper used a sample of 184,897 firm-years from 64 countries to explore a solid relationship between earnings management and climate condition which results that accruals-based and actual profits management actions in businesses are benefited by climate risk (CRI). From 1998 to 2008, a sample of 402 Germany-listed family companies was studied to determine the effects of family firms on real earnings and accrual-based earnings management (R. C. Y. Chen & Hung, 2021). Using 4,937 observations, family corporations have an adverse influence on the management of real earnings while non-family firms have a positive effect. Comprising 6,063 firm-year observations of 1,487 different US firms between 2005 and 2009, (Cai et al., 2019) analyze the beneficial impact of equity incentives for the chief executive officer on the management of earnings. (Kung et al., 2019) utilizing the Taiwan Economic Journal database to collect 10,474 observations covering the period from 2005 to 2015 demonstrate gender pair composition of joint auditors significantly positively associated with real earning management. Another study analyzing incentive compensation has a certain influence on banks' earnings management by estimating a merged dataset from 99 South Korean banks for the period from 2009 to 2016 shows that earnings management will improveif there is an increase in the proportion of equity-linked and variable pay in incentive wages and benefits. More deferred compensation, on the other hand, tends to reduce earnings management (Lee & Hwang, 2019). (Cai et al., 2019) document that religious CEOs run businesses are likely less engaged in earnings and less marked in the post-Sarbanes-Oxley Act period. They also discovered that CEO religiosity is correlated to genuine earnings as well as accruals-based earnings in 2,698 samples of business, equipment, manufacturing and healthcare industries in the US for 10 years (2000-2010). (El Diri et al., 2020) after analyzing 6,873 observations in the US indicate that lower accrual earnings and higher real earnings are associated with efficient company governance in concentrated markets. (Yuanhui et al., 2020) state that a study in the context of Chinese listed companies presented how financial difficulties affected the choice of profits management strategies. The results of prediction tests conducted on 52,849 firm-year data collected between 1990 and 2018 show that conservatism increases real earnings while decreasing accruals earnings (Juan et al., 2020). Using 6,570 firm-year data from non-financial enterprises in India from 2012 to 2017, the major research of Hickman et al, 2020 explores the association between corporate social responsibility and potential revenue management. The data show that the Act lowered total profit management, but that the corporate social responsibility mandate had no further impact. Mercedes et al., 2019 undertook a Spanish-language study to determine the link between Corporate Social Responsibility (CSR) and Earning Management (EM). They demonstrated that Organizations who are more devoted to CSR participation shows that CSR influence negatively on earnings, using data from 100 of Spain's most respected companies from 2011 to 2015. (R. C. Y. Chen & Hung, 2021) investigated the connection between corporate social responsibility index (CSRI) and earnings in Taiwan. They also discovered that the corporate social responsibility index (CSRI) has a deleterious effect on earnings and that organizations who are more devoted to corporate social responsibility index (CSRI) engage in fewer earnings management using data from 699 enterprises and a total of 3,495 values were detected. of Taiwan from 2010 to 2014. (X. Chen et al., 2020) show that development incentive measure that compares provincial and national levels has a beneficial impact on the management of profits. While the second growth incentive metric, which compares provincial GDP growth to the average GDP growth of nearby provinces, has a detrimental effect on earnings management relying on a merged dataset containing 21,702 findings of financial businesses for the period 2002 to 2016 in China. The study of (Oskouei & Sureshjani, 2021) observing 1,872 year-firm data during 2012–2017, illustrates that the manager ability has a considerable and negative connection on earnings, which shows the high abilities managers use fewer earnings. (Fan et al., 2019) found that women on boards had a non-linear influence on bank profitability management based on a collected data that uses 4,823 observations of 91 bank holding companies from 2000 to 2014. Until there are three or more women directors, the effect of women on earnings shifts from positive to adverse. The study of (Maglio et al., 2020), using 1,640 firm observations of Italy during 2013 - 2015 has found that the number of women on the board affects destructively on profits management and this impact is higher for non-small and medium businesses. (Hooghiemstra et al., 2019) discovered that if the board includes a foreign director, the company would have higher profits management by running prediction tests on 3,249 firm-year data gathered between 2001 and 2008 in the Nordic firms. (Alam et al., 2020) investigated financial and accounting companies in the top 10 Islamic countries with 1,165 observations between 2006 to 2016 and the findings show that there were no signs that Islamic financial organizations were reducing management opportunism and moreover board quality and CEO power helped both commercial and Islamic banks reduce management of earnings. While institutional ownership, CEO duality, and product market competition are positively associated with earning management, the larger corporate board, board independence, board meetings, and audit quality are negatively associated, according to a study by (Abbas & Waheed, 2019) that collected data from 84 non-financial firms in Pakistan for five years (2010–2015).

Many previous studies have revealed that a variety of factors influence earning management. However, the element of board friendliness has gotten little attention recently. According to Song (2016) and Adams (2007), friendly management in boards can increase business value, because board friendliness may advise management more effectively. As a result, in this article, we concentrate on investigating whether and to what extent that aspect of board friendliness is one of the adjustment values of corporate earnings management activities. (Göx & Hemmer, 2020) show that favorable boards reward managers with better pay and more stock options, but fewer options in their study. Based on this research objective, we study how the friendliness of boards has an influence on manipulating firm earnings in the context of Vietnam. This study is primarily intended for academic and practical implications. Firstly, it presents a novel corporate governance measure for listed Vietnamese companies that aims to evaluate if managers who were coworking friends or schoolmates have a greater impact on the company's profits management. When the executive board needs more personnel, both officials and businesses can hire acquaintances. Second, our results point to the need of studying board friendliness in corporate governance theory to conduct earnings management activities to improve stakeholder participation, minimize agency costs, and achieve higher earnings effectively.

The remaining portions of the essay are structured as follows: Our study hypotheses are developed in Section 2 after a survey of the pertinent literature. Section 3 details the methodology for our study, research methodology and variable measurement. In Section 4, the results are presented. Final section will consider our discussion, conclusions, and the implications of the research.

