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# The Influence of Board Effort, CEO Narcissism, and Real Earnings Management on Audit Report Readability: An Empirical Study of Healthcare Companies Listed on the Indonesia Stock Exchange in 2020-2022

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## ABSTRACT

**Purpose of the study:** Audit report readability has emerged as a critical factor in financial communication effectiveness, particularly in the healthcare sector where stakeholder decisions carry significant societal implications. The complexity of audit reports can impede stakeholder understanding and decision-making processes. This study examines the influence of board effort, CEO narcissism, and real earnings management on audit report readability in Indonesian healthcare companies. The research aims to understand how corporate governance mechanisms and managerial characteristics affect the clarity and accessibility of financial reporting communications.

**Materials and methods:** The study employs a quantitative approach analyzing 156 firm-year observations from 52 healthcare companies listed on the Indonesia Stock Exchange (IDX) from 2020-2022. Board effort is measured using board meeting frequency and director expertise diversity. CEO narcissism is assessed through compensation relative to other executives and media visibility metrics. Real earnings management is evaluated using the Roychowdhury (2006) model. Audit report readability is measured using the Flesch Reading Ease Score and Fog Index. Multiple regression analysis with robust standard errors is employed to test the hypotheses.

**Results:** The findings reveal that higher board effort significantly improves audit report readability ( $\beta = 0.312$ ,  $p < 0.01$ ), while CEO narcissism negatively impacts readability ( $\beta = -0.287$ ,  $p < 0.05$ ). Real earnings management shows a significant negative association with audit report readability ( $\beta = -0.341$ ,  $p < 0.01$ ). The model explains 43.7% of the variance in audit report readability. Additional analyses confirm the robustness of these relationships across different sub-periods and alternative measurements.

**Conclusions:** Board effort enhances audit report clarity through improved oversight and communication standards, while CEO narcissism and real earnings management practices deteriorate report readability. These findings suggest that effective corporate governance mechanisms are essential for transparent financial reporting in the healthcare sector.

## Keywords

audit report readability, board effort, CEO narcissism, real earnings management, healthcare companies, corporate governance, Indonesia Stock Exchange.

## INTRODUCTION

Audit report readability has become a central issue in modern accounting and corporate governance literature, as it directly influences the effectiveness of financial communication and the decision-making process of stakeholders. Unlike other corporate disclosures, the audit report represents the independent judgment of external auditors, serving as the primary medium through which auditors convey their professional opinions about the fairness and reliability of financial statements. Its readability—defined as the ease with which intended audiences can comprehend the report—plays a crucial role in reducing information processing costs and ensuring that critical financial information is accessible to diverse stakeholders (Li, 2008; Loughran & McDonald, 2014). When audit reports are overly complex, stakeholders may misinterpret key information or disengage from detailed financial analysis, thereby increasing information asymmetry and potentially undermining market efficiency (Bloomfield, 2002; Guay, Samuels, & Taylor, 2016).

The significance of audit report readability is particularly pronounced in the healthcare sector, a highly regulated and socially sensitive industry. Healthcare companies must communicate financial information to a broad set of stakeholders—including investors, creditors, regulators, patients, and society at large—whose decisions and trust depend heavily on transparent communication (Francis, Nanda, & Olsson, 2008). In Indonesia, the healthcare sector has experienced rapid growth and transformation, especially during the COVID-19 pandemic (2020–2022), which heightened the demand for accountability and transparent financial practices. During this period, audit reports became more than just technical compliance documents; they were crucial instruments for maintaining investor confidence, guiding resource allocation, and sustaining public trust in companies that

played a frontline role in responding to a national health crisis (Biddle, Hilary, & Verdi, 2009).

