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BOARD DIVERSITY AND FINANCIAL REPORTING QUALITY IN VIETNAMESE BANKS

Abstract

Global financial crises over the past two decades have significantly increased academic attention to board diversity as an important aspect of corporate governance. This study examines the relationship between board diversity and financial reporting quality (FRQ) in listed Vietnamese commercial banks. The sample includes 27 Vietnamese banks observed over the period 2016–2024. Panel data are analyzed using a fixed effects model (FEM). Board diversity is examined along multiple dimensions, including gender diversity, educational level diversity, tenure diversity, age diversity, and a composite board diversity index that captures the overall level of board heterogeneity. FRQ is proxied by the absolute value of discretionary loan loss provisions (DLLP), where lower DLLP indicates higher reporting quality. The results show that greater overall board diversity is associated with higher FRQ. Among the individual diversity dimensions, only tenure diversity exhibits a statistically significant association with FRQ, whereas gender diversity, educational diversity, and age diversity do not show significant associations. Overall, the findings suggest that board tenure diversity and overall board heterogeneity are the primary drivers of the observed association between board diversity and FRQ in Vietnamese listed banks. The study is limited by the relatively small sample size, the focus on listed banks only, and the proxy-based measurement of FRQ.

Keywords

financial reporting quality, corporate governance, board
diversity, banking, Vietnam

JEL Classification

G34, G21, M41

INTRODUCTION

Corporate governance plays a crucial role in ensuring the stability of the banking sector and the overall economy (BCBS, 2015). In recent years, global financial crises have led to severe economic downturns, thereby exposing significant weaknesses in existing supervisory mechanisms and increasing the demand for improved governance, particularly in the banking industry (Farag et al., 2017). Within this context, board diversity has emerged as an increasingly important corporate governance mechanism and has attracted growing attention from policymakers and scholars. The OECD (2023) recommends that countries and firms enhance diversity in demographic characteristics, knowledge, experience, and professional competencies to improve board effectiveness. Recent studies have examined the association between board diversity and firm performance, profitability, earnings quality, and accounting quality (Garcia-Sanchez et al., 2017; Khalaf, 2022; Essien & Akpan, 2024; Mukhibad et al., 2024; Dwekat et al., 2025; Alqatan et al., 2025). However, empirical evidence on the relationship between board diversity and financial reporting quality (FRQ) in the banking sector remains limited.

The banking industry plays a central role in the financial system and serves as the primary channel of capital supply for the economy (Janahi et al., 2023). In Vietnam, there are currently 30 joint-stock commercial

banks, of which 27 are listed on the stock exchange. In recent years, the corporate governance framework in the banking sector has been continuously strengthened to enhance transparency and accountability. The Law on Credit Institutions 2024, which replaced the 2010 version, introduced several provisions aligned with international practices regarding corporate governance, accountability, and internal supervisory mechanisms (Bui, 2024). In addition, the Vietnam Corporate Governance Code issued in 2026 recommends that boards ensure diversity in knowledge, experience, expertise, skills, age, and gender (SSC & IFC, 2026).

Loan loss provisions represent the most significant accrual on bank balance sheets and reflect the quality of loan portfolios (Beatty & Liao, 2014). Under current Vietnamese regulations, in addition to minimum provisioning requirements based on loan classification, banks are permitted to apply internal credit rating systems to determine provisioning levels. Although subject to regulatory oversight, the assessment of credit losses still requires managerial judgment, creating opportunities for earnings management through discretionary provisioning, which may impair FRQ (Beatty & Liao, 2014; Chronopoulos et al., 2024).

In the context of a developing financial market and limited understanding of the relationship between board diversity and banks' FRQ