II. Literature Review

A. Board friendliness

Previous researchers have provided details and theories on the various corporate governance. (Platt, 2012). As of late, business financing specialists have discovered that, In addition to the qualities of the board, the systems The board of directors has a big influence on corporate governance and business decision-making. Many investigations find that board networks fundamentally affect firm choices, incorporating organizational design and strategic cooperation (Srinivasan et al., 2018); acquisition procedures; Transferring stock exchanges; option retroactivity; operational effectiveness and financial situation; enhance firm wealth (Rose, 2014); generate an information advantage (Berkman et al., 2020); and reduce information asymmetry (Granovetter, 1995; Calvo - Armengol & Jackson, 2004; Berkman et al., 2020).

According to (Adams & Ferreira, 2007), the board can affect the value of the company by disciplining and assuring the CEO. How well every function works depends on how much data administrators and board's individually exchange. In the model of Adams and Ferreira, the concept of board friendliness does not exclude outside directors from being friendly. Raheja (2005) locate that outside the members of board are are more likely to assume the position of CEOs at low-performing businesses, have strong reputational incentives and help enlarge the stock price around the announcement. (Linck et al., 2008) show that a great amount of outside director observation on all corporations is forced to have a net negative value that has an impact on businesses with expensive monitoring costs. The investigation by (Srinivasan et al., 2018) has considered the benefits and drawbacks of board member networks' significance on organizations' strategy and performance, in addition to the fundamental obligations of corporate management. In (Bizjak et al.) research, they claim that involvement in earnings management is more likely to occur in firms if their board of directors have a strong association with companies who greatly utilize earnings management techniques, as the strategic concessions made by other organizations serve as a supportive example for businesses thinking about their own arrangements. Businesses really like to have a well-connected board of directors because they are a valuable source of additional outside knowledge that can help the company make strategic concessions. Furthermore, Barnes demonstrates how charitable organizations, social corporations, university boards, policy planning organizations and private social clubs allow board members' networks to be seen. Finding the friendliness among board individuals and the CEO will lead to a terrible consequence, which comes about within the director having diminished monitoring capacity of the CEO. Even without the CEO, inside director networks provide very compelling governance outcomes, such as firm price, monitoring eminence, and financial journalism quality, that are not covered by the CEO's contract. Therefore, They should take into account any potential benefits from improving board independence. Friends on boards may have a certain reinforcement of firm value by establishing a scene beneficial to sharing of information from the CEO, followed by, Spend well advice. Furthermore, Holmstrom (2005) recommends that in order to get management's cooperation in sharing information, boards must be forced to do so. (Larcker et al. 2013) reveal that relations among directors generate a database dominance Since they have much better access to information about the business environment, a well-connected board, trends in the manufacturing, upriver and downriver companies, and market conditions. Directors can better support senior management in managing investment portfolios and develop a competitive investment strategy that gives first-mover advantages thanks to the notable information flow across these networks. Burt (2004) also documents that social associations support individuals with valuable elective perspectives when there is a need for direct reference or the situation is dubious. (Davis, 1991; Stuart and Yim, 2010) investigate that board connections may assign corporations better access to credit. Additionally, associate boards may be more knowledgeable about business partners who can change contract terms. (Uzzi, 1999), such as permitting for orders and payments to be briefly changed. (Calvo - Armengol & Jackson, 2004) show that social networks formed through interconnected directors can make a certain reduction on Conflicts between agencies and information asymmetry prevent overinvestment. companies started in either the middle or the structural hole positions of the network have boards with well - connected networks as a tax housing (Brown 2011) and standard option expensing (Reppenhagen 2010). Nevertheless, it particularly addresses earnings management contagion, in spite of the fact that Backdating options could be viewed as a type of earnings management. The earnings management practices considered do not include option backdating because the sample period predates the earliest restatement for backdating options. To sum up, board connections are crucial for easing the conveyance of information with high value in addition to corporate policies and consistent across firms (Berkman et al., 2020). However, the idea of board friendliness affecting maximizing earnings has not been researched a lot.

Existing research has identified board friendliness measurement, such as the degree of centrality, betweenness and closeness (Wu et al., 2021); the number of administrative relationships and external board members (Schmidt, 2015); or the number of director correlations to politically linked firms, state-run enterprises, and family-owned businesses (Freeman, 1978). Freeman viewed the "degree centrality," "betweenness centrality," and "closeness centrality" as the three main markers of network centrality for the social network gauge. A metric is called degree centrality of how many direct board connections one foundation has with its neighbors. Betweenness centrality depicts the number of an enterprise that relies on the briefest distance between any two additional network organizations. Closeness Centrality in a network is defined as the sum of all shortest paths from one organization to every other organization. A foundation may access resources more quickly if it is close to all other foundations in the network, which gives it a high proximity centrality, efficiently and receive databases more quickly from outside (Tao et al., 2019; Wu et al., 2021). According to (Schmidt, 2015), the primary criterion for board friendliness depends on social association between board administrators and external board participants (Kang et al., 2018). (Domhoff, 2009) build many indicators for the index that represent friends on boards, based on the number of social associations, and a board is considered friendly if it has minimum one chief who is outside of work relevant to the CEO due to shared academic interests and extracurricular activities. (Carney et al., 2020) also examine director associations of companies which have political, state-owned, and family business connections. A family business foundation is a group of non-illegally self-governing firms under the possession of a particular family (Baek et al., 2006). Businesses that are state-run undergo the same types of preoccupation costs as self-governing firms mentioned above. Enterprises possessing a political connection directors experience somewhat common tradeoffs as companies that are state-run. Businesses with political correlations (do not involve direct political tie) are pressured to expensive measures are put in place for political purposes, but they are one step removed from having an impact on politics. In spite of these benefits, (Carney et al., 2020) find that businesses with political ties will be in the shortage of the availability of data on adjustments to accounts payable or the granting of trade credit. (Wintoki & Xi, 2019) document that the primary and primary criterion for the costs of external director monitoring is the extent to which a company's board was included of directors who were outside the boardroom at the time of SOX adoption and the listing requirements on the exchange. (Gupta et al., 2021) suggests that a multiplex board connection is made up of two main layers—the direct and indirect relationships between board members, as well as four levels of relationships resulting from their affiliation with businesses, nonprofits, common undergraduate institutions, or military or governmental affiliations. (Gupta et al., 2021) also distinguishes By adding weight loadings to each layer of the multiplex connection, it is possible to convert the multiplex connection into a single-layer association with direct and indirect links. Those arranged association layer weight loadings permit observing the correlation between board connections and business groups. By adjusting the value of network layer weight loadings, (Gupta et al., 2021) Describe how the network characteristics of the board members change and align with the enterprise characteristics. According to social network research, a link's core location and structural hole location are two crucial factors influencing decision-making (Chahine et al., 2019). While the degree of structural hole richness deputizes the role of the business in correlating with other indirectly related businesses in the connection, network centrality concerns the centrality of an enterprise's place in a relationship. (Figure below).