Corporate governance mechanisms are widely recognized as key determinants of financial reporting quality, including the clarity and transparency of audit communications. The role of the board of directors is particularly critical. Board effort, often measured through meeting frequency, diversity of expertise, independence, and tenure, reflects the extent to which directors actively engage in oversight responsibilities (Adams & Ferreira, 2007; Vafeas, 1999). Boards that demonstrate higher effort are better positioned to monitor managerial actions, constrain opportunistic behavior, and ensure that external communications, including audit reports, meet high standards of clarity. However, while the literature has extensively linked board characteristics to financial reporting quality (Beasley, 1996; Chen, Cheng, & Wang, 2015), the direct relationship between board effort and audit report readability remains underexplored, especially in emerging markets such as Indonesia.

Managerial psychology has also emerged as a critical factor influencing financial communication. CEO narcissism, characterized by excessive self-admiration, entitlement, and a desire for personal recognition, has been shown to affect corporate decision-making and disclosure practices (Chatterjee & Hambrick, 2007; Ham, Seybert, & Wang, 2017). Narcissistic CEOs often prefer complex, ambiguous disclosures that obscure opportunistic behaviors and simultaneously reinforce their self-image. Prior studies have linked CEO narcissism to earnings manipulation, aggressive financial strategies, and poor governance practices (Olsen, Dworkis, & Young, 2014; Campbell et al., 2011). Yet, little is known about how narcissistic tendencies manifest in the language and structure of audit reports, particularly in the context of emerging economies. This research gap is critical given the growing recognition of CEO personality traits as predictors of organizational outcomes and communication practices.

Earnings management, another key determinant of financial reporting quality, has long been a concern in both academic research and regulatory practice. While accrual-based earnings management manipulates accounting choices within the bounds of Generally Accepted Accounting Principles (GAAP), real earnings management (REM) alters actual business activities such as sales timing, discretionary expenses, and production levels to meet earnings targets (Roychowdhury, 2006; Cohen, Dey, & Lys, 2008). Real earnings management is often harder to detect, and companies engaging in such practices may have incentives to obscure these activities through the use of complex audit report language. Previous studies demonstrate that financial statement complexity often correlates with lower earnings quality and higher obfuscation in disclosures (Bushee, Gow, & Taylor, 2018; Dechow & Dichev, 2002). However, the specific relationship between REM and audit report readability remains largely underexplored, leaving a critical gap in understanding how such managerial practices influence external audit communications.

Despite the growing literature on financial communication readability, several notable research gaps persist. First, the majority of existing studies have focused on annual reports, MD&A sections, and earnings announcements (Li, 2008; Brown & Tucker, 2011), while audit reports—arguably one of the most critical sources of independent financial verification—have received relatively limited scholarly attention. Second, prior studies have predominantly examined firms in developed economies such as the United States and Western Europe (DeFond, Hung, & Trezevant, 2007). This leaves an insufficient understanding of how institutional and regulatory environments in emerging markets, like Indonesia, shape the readability of audit reports. Third, sector-specific research in healthcare remains scarce despite its unique features: a highly regulated environment, diverse stakeholder base, and essential societal role. Finally, while CEO characteristics and earnings management have been widely studied in relation to financial performance and governance, their influence on the linguistic quality of audit reports has not been systematically investigated.

This study aims to address these gaps by empirically examining the determinants of audit report readability in healthcare companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. By focusing on the interaction between board effort, CEO narcissism, and real earnings management, this research contributes to both theoretical and practical debates in accounting and governance. Theoretically, it extends agency theory (Jensen & Meckling, 1976) and signaling theory (Spence, 1973) by investigating how governance mechanisms and managerial traits influence communication transparency in auditor reports. Practically, the findings provide insights for regulators, auditors, and corporate boards in emerging economies to design governance mechanisms that enhance communication quality and stakeholder trust. Moreover, the healthcare sector's societal importance amplifies the relevance of this research, as transparent financial reporting in this industry has direct implications not only for market efficiency but also for social welfare.

## MATERIALS AND METHODS

### Sample Selection and Data Collection

The study employs a comprehensive dataset of healthcare companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022. The initial population comprised 67 healthcare companies across pharmaceuticals, healthcare services, and medical equipment sectors. After applying exclusion criteria (companies with incomplete data, delisted companies, and companies with fiscal years not ending in December), the final sample consists of 52 companies, yielding 156 firm-year observations.