Although the usage of personal databases is not confirmed, it is thought that their findings are most in line with the notion that insiders have an edge when picking companies because of their expertise with their own industry. The insider's right to obtain information via interlock networks

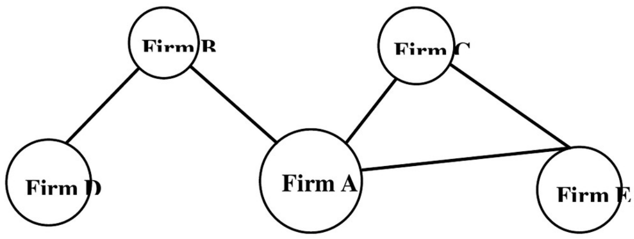

Figure 1: Network centrality

to the board connection is not taken into account. (Berkman et al., 2020) analyze director's transactions and conclude that interlocking purchases are better than the same administrator's own out-of-connection purchases. Additionally, the directors of these funds assume that inside board networks have a positive and significant relation to director compensation (Souther, 2018) and are relevant to a greater likelihood of SEC enforcement. (Chang & Wu, 2021) build social networks between two characters by the use of a database of information about their up-to-date and earlier occupation, educational institutions, and common social activities. Two people have a shared employment association if they are employed at this time or were recruited by the same company in the past, apparently at the same time. They have a linked education association if they have the same educational background or are relevant in time. They have a similar activity association if they both relate or are related to a non-profit corporation, such as an academic or sport club and charity activities. According to (Chang & Wu, 2021), A director holds an active position in all corporations, with the exception of clubs, which are associations in which one or both of the individuals are purely members. To sum up, from the measures that bring out meaningful results that were listed above, we will use the internal board networks to display the level of friendliness of the firms according to (Chang & Wu, 2021).

B. Earnings Management

By reviewing prior studies on the result of elements on the management of earnings in industrialised countries, we can see that political issues and cultural aspects, such as country factors, were some of the main factors examined. (Chen et al., 2020), religious beliefs (Cai et al.) and conditional conservatism (García Lara et al., 2020). Besides, researchers in developed countries also focused on macroeconomics (X. Chen et al., 2020), firm policy (Yung & Root, 2019), strategy development (Tasneem Sajjad, Nasir Abbas, Shahzad Hussain, Sabeeh Ullah, 2019), and firm characteristics (Oskouei & Sureshjani, 2021). For example, (X. Chen et al., 2020; Lee & Hwang, 2019; Li & Kuo, 2017) investigated the compensation system and GDP growth incentives in the aspect of the macro-economic and policy of CEO equity compensation; In consolidated markets, corporate governance and earnings management corporate social responsibility (R. C. Y. Chen & Hung, 2021; Maglio et al., 2020), financial distress, internal control (Y. Li et al., 2020), auditors' characteristics, gender of CEO (Fan et al., 2019), managerial ability (Oskouei & Sureshjani, 2021) and foreigners on the board (Hooghiemstra et al., 2019). The previous study of. This study, which concentrate on how corporate governance and agency dynamics affect manipulating earnings, found that there is a helpful correlation among board independence and earning management in dual banking systems. The data was gathered from 10 Islamic countries. When (Yung & Root, 2019) researched in 18 Islamic countries about key factors influencing the financial decisions and earning manipulation of the companies, they discovered uncertainty in policy and earnings management has a positive relationship in an international context. In particular, when policy uncertainty grows, earnings management also swells. After observing impactful elements on manipulating earnings in the scope of 43 Islamic nations, (Zhang et al., 2020), the benefits of real earnings management and accrual-based earnings management can be positively impacted by the firms' external financing earnings management, according to research. Overall, it should be noted that previous papers have not studied board characteristics' effects on earnings management. In other words, the effect of the board's features on manipulating earnings is not emphasized in developing nations.

Diverging from earnings management research that collected pre-financial crisis, before 2009, we find that prior studies focused on popular considerations such as religious beliefs, CEO equity compensation, family firms' manipulation and board internationalization. (Cai et al., 2019) suggested evidence that CEOs of companies who practice religion are less likely to manage earnings. For instance, When a company names a religious CEO to its board, real earnings management suffers statistically. Examining the relationship of family businesses and two types of profits management is another discovery, fewer real earning management are more likely to be manipulated by founding family firms. and manage reported discretionary accruals downward. In low growth firms, Equity incentives for chief executive officers (CEOs) have been linked to managing earnings. The additional analysis investigated the connection between earning management and the foreign director present on the boards; they exhibit a positive association among foreign directors and the levels of earnings management. Overall, the published factors affecting a firm's earning management in the period of pre-financial crisis are mostly relevant to internal elements, which play significant roles in earning management.

On the other hand, researches on earnings management after 2009 indicate that earning management is not only affected by internal elements such as the CEO's managerial ability and compensations but corporate social responsibility (CSR) also give a significant impact on earning practices. (Oskouei & Sureshjani, 2021) believe that if a firm has managers with great abilities, there is a decrease in the firm's earnings manipulation. This implies that high-powered executives are capable of coordinating the firms' operating decisions with strategies of the economic announcement. (Lee & Hwang, 2019) insist that the incentive compensation may attribute a significant influence to both the adventurous behaviors of banks and their management of earnings. In study of (Tasneem, 2019), while board size, independent directors, board meetings and audit quality are negatively accompanied with earnings, the institutional ownership and CEO dualism and discretionary accruals are positively correlated. This demonstrates how company governance and product market rivalry have an management strategies' impact on earnings. Regarding the partnership between CSR and earnings management, (Palacios-Manzano et al., 2021) examined the affiliation between retributions quality and corporate social duty, which mitigates managers' compliance to operate earning practices and discover proficiency strategies. Furthermore, the proportion of corporate boards with women leads to the assumption of fewer earning manipulation (Maglio et al., 2020). According to (Chen & Hung, 2021), the worthiest of note is that by achieving their CSR goals, Businesses may prevent managers from using their discretion and information advantage to influence profitability for their personal benefit. Additionally, our observation showed that while earning practices were substantially less prevalent in companies with greater CSR performance, they were actually increasing in companies with worse CSR performance.

However, existing international earnings management research is still extremely limited. The first barrier is the annual report of a sample financial firm differs from the corporate governance announcement. (Alam et al., 2020). Since each country has their own specific format for publishing finance reports, this explains why researchers have difficulty in collecting data for the corporate governance variables. Besides that, (Yung & Root, 2019) also indicated limitations worth noting such as limited time span of the independent variable, number of countries and theory linking uncertainty to firm investment decisions. The first barrier is the annual report of a sample financial firm differs from the corporate governance announcement, however, (Chen et al., 2021) acknowledge that their conclusions are just from a single country, It prevents the results from being applied to other economies. Following this, the previous paper considered only one aspect of earning management – accrual-based, (Chen et al., 2021) do not examine the relationship of social trust with other Earnings aspects such as conservatism, firm characteristic and reasonableness.

C. *The relationship between board friendliness and abnormal earnings*

According to governance theory, board independence is critical corporate governance is being improved, and protecting shareholders by overseeing and directing management on their behalf, managers engage in self-dealing minimizing informational asymmetries and investors by compelling hesitant managers should disclose information and verify the accuracy of the information. Companies with superior equity ratings acknowledge that social ties may compromise director independence (Westphal and Graebner, 2010; Bhojraj and Sengupta, 2003). The connection between directors and CEO, such as graduating from the same universities, participating in similar clubs, association, can threaten the shareholder's benefits (Langevoort, 2006; Hwang & Kim, 2009; Dey & Liu, 2010). If directors have friendly relationships with the relevant parties, they will have more opportunities to learn a great number of innovative methods for managing financial reporting items about discretionary accruals, such as planning costs and revenues, employing asset exchange agreements, connection sales, or collection agencies. According to Krishnan et al. (2011), CFOs/CEOs choose more socially adept directors in the post-Sarbanes-Oxley Act (SOX) period which result in increased earnings management. According to Guan et al. (2016), highly social the likelihood of auditors to offer good opinions from audits, and audited organizations report much larger earnings quality. Likewise, He et al. (2017) show that social relationships relating to audit and members of the audit panel lower the quality of the audit and increase fees. when the auditor and audit committee have social ties, signalling that reciprocity is based on social networks. Because politically linked firms fewer faces supervision and less negative repercussions for bold managing earnings, Chaney et al. (2011) show that earnings quality in corporate insiders is much lower than in equivalent non-connected enterprises. Correia (2014) also discovers that politically linked companies less inclined to be subjected to SEC disciplinary actions and more susceptible to suffering reduced punishments if they are prosecuted.

According to the research on discretionary accruals, connections to networks contribute to increasing both forms of REM (Griffin et al., 2021). On the plus side, using REM to smooth reported earnings and meet standards may help a company overcome ambiguity, improve its trust, spectral efficiency, and convey management expertise to the stock market, vendors, and customers (Bartov et al., 2002; Chaney and Lewis, 1995; Sankar and Subramanyam, 2001; Tucker and Zarowin, 2006). On the downside, real earnings management (REM) practices may be a sign of lease activity, which lowers business value. REM is less observable than accrual earnings management (AEM) activities, which may provide equal personal advantages, and does not attract the same amount of scrutiny concerning proper generally accepted accounting principles (GAAP). Whereas problematic accounting practices and policies are subject to audit risk and litigation risk., running successfully or unsuccessfully and managing actual earnings have important differences that also result from successful or unsuccessful managerial choices for business value.. Well-connected CEOs may choose the less expense and attention of REM over less-connected CEOs in order to preserve or improving their reputation or increase their clout and influence. A substantial increase to income by AEM, on the other hand, might be expensive to business participants and managers participants and managers if its identification raises concerns about a suspected GAAP violation. Once discovered, AEM may do enormous damage to the reputations and social capital of well-connected CEOs. To meet or outperform market expectations, (Griffin et al., 2021) anticipate well-connected CEOs to avoid AEM and substitute for a reduced level of AEM with a greater level of REM.

D. *Hypothesis development*

Vietnam's economy is in transition and is now a rapidly expanding market. Market risks may rise as a result of earnings management in nations with lax legal systems. Vietnam may eventually become a market with poor corporate governance and a closed economy (Gupta et al., 2014). Less board independence may be advantageous to shareholders, according to (Adams & Ferreira, 2007).

Hypothesis 1. *Positive correlation exists between board friendliness and abnormal earnings.*

Friendly boards are unlikely to be capable conduct efficient supervision and supervision, notwithstanding their superior ability to counsel and advise management. However, advantages of financial reporting guidance supplied by a "friendly" board are likely to outweigh the risks of monitoring the board's social relationships in terms of less monitoring and consequently worse information quality. According to financial reporting, it has been shown that connected businesses frequently use financial restatements, tax accounting, and goodwill write-offs (Brown and Drake 2014). Businesses that do not manage their earnings are more likely to do so in order to keep up with their competitors or even because they believe their competitors have superior information (Hirshleifer and Teoh 2003; Lieberman and Asaba, 2006). Board of director networks are the best channels for the organic dissemination of information on earnings reporting and efficient profit management across enterprises. We predict that board networks will encourage earnings management across connected businesses as a result of a chain reaction, taking into account the following reasons. Poor financial reporting for the purpose of limiting profits is contagious and spreads quickly through business. More central enterprises have more knowledge and resources for controlling earnings, and their earnings management has fewer negative repercussions. Consequently, we anticipate that firm networks will have a contagious effect on underperforming businesses, while businesses that perform well operationally are less likely to spread bad financial reporting practices throughout their networks. As a result, we propose research model (1) as follows:

$$EM_{(i,t)} = \alpha_0 + \alpha_1 \times Board\ friendliness_{(i,t)} + \alpha_2 \times Control\ variables_{(i,t)} + \varepsilon_{i,t}$$
$$EM_{(i,t)} = \alpha_0 + \alpha_1 \times Board\ friendliness_{(i,t)} + \alpha_2 \times Control\ variables_{(i,t)} + \varepsilon_{i,t}$$

Hypothesis 2. *Positive correlation exists between board friendliness and firm performance.*

When considering the effects of a connected board within a particular industry, David Blanco-Alcántara, José María Díez-Esteban, M Elena Romero-Merino (2018) discover that the degree has a positive and substantial influence on both the firm's market to book ratio (MTB) and its return on assets (ROA). The benefits of so-called "board capital depth" are supported by these findings, which show that networks concentrating on the same sector improve business performance. In this regard, we believe that intraindustry relationships provide directors with valuable particular resources that assist them in better performing their monitoring and advisory functions. As a result, we propose research model (2) as follows:

$$EM_{(i,t)} = \alpha_0 + \alpha_1 \times Board\ friendliness_{(i,t)} + \alpha_2 \times Control\ variables_{(i,t)} + \varepsilon_{i,t}$$

Where Firm performance (i,t) is measured by Market-to-book ratio (MTB), Net operating assets (NOA), Return on asset of a firm and industry (ROA, ROA_ind), Revenue and Plant, property and equipment.