Data were collected from multiple sources to ensure comprehensive coverage of variables and robust measurement of the key constructs under investigation. Financial statements and annual reports were systematically obtained from the Indonesia Stock Exchange (IDX) database, providing the foundation for financial performance metrics and corporate governance information. Audit reports were carefully collected from individual company websites and regulatory filings to enable detailed readability analysis, ensuring access to the complete text of audit opinions and communications. Board and CEO information, including biographical data, compensation details, and governance structures, were extracted from annual reports and proxy statements to construct measures of board effort and CEO characteristics. Market data, including stock prices, trading volumes, and market capitalization information, were sourced from Thomson Reuters Eikon to calculate market-based performance measures and control variables. Additionally, media coverage data were systematically gathered from the Factiva database to assess CEO visibility and media presence, which serves as a key component in measuring CEO narcissism through public attention and self-promotion activities.

## Variable Definitions and Measurements

Variable Category	Variable Name	Measurement Method	Formula/Description
Dependent Variable	Audit Report Readability (ARR)	Composite measure using two metrics	$ARR_1 = 206.835 - (1.015 \times ASL) - (84.6 \times ASW)$ $ARR_2 = 0.4 \times (ASL + PHW)$ Where ASL = Average Sentence Length, ASW = Average Syllables per Word, PHW = Percentage of Hard Words
	Board Effort (BE)	Composite measure	Four components: 1. Board meeting frequency (ln of annual meetings) 2. Director expertise diversity (Blau index) 3. Board independence ratio 4. Average board tenure
Independent Variables	CEO Narcissism (CN)	Multi-dimensional measure	Four indicators: 1. CEO-to-median employee compensation ratio 2. CEO media mentions (ln of annual appearances) 3. First-person pronouns in CEO letters 4. CEO photograph prominence (0-3 scale)
	Real Earnings Management (REM)	Roychowdhury (2006) model	Three components: 1. Abnormal cash flows from operations 2. Abnormal discretionary expenses 3. Abnormal production costs Combined using factor analysis
	Control Variables		
	Company Size	Natural logarithm	Ln (Total Assets)
	Leverage	Financial ratio	Debt-to-Equity Ratio
	Profitability	Financial performance	Return on Assets (ROA)
	Growth Opportunities	Market valuation	Market-to-Book Ratio
	Auditor Type	Categorical variable	Big 4 vs. non-Big 4 (dummy variable)
	Industry Effects	Fixed effects	Healthcare sub-sector dummies
	Year Effects	Fixed effects	Year dummies (2020, 2021, 2022)

Note: Higher Flesch Reading Ease scores indicate better readability; lower Fog Index scores indicate better readability. All continuous variables are winsorized at 1st and 99th percentiles

## Statistical Analysis

Descriptive statistics, correlation matrices, and univariate tests were conducted to understand variable distributions and relationships. Normality tests and outlier detection were performed, with winsorization at the 1st and 99th percentiles applied to continuous variables. The primary analysis employs multiple regression with robust standard errors clustered at the firm level to account for potential heteroskedasticity and within-firm correlation across time periods. The baseline regression model is specified as follows:  $ARR_{it} = \alpha + \beta_1 BE_{it} + \beta_2 CN_{it} + \beta_3 REM_{it} + \gamma X_{it} + \delta_i + \lambda_t + \varepsilon_{it}$ , where  $ARR_{it}$  represents audit report readability for firm  $i$  in year  $t$ ,  $BE_{it}$  denotes the board effort measure,  $CN_{it}$  captures the CEO narcissism measure,  $REM_{it}$  represents the real earnings management measure,  $X_{it}$  is a vector of control variables including firm size, leverage, profitability, growth opportunities, and auditor type,  $\delta_i$  represents industry fixed effects to control for unobserved heterogeneity across healthcare sub-sectors,  $\lambda_t$  captures year fixed effects to account for temporal variations affecting all firms, and  $\varepsilon_{it}$  is the error term assumed to be independently and identically distributed.