Hypothesis 3. *There is a positive relationship between firm size, country's economy development and earnings management.*

(G.Cai et al., 2022) find a significant positive connection in between management of regional GDP data and the management of earnings by regional businesses. This connection is more powerful when local politicians face greater implementation challenges or are more driven to pursue professional advancement. They also demonstrate that local politicians will probably repay the favor the following year by providing these organizations with additional government grants. These results support the idea that local politicians inflate regional GDP numbers to advance their political careers. These statements then trade favors with local companies and put pressure on them to manage their corporate earnings in order to support their exaggerated claims of economic growth. As a result, we propose research model (3) as follows:

$$EM_{(i,t)} = \alpha_0 + \alpha_1 \times Size\_grow_{(i,t)} + \alpha_2 \times GDP\_grow_{(i,t)} + \alpha_3 \times Control\ variables_{(i,t)} + \varepsilon_{i,t}$$

Hypothesis 4. *There is a positive relation between internal board networks and operating cash flows.*

When companies have more socially connected through different channels such as shared experiences in the workplace, school, and other areas, the directors are more likely to coordinate deliberately because of familiarity with facts acquired by interpersonal relationships. According to (Li et al., 2020), board networks create a considerable impact on a firm's cash holding in different circumstances. In specific, since the boards have a better supportive network, firms can receive more external financial resources such as bank loans, fundings. Hence, the firms hold less cash when their interlocking networks are connected intimately. On the other hand, friendly board constructed from employment and other shared experiences have a positive significance on cash holdings as well as cash managements. For instance, firms with well-connected directors have more good conditions of employment and sales, which allows the firm's operating cash flows to swell through inner more director connections. As a result, we propose research model (4) as follows:

$$OCF_{(i,t)} = \alpha_0 + \alpha_1 \times Board\ friendliness_{(i,t)} + \alpha_2 \times Control\ variables_{(i,t)} + \varepsilon_{i,t}$$

$$OCF_{(i,t+1)} = \alpha_0 + \alpha_1 \times Board\ friendliness_{(i,t)} + \alpha_2 \times Control\ variables_{(i,t)} + \varepsilon_{i,t}$$

III. Methodology

A. Board friendliness measurement

There are three types of board friendliness, such as educational tie, professional tie and educational – professional ties. A professional tie exists if two people formerly held director or high-level management positions in the same organization (apart from the one where they presently work). If two people attended the same school and graduated within the same academic year, they have a common educational tie. When two people not only worked in the same historical employment at the same time but also graduated from the same school within one year, this is referred to as an educational-professional tie. Furthermore, to capture the level of board friendliness, a binary indicator is used as an independent variable which will get the result at one if the board is friendly and zero otherwise (Kang et al., 2018).

To obtain the information of board inside network, we did the following steps. Step 1, we list the names of board of management of each company by quarter. This data can be taken manually from companies' financial reports. Step 2, we take the information of managers' biographical data such as education background and employment history from the management report. For senior managers and directors, the annual management report provides the following details: college, graduate, and professional education. As the Decree 71/2017 / ND-CP guiding companies to apply for their representative companies, listed companies are obliged to report every six months and disclose information about the company that manages the company's image according to the provisions of securities law on disclosed information. Therefore, in management reports, it is clearly shown the background information of managers and directors. We utilize this regulation by choosing post-2011 windows due to the same concerns (Lee & Hwang, 2019; Tasneem et al., 2019; Yung & Root, 2019; Maglio et al., 2020; Palacios-Manzano et al., 2021; Chen & Hung, 2021 Alam et al., 2020; Chen et al., 2021; Oskouei & Sureshjani, 2021). Step 3, we list the names of executive's schools as well as their history employment and carefully checked whether they are the same. If two individuals have the same educational institutions or professional employment, the friendliness of board exists.

B. *Abnormal earnings measurement*

With the aim of manipulating reported results, accrual-based earnings management entails choosing a specific accounting method for certain activities (El Diri, 2017). As a result, manipulations through accruals do not have any effect on the firm's cash flows or economic activities. In the meanwhile, managers engage in real earnings management by implementing "measures that deviate from standard business procedures," such as loosening up sales credit standards, cutting down on discretionary spending, or overproducing to hit earnings targets (Roychowdhury, 2006). Real earnings management, which can be concealed in routine corporate operations, is more elusive to detect when compared to these two forms of earnings management (Anagnostopoulou and Tsekrekos, 2016). Real earnings management, however, poses a greater risk to businesses because it directly impacts cash flows and business decisions. To measure earnings, we employ:

Jones' model (1991). The first indicator of effective earnings management is abnormal accruals using the Jones model who was the first person to use the discretionary to calculate earnings manipulation in corporations. This measurement is referred to as "AbsAccJJ" in our model and findings. AbsAccJJ is the absolute value of the residuals of regression (1):

$$TAccr_{i,t} = b_0 + b_1 \Delta REV_{i,t} + b_2 PPE_{i,t} + \in_{i,t} \quad (1)$$

where Total accruals, abbreviated TAccr, are the variance between net income and operating cash flow; revenues, abbreviated ΔRev; and property, plant, and equipment, abbreviated PPE.

Francis et al. model (2005). The aim of earnings management is to find out the abnormal accruals. Discretionary accruals are supposed to be the consequence of accounting manipulation. The last computation of EM is accruals quality. This measurement is referred to as "AQ" in our model and findings. AQ is the standard departure of the residuals of regression (4):

$$TAccr_{i,t} = b_0 + b_1 FCF_{i,t-1} + b_2 FCF_{i,t} + b_3 FCF_{i,t+1} + b_4 \Delta REV_{i,t} + b_5 PPE_{i,t} + \in_{i,t} \quad (4)$$

which Total accruals, or TAccr, are the variance between net income and cash flow from operations; financing cash flow, or FCF, is the cash flow generated by financing during the firm's ith quarter; revenues, or ΔRev, are the change in revenues; and property, plant, and equipment, or PPE, are their gross values.