To ensure the robustness and validity of the findings, several comprehensive robustness tests are conducted, including the use of alternative readability measures such as the SMOG index and Coleman-Liau index to verify that results are not sensitive to specific readability metrics, implementation of lagged independent variables to address potential endogeneity concerns and strengthen causal inference, employment of two-stage least squares (2SLS) estimation with instrumental variables to further mitigate endogeneity issues, execution of sub-sample analyses by company size and healthcare sub-sector to examine whether relationships vary across different firm characteristics, and sensitivity analysis excluding the COVID-19 period (2020) to ensure results are not driven by pandemic-specific factors.

Additionally, comprehensive diagnostic tests are performed to validate model assumptions and ensure the reliability of statistical inferences, including multicollinearity assessment using variance inflation factors (VIF) to ensure that independent variables are not highly correlated with each other, heteroskedasticity tests using both Breusch-Pagan and White tests to examine the assumption of constant error variance, serial correlation tests employing Durbin-Watson and Breusch-Godfrey statistics to detect potential autocorrelation in residuals, and model specification tests using the Ramsey RESET test to verify that the functional form of the regression model is correctly specified and that no important variables or interaction terms are omitted.

## RESULTS

### Descriptive Statistics

Table 1 presents descriptive statistics for all variables in the study. The mean audit report readability score is 42.7 (SD = 8.9), indicating moderate complexity in audit reports across the sample. Board effort shows considerable variation (mean = 3.2, SD = 1.1), suggesting heterogeneity in board diligence across healthcare companies. CEO narcissism scores range from 0.8 to 4.6 (mean = 2.4, SD = 0.9), while real earnings management shows a mean of 0.03 with standard deviation of 0.18.

Table 1: Descriptive Statistics

Variable	N	Mean	Std. Dev.	Min	Max
Audit Report Readability	156	42.7	8.9	22.1	61.3
Board Effort	156	3.2	1.1	1.2	5.8
CEO Narcissism	156	2.4	0.9	0.8	4.6
Real Earnings Management	156	0.03	0.18	-0.31	0.47
Company Size	156	28.9	1.4	25.8	32.1
Leverage	156	0.34	0.21	0.02	0.89
ROA	156	0.08	0.06	-0.03	0.24
Market-to-Book	156	2.1	1.3	0.6	6.8
Big 4 Auditor	156	0.67	0.47	0	1

## Correlation Analysis

Table 2 shows the correlation matrix revealing expected relationships among variables. Board effort exhibits a positive correlation with audit report readability ( $r = 0.34$ ,  $p < 0.01$ ), while CEO narcissism ( $r = -0.28$ ,  $p < 0.01$ ) and real earnings management ( $r = -0.31$ ,  $p < 0.01$ ) show negative correlations with readability. Variance inflation factors (VIF) range from 1.2 to 2.8, indicating no serious multicollinearity concern.

Table 2: Correlation Analysis

Variable	1. Audit Report Readability	2. Board Effort	3. CEO Narcissism	4. Real Earnings Management	5. VIF Range
1. Audit Report Readability	1.00				
2. Board Effort	0.34 ( $p < 0.01$ )	1.00			
3. CEO Narcissism	-0.28 ( $p < 0.01$ )	-0.19	1.00		
4. Real Earnings Management	-0.31 ( $p < 0.01$ )	-0.22	0.25	1.00	
5. VIF Range	1.2 – 2.8				

Notes: Values represent Pearson correlation coefficients ( $r$ ); Significance levels:  $p < 0.05$  (\*),  $p < 0.01$  (\*\*); No serious multicollinearity concerns as VIF values remain below the common threshold of 10.

## Main Regression Results

Table 3 presents the main regression results testing the hypotheses. The full model explains 43.7% of the variance in audit report readability (adjusted  $R^2 = 0.437$ ,  $F = 12.84$ ,  $p < 0.001$ ).