C. *Measuring control variables*

According prior researches, we use Firm size (LOG_TA and TA_gro); Firm Age (AGE); Market-to-book ratio (MTB1); Leverage ratio (DE; CAP); GDP growth rate (GDP_Gro); Risk (CF_Vol); Net operating assets (NOA); Sales growth (Salegrow); Operating cash flows (OCF; OCFt1) and Return on Assets (ROA; ROAt1) as control variables (Griffin et al., 2021).

Firm size. One of the factors influencing economic decisions made by users of financial statements is firm size (Dang et al., 2017). The greater the separation between ownership and management, the larger the company. The wider the gap between ownership and management, the more serious financial statements must be prepared for management's benefit rather than for the benefit of financial statement users. Furthermore, compared to a small firm, a large firm has a great number of economic transactions and substantial quantities. As a result, when a larger corporation changes its accounting procedures, it has an impact on profit margins. Myers and Skinner (2000) provided empirical evidence that a large corporation reports erroneous earnings. As a result, earnings manipulation shows a positive connection with firm size. ***Firm size.*** Another issue is that the older corporation has a larger profit potential. According to Barto and Simko (2002), an older corporation is under a lot of pressure to overstate financial performance in order to maintain a positive image with analysts. Because they want to produce predicted profits, listed companies utilize earnings management to deceive investors. ***Market-to-book ratio.*** Businesses with less wealthy stockholders are more inclined to serve retail investors who are less knowledgeable with REM's workings. Investors use published financial statements on the stock exchange, such as stock price, audited financial reports, to make economic decisions (Dang et al., 2017). Stock prices and firm values fall when financial performance is bad (Charfeddine et al., 2003). As a result, earnings management was created in order to maintain a positive reputation among stakeholders (Charfeddine at al, 2013). Earnings management has been implemented to have a beneficial impact on the stock market. ***Leverage ratio.*** Borrowings once had finances for corporate operations and enabled a corporation to avoid agency expenditures that develop between manager and investors, in addition to collecting investment from stockholders (Jensen and Meckling, 1976). Financial leverage is a set of indicators that indicate a company's financial structure and can be calculated using the liability-to-equity ratio. This means that the assets' size has grown as a result of borrowings and has been utilized to denote the autonomous finance from an entity. Therefore, financial leverage is also a factor affecting earnings management (Charfeddineet al., 2013; Fathi, 2013). ***GDP growth rate.*** Policy uncertainty and earnings management has a positive relationship in an international context. In particular, when policy uncertainty grows, earnings management also swells. ***Risk.*** The more volatility in cash flow, the more manipulating earnings activities may occur (Malaysia & Alves; 2012). ***Net operating assets.*** When a firm has more net operating assets, the earnings manipulation would increase, due to the board of directors may involve dipping further into accruals than they would otherwise do which results in abnormal earnings (Sknieer, 2000). ***Sales growth.*** Firms with a regular record of sales growth would feel pressure from the market to try harder which results in manipulating earnings to meet stakeholders' expectation (Fakhfakh & Nasfi, 2012; Nassirzadeh et al., 2012) ***ROA.*** According to Chen et al. (2006), the worse an entity's financial performance is, the more earnings management exists. Many metrics, such as ROA, revenue growth, cash flow, company growth, and others, are used to assess financial performance were proved to have a good association with earnings.

IV. Data

Our sample is collected from the Vietstock database. Specifically, we take quarterly data of all the listed companies on HOSE and HNX in Vietnam during 2011 to 2021. Utilities and financial institutions are omitted from our sample because of the disparities in accounting and reporting as well as industry regulation, which is consistent with earlier studies on earnings management (Phillips et al. 2003). Data is winsorized at the 1% level. After eradicating missing value and outliers, our dataset includes 241 companies on Vietnam stock markets is 9,201 firm-year observations in final sample. By construction, our analysis captures board links to internal networks as opposed to external social connections to other organizations. Data processing: based on the panel data, regression has been employed for investigating the impact levels of factors on EM in the sample of listed firms on Vietnam Stock Exchange. Ordinary least squares (OLS) is used in this study. We test the models and evaluate the defects of the models. In case of having defects in the models, we robust standard errors.

V. Results and Discussions

A. Summary statistics

All major variables' summary statistics are presented in Table 1. We found that the average number of directors who have graduated from the same university is 3 persons, the minimum number is 0 and the maximum number is 6. This is consistent with (Mejbel et al., 2013) that educational ties to be between 0 to 3. The average number of directors who worked in the same companies in the past is 4 persons, in which the minimum number is 0 and the maximum number is 8. This finding is consistent with prior research (Alesina & Giuliano, 2014). The control variables and earnings management statistics are comparable to those from other studies. REM has a mean value of 0.4193, which is comparable to Kim et al. 's stated mean REM value of 0.29.

Table 1. Variables description

Variable	Obs	Mean	Std. Dev.	Min	Max
Dependent variables					
AbsAccJJ	4,499	0.4193	0.4299	0.0002	1.0902
AQ	4,499	0.0315	0.5489	-0.0497	1.0913
Independent variables					
EduT	7,706	3.375	0.0931	0	6
ProT	7,706	4.109	0.0149	0	8
EduProT	7,706	1.102	0.0434	0	3
Control variables					
LOG_TA	4,499	27.2068	1.5483	23.1462	33.6948
TA_gro	4,499	0.1407	0.6116	-0.9220	29.0018
Age	4,499	5.9799	4.1373	0	21.5
MTB1	4,499	3.7083	15.9060	0.0475	785.5494
DE	4,499	2.2160	8.7107	0.0019	648.1732
CAP	4,499	0.4698	0.2235	0.0015	0.9980
GDP_Gro	4,499	0.0128	0.0351	-0.0000223	0.0001653
CF_VOL	4,499	0.2914	1.8170	0.0742	65.9227
NOA	4,499	2.1567	6.9475	-0.1351	319.3346
Salegrow	4,499	0.9894	40.9963	-0.9998	4703.255
ROA	4,499	0.0140	0.0275	-0.3104	0.6468
ROA1	4,103	0.0139	0.0274	-0.3104	0.6468
OCF	5,185	0.0113	0.7844	-18.3452	47.7778
OCFt1	3,823	0.0936	0.0408	-0.0127	0.0112

B. Board friendliness and Abnormal earnings

Our regression findings for board friendliness and abnormal earnings are shown in Table 2. We also account for cluster standard errors at the company level in addition to the control variables outlined in Section 3. Winsorizing is done on all variables at a 1% level of significance. The baseline results for Discretionary Accruals (AbsAccJJJ and AQ) as the dependent variables are presented in the first two columns, and the regression results with the addition of control variables are presented in the following two columns. The results for Real Earnings Management, which is considered

TABLE 2. BOARD FRIENDLINESS AND ABNORMAL EARNINGS

	AbsAccJJ	AQ	AbsAccJJ	AQ
EduT	0.0218*	0.0344*	-0.0406	0.0134**
ProT	-0.0290*	-0.0735*	-0.0822***	-0.0262***
EduProT	-0.0058	-0.0287*	0.00477	0.0085
LOG_TA			-0.00667**	-0.00597
TA_gro			0.0389***	0.0344**
Age			0.00105	0.00791***
MTB1			0.00546***	0.00775**
DE			0.00502*	0.0154***
CAP			-0.133***	-0.0202
OCF			-0.0379***	0.00792
GDP_Gro			2717.6	9092.8***
CF_VOL			-0.00895***	0.0371***
Salegrow			0.0000378	-0.00012
_cons			0.567***	0.129
N	4176	3580	4176	3580
Years	10	10	10	10
Firms	214	214	214	214
F-test	1.39	1.38	1.39	1.46
Adj. R-Sq	0.2429	0.1162	0.2513	0.2065
Breusch test	0.3289	0.2316	0.2122	0.1552
Hausman test	0.8714	0.8714	0.8714	0.8009
Wooldridge test	0.2549	0.9679	0.1254	0.1614
Max VIF	1.51	1.51	1.51	1.51

t statistics in brackets
** p<0.1, ** p<0.05, *** p<0.01*

as the dependent variable, are shown in the last two columns. The independent variables of interest are Education ties, Professional ties and Education – Professional ties. We find that the coefficients on Education ties are positively related with Abnormal Earnings. The coefficients of EduT with dependent variable AbsAccJJ are 0.0218* (column 1) and -0.00406 (column 3). The coefficients of EduT with dependent variable AQ are 0.0344* (column 2) and 0.0134* (column 4). The results show that earnings quality enhances with board of directors who graduated at the same universities. Our estimate is similar to (Jha, 2017).

Nevertheless, we find that the coefficient of Professional ties is negatively correlated with Abnormal Earnings. The coefficients of ProT with dependent variable AbsAccJJ are -0.0290* (column 1) and -0.822*** (column 3). The coefficients of ProT with dependent variable AQ are -0.0735* (column 2) and -0.0262* (column 4). The outcome displays that earnings quality declines with board of directors who graduated at the same universities. Our estimate is similar to (Kim et al., 2012) and (Jha, 2017). The findings imply that more correlated enterprises are more aggressive in their earnings management, which is consistent with our Hypothesis 1. Board of director networks are ideal conduits for the natural transmission of knowledge on earnings reporting and how to effectively manage profits across businesses.

The coefficients of the control variables are mostly consistent with the literature. The findings for our control variables demonstrate that firm scale hinders earnings management. Companies with high growth, leveraged form seem to control earnings. The literature and these estimates are in agreement. The relationship in inverse between market-to-book ratio and discretionary accruals displays that companies with more open information settings control earnings less. We applied F-test, Breusch Bargan test, Wooldridge test to ensure the model does not have autocorrelation and problems.

C. *Board friendliness and Firm performance*

TABLE 3. BOARD FRIENDLINESS AND FIRM PERFORMANCE

	MTB1	NOA	ROA	ROAt1
EduT	-0.0237***	-0.0238***	-0.000575**	-0.000849**
ProT	-0.00568***	0.00167	-0.00061***	-0.00179***
EduProT	0.0334***	0.0215***	0.00545***	0.00593***
Control	Yes	Yes	Yes	Yes
_cons	0.568***	0.695***	-0.00584	0.0138**
N	**4499**	**4047**	**4493**	**4103**

t statistics in brackets
** p<0.1, ** p<0.05, *** p<0.01*

Table 3 presents our regression outcomes for board friendliness and firm performance. We find that board of directors who have graduated from the same university or used to work at the same employment would lower the firm profit. However, when directors both graduated from the same university and used to work at the same history company will strongly improve the firm's performance. The coefficients of EduProT with dependent variable MTB2, NOA, ROA, future ROA are 0.0334***; 0.0215***; 0.00545***; 0.00593***, respectively. These results are similar to the (Krishnan, 2012) and (David, 2018). The benefits of so-called "board capital depth" are supported by these findings, which show that networks concentrating on the same sector improve business performance. We applied F-test, Breusch Bargan test, Wooldridge test to ensure the model do not have autocorrelation and hedekedascity problems.

D. *Economy development and Earnings Management*

TABLE 4. ECONOMY DEVELOPMENT AND EARNINGS MANAGEMENT

	AbsAccJJ	AQ	AbsAccJJ	AQ
TA_gro	0.0224**	0.0207*	0.0463***	0.0283*
GDP_Gro	507.1	1311.7	2011.5**	4926.5**
Control	No	No	Yes	Yes
_cons	0.337***	0.0146***	0.430***	-0.0161
N	**6165**	**4431**	**5720**	**4106**

t statistics in brackets
** p<0.1, ** p<0.05, *** p<0.01*

Table 4 presents the regression outcomes for firm size growth and GDP growth with abnormal earnings. We present a positive correlation of this regression. The coefficient of TA_gro with dependent variable AbsAccJJ is 0.0463*** (column 3) and with dependent variable AQ is

0.0283* (column 4). The coefficient of GDP_Gro with dependent variable AbsAccJJ is 2011.5** (column 3) and with dependent variable AQ 4926.5** (column 4). This results are similar to (G.Cai et al., 2022) which also suggests that firm growth and economy development have the positive effect of abnormal earnings and resulted in lower information quality. The change increases the pressure on the board of directors to act or their motive to pursue career growth. The next year, it's likely that the local lawmakers would repay the favor by providing these organizations with further government funding. These results assist the idea that local statemans exaggerate regional GDP numbers to further their political careers. Then, in order to assist their overstated claims of economic growth, these declarations trade favors with local businesses and put pressure on them to adjust their profitability. We applied F-test, Breusch Bargan test, Wooldridge test to ensure the model do not have autocorrelation and hedekedascity problems.