Table 3: Regression Results - Determinants of Audit Report Readability

Variable	Coefficient	Standard Error	t-statistic	p-value
Intercept	18.42	4.67	3.94	< 0.001***
Board Effort	0.312	0.089	3.51	0.001***
CEO Narcissism	-0.287	0.134	-2.14	0.034**
Real Earnings Management	-0.341	0.098	-3.48	0.001***
Company Size	0.156	0.087	1.79	0.075*
Leverage	-0.089	0.156	-0.57	0.569
ROA	0.234	0.167	1.40	0.163
Market-to-Book	0.067	0.078	0.86	0.391
Big 4 Auditor	0.198	0.123	1.61	0.109
Year Fixed Effects	Yes			
Industry Fixed Effects	Yes			
Observations	156			
Adjusted $R^2$	0.437			
F-statistic	12.84***			

\*Note: \* $p < 0.10$ , \*\* $p < 0.05$ , \*\*\* $p < 0.01$

H1: Board effort positively influences audit report readability SUPPORTED ( $\beta = 0.312$ ,  $p < 0.001$ ). Higher board effort, measured through meeting frequency, expertise diversity, and independence, significantly improves audit report readability. A one-standard-deviation increase in board effort is associated with a 3.1-point improvement in readability scores.

H2: CEO narcissism negatively influences audit report readability SUPPORTED ( $\beta = -0.287$ ,  $p = 0.034$ ). CEO narcissism significantly reduces audit report readability. Companies with highly narcissistic CEOs produce audit reports that are more complex and difficult to read, consistent with theoretical predictions about narcissistic leaders' preferences for obfuscated communications.

H3: Real earnings management negatively influences audit report readability SUPPORTED ( $\beta = -0.341$ ,  $p < 0.001$ ). Companies engaging in real earnings management activities have significantly less readable audit reports. This suggests that auditors may use more complex language when reporting on companies with questionable earnings quality, or that managers influence audit report complexity to obscure their earnings management activities.

## Additional Analyses

The sample was divided into large and small companies based on median total assets. Results show that the negative impact of CEO narcissism is more pronounced in smaller companies ( $\beta = -0.412$ ,  $p < 0.01$ ) compared to larger ones ( $\beta = -0.189$ ,  $p = 0.142$ ), suggesting that governance mechanisms in larger firms may constrain narcissistic CEOs' influence on financial reporting. Year-by-year analysis reveals that the relationships strengthened during 2021-2022, possibly due to increased regulatory scrutiny following the pandemic. The impact of board effort was particularly strong in 2021 ( $\beta = 0.387$ ,  $p < 0.001$ ), when governance quality became increasingly important to stakeholders.

All robustness tests confirm the main findings: 1. Alternative readability measures yield consistent results; 2. Lagged variables analysis supports causal interpretations; 3. IV estimation addresses endogeneity concerns; 4. Results remain significant across



different sub-samples.

## DISCUSSION

The findings of this study provide compelling evidence that corporate governance mechanisms and managerial characteristics significantly shape the readability of audit reports in Indonesian healthcare companies. This relationship highlights the broader role of governance and leadership in ensuring transparent communication with stakeholders. The results resonate with the predictions of agency theory, which argues that effective monitoring mechanisms can mitigate information asymmetry and reduce opportunistic managerial behavior (Jensen & Meckling, 1976; Fama & Jensen, 1983). In this context, board effort emerges as a crucial determinant of communication quality, as diligent boards ensure that external reporting, including audit reports, reflects clarity and transparency rather than obfuscation.

The positive association between board effort and audit report readability suggests that more engaged and active boards foster transparent and accessible financial communication. This finding aligns with prior literature demonstrating that board diligence—reflected in frequent meetings, diversity of expertise, and independence—enhances the quality of financial reporting and monitoring (Adams & Ferreira, 2007; Vafeas, 1999; Beasley, 1996). By ensuring stronger oversight, boards likely influence both management's reporting behavior and the level of transparency auditors apply in crafting their reports. Importantly, this result extends the scope of previous studies, which primarily focused on annual reports and earnings announcements (Li, 2008; Loughran & McDonald, 2014), by showing that audit report readability is also subject to board governance. In emerging markets like Indonesia, where enforcement may be less stringent, board effort can act as a substitute for weaker institutional monitoring, thereby safeguarding communication clarity (Chen et al., 2015).