E. *Board friendliness and operating cashflows*

TABLE 5. BOARD FRIENDLINESS AND OPERATING CASHFLOWS

	OCF	OCFt1	OCF	OCFt1
EduT	-0.00508***	-3.359***	-0.00892***	-1.7621**
ProT	0.00258***	4.661***	0.0380***	9.438**
Control	No	No	Yes	Yes
N	**7706**	**3823**	**5185**	**3823**

t statistics in brackets
** p<0.1, ** p<0.05, *** p<0.01*

The evidence from Table 5 also suggests that board friendliness could be a relevant predictor for corporate cash holdings decision. We find that the board of directors who have graduated at the same university would decrease current and future operating cash flows where the board of directors who used to be co-workers in the past would enhance the firm's current and future cash flows. These results are comparable to (Li et al., 2020). This could mean that since the boards have the same educational background, firms can receive more external financial resources their interlocking networks are connected intimately which results in holding less cash. On the other hand, friendly boards constructed from employment have more good conditions of employment and sales, which allows the firm's operating cash flows to swell through inner more director connections. We applied F-test, Breusch Bargan test, Wooldridge test to ensure the model do not have autocorrelation and hedekedascity problems.

VI. CONCLUSIONS

In this paper, we observed the development of local GDP, firm growth and opportunistic behavior by directors who attended the same university, were found to be causes of lower-quality financial reports, while firm executives who had previously worked for the same organization were found to be responsible for higher-quality earnings reports. Higher quality of earnings report can be the result of firm executives who shared the same working experiences in the past (Kim et al., 2012; Jha, 2017). Furthermore, when directors both graduated at the same university and used to work at the same history company will strongly improve the firm performance. Finally, the board of directors who have graduated at the same university would decrease current and future operating cash flows where the board of directors who used to be co-workers in the past would enhance present and upcoming cash flows for the company.

Our findings significantly advance specialized literature and show the value of the practices employed by Vietnam's non-financial listed firms. Notwithstanding, contrary to much earlier study in developed markets, this study shows that the firm network centrality and earnings management are positively and significantly related. We found that there is only a positive correlation between educational ties and irregular accruals earnings, but a negative significant relationship between professional ties on both abnormal real earnings and abnormal accruals earnings. Furthermore, the adverse consequences can be amplified if the directors have strong professional and academic affiliations. The consequences for policymakers are to increase the efficiency of procedures for protecting investors' rights and to give investors more options for monitoring. An increased risk of lawsuit would drive the auditor's attempts to manage earnings.

Secondly, our research demonstrates the proof of managers' friendliness level, particularly when they have been friends in previous educational settings and have collaborated in prior businesses, encouraging them to meet profit benchmarks and manage operating cashflow. This extends these meanings to an emerging market channel like Vietnam, in contrast to the findings of earlier studies that were largely done in established nations (Chang & Wu, 2021; Chiu et al., 2013; Kang et al., 2018; Wintoki & Xi, 2019).

Thirdly, the research also shows that economic growth and abnormal real and accruals earnings have a favorable link. As a result of the confirmation of the idea that local statesmen inflate regional GDP estimates for political promotion, this should serve as a warning to investors when researching well-established enterprises. This study examines a substantial result to the literature on corporate governance in the field of finance, with indications that board friendliness and economic growth are equally crucial predictors of the quality of the earnings.

Our research has limitations since the measures we use to define board friendliness simply count the number of directors who have a relationship with job or study, rather than focusing on the length of time they spent in each activity. Future studies may look at how firm characteristics and board friendliness affect abnormal earnings management in specific situations.

In conclusion, we discover that corporate practices, such as misreporting financial statements, particularly earnings, proliferate among well-connected directors who serve as conduits for the dissemination of knowledge about the practice. This demonstrates that a director's network centrality may incur costs, which are reflected in board oversight of financial reporting quality based on the network contagion influence of directors.

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Appendix

Measuring independent variables		
Code	**Measurement**	**Reference**
Edu_ProT	The number of individuals with whom directors shares common employment and education.	(Chang & Wu, 2021)

Measuring independent variables		
Code	**Measurement**	**Reference**
EduT	Natural logarithm of one plus the number of individuals with whom directors share common education background.	(Chang & Wu, 2021)
ProT	The number of individuals with whom directors share a common employment history	(Chang & Wu, 2021)

Measuring dependent variables		
Code	**Measurement**	**Reference**
AbsAccJJ	Jones' model (1991)	(Yung & Root, 2019)
AQ	The methodology of Francis et al. (2005)	(Yung & Root, 2019)

Measuring control variables		
Code	**Measurement**	**Reference**
LOG_TA	Natural logarithm of total assets in millions	(Yung & Root, 2019; Chen et al., 2020; Fan et al., 2019; El Diri et al., 2020; Cai et al., 2019)
TA_gro	Quarterly growth rate of total assets.	(Fan et al., 2019)
Age	The number of years since a firm first initial public	(Cai et al., 2019)
MTB1	Market value of equity over book value of equity	(Yung & Root, 2019; Fan et al., 2019; Cai et al., 2019; Chen et al., 2020; El Diri et al., 2020)
DE	Total liability over stockholder's equity	(Yung & Root, 2019; Chen et al., 2020)
CAP	Total equity over total assets.	(Cai et al., 2019; Fan et al., 2019)
OCF	Operating cash flow scaled by total assets.	(Yung & Root, 2019)
CF_VOL	The standard deviation of (cash from operations / average assets) over at least three of the last five years	(Cai et al., 2019; El Diri et al., 2020)
GDP_Gro	Rate of growth of GDP/capita, obtained from the World Bank.	(Yung & Root, 2019; Cai et al., 2019)
Salegrow	Current year's sales less prior year's sales less the increase in receivables all scalded by prior year's sales and decile ranked by industry and year.	(El Diri et al., 2020)
ROA	Return on assets.	(Cai et al., 2019; Fan et al., 2019)
NOA	Net operating assets over total assets, whereas net operating assets is defined as the sum of common equity, long-term debt, and debt in current liabilities less cash and short-term investments	(Cai et al., 2019)

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