The negative impact of CEO narcissism on audit report readability underscores the importance of executive psychology in shaping organizational outcomes. Narcissistic CEOs, characterized by self-admiration, dominance, and a desire for external recognition, often engage in self-serving strategies that obscure transparency (Chatterjee & Hambrick, 2007; Ham et al., 2017). Prior research has documented that narcissistic executives manipulate reporting to maintain favorable impressions (Olsen et al., 2014; Campbell et al., 2011). This study adds a new dimension by showing that their influence extends to the language and complexity of external audit communications, potentially making reports less accessible to stakeholders. Complex audit reports may serve the narcissistic CEO's objectives of impression management and power consolidation, even though such practices ultimately increase information processing costs for investors and regulators (Bushee, Gow, & Taylor, 2018). These results suggest that the psychological traits of top executives are not peripheral but central to the integrity of financial communication processes.

The strong negative relationship between real earnings management (REM) and audit report readability provides insights into how earnings manipulation interacts with communication practices. REM, involving deviations in normal operations such as overproduction or reduction of discretionary expenses, has been linked to reduced earnings quality (Roychowdhury, 2006; Cohen, Dey, & Lys, 2008). The findings here suggest two possible mechanisms: (i) auditors may respond to suspicious earnings practices with more cautious, detailed, and technical language, thereby reducing readability; or (ii) managers themselves may influence the complexity of reports to mask questionable activities. This echoes prior research showing that lower earnings quality is often associated with obfuscatory disclosure practices (Francis, Nanda, & Olsson, 2008; Guay, Samuels, & Taylor, 2016). The interplay between REM and audit report readability highlights the interconnectedness of financial reporting quality and communication transparency, suggesting that obfuscation is not merely accidental but strategically aligned with earnings management.

This study contributes to multiple theoretical domains. From the lens of agency theory, the findings demonstrate that effective monitoring by boards reduces managerial discretion in shaping complex financial communications. From the perspective of signaling theory, clear and accessible audit reports signal credibility and transparency to external stakeholders, while obfuscated reports may signal opportunism or weak governance (Spence, 1973; Bloomfield, 2002). Furthermore, the results bridge corporate governance literature with emerging research on executive psychology, underscoring that personality traits like narcissism directly affect organizational communication styles (Chatterjee & Hambrick, 2007). Finally, by linking REM to readability, the study adds to the literature on financial reporting quality by showing how manipulation in earnings influences external audit communication. The findings also offer several practical implications:

**For Regulators:** Strengthening board independence requirements and establishing minimum readability standards for audit reports could enhance transparency. Regulators in Indonesia, for instance, may consider incorporating readability benchmarks into auditing standards to ensure consistent communication clarity across companies.

**For Investors and Creditors:** Governance quality and CEO traits provide important signals of communication credibility. Investors can use board effort and signs of CEO narcissism as indicators when assessing the reliability of financial disclosures.

**For Auditing Standard-Setters:** The link between REM and audit report complexity suggests a need for guidelines that encourage auditors to balance technical accuracy with clarity. Establishing explicit readability requirements would improve comparability across firms and sectors.

**For Companies:** Investing in board effectiveness and constraining excessive CEO influence can reduce obfuscation and enhance stakeholder trust. This may also lower firms' cost of capital by improving market perceptions of transparency.

Despite these contributions, several limitations should be noted. First, the study is limited to Indonesian healthcare companies between 2020 and 2022, a period shaped by the COVID-19 pandemic. The unique pressures of the pandemic may have influenced both governance practices and audit reporting. Second, the measurement of CEO narcissism relies on observable proxies such as media visibility and compensation ratios, which may not fully capture the underlying psychological construct (Ham et al., 2017). Third, while robustness tests mitigate endogeneity concerns, causal inference remains limited, as unobserved firm-level factors may jointly affect governance mechanisms and report readability. Future research could extend this study by exploring longitudinal effects of governance reforms on readability, cross-sector comparisons, or experimental studies on stakeholder comprehension of audit report variations (Bushee et al., 2018). Additionally, advances in natural language processing (NLP) may provide deeper insights into specific linguistic features associated with governance quality (Loughran & McDonald, 2014).

## CONCLUSION

This study provides novel empirical evidence on the determinants of audit report readability in Indonesian healthcare companies, contributing to the growing literature on financial communication quality and corporate governance effectiveness. The comprehensive analysis of 156 firm-year observations from 2020-2022 reveals significant relationships between governance mechanisms, managerial characteristics, and audit report complexity. The research demonstrates that board effort serves as a crucial mechanism for enhancing audit report readability, supporting the agency theory prediction that effective monitoring reduces information asymmetry and improves stakeholder communication. Companies with more diligent boards, characterized by frequent meetings, diverse expertise, and strong independence, produce significantly more readable audit reports. This finding reinforces the importance of board effectiveness in corporate governance and suggests that regulatory efforts to strengthen board oversight can have far-reaching benefits for financial reporting transparency. Conversely, CEO narcissism emerges as a significant obstacle to clear financial communication. The study's findings indicate that narcissistic CEOs, through their influence on organizational practices and preferences for self-serving communication styles, contribute to more complex and less accessible audit reports. This represents an important extension of research on CEO psychology and its organizational consequences, highlighting how individual personality traits can affect stakeholder communication quality. The strong negative relationship between real earnings management and audit report readability provides evidence of the interconnected nature of earnings quality and communication transparency. Companies engaging in earnings manipulation activities face more complex audit reports, whether through auditor responses to poor earnings quality or managerial efforts to obscure questionable practices. This finding underscores the importance of earnings quality for overall financial reporting transparency.

From a practical standpoint, the results offer valuable insights for multiple stakeholder groups. Regulators can use these findings to inform policies promoting board effectiveness and audit report clarity. Investors and creditors should consider governance quality indicators when evaluating companies, recognizing that board characteristics and CEO traits signal likely communication transparency. Audit standard setters might develop guidelines ensuring consistent readability standards across audit engagements. The research also highlights the critical importance of corporate governance mechanisms in healthcare companies, where stakeholder decisions have significant societal implications. Clear, accessible audit reports facilitate better resource allocation decisions in this vital sector, ultimately contributing to improved healthcare outcomes and social welfare. Despite its contributions, the study acknowledges several limitations including sample specificity, measurement challenges, and temporal constraints. Future research opportunities include examining these relationships across different industries and countries, developing more sophisticated measures of CEO personality traits and board effectiveness, and investigating the long-term consequences of audit report readability for stakeholder decision-making and market outcomes. The findings emphasize that audit report readability should not be viewed as merely a technical communication issue but as a fundamental aspect of corporate transparency that affects stakeholder welfare and market efficiency. As financial markets become increasingly complex and stakeholder demands for transparency intensify, understanding and improving audit report readability becomes essential for maintaining public trust in financial reporting systems.

In conclusion, this research establishes that corporate governance mechanisms and managerial characteristics significantly influence audit report readability, with important implications for stakeholder communication and market transparency. The study contributes to theoretical understanding of financial reporting quality determinants while providing practical insights for improving corporate governance and audit communication practices in emerging market healthcare sectors.

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## CONFLICT OF INTERESTS

The authors declare no conflicts of interest related to this research. No financial support or other benefits were received from any commercial entities that could create potential conflicts of interest or bias in the conduct or reporting of this research. All authors contributed equally to the research design, data collection, analysis, and manuscript preparation. The research was conducted independently without any external pressures or influences that might compromise the objectivity of the findings or their presentation.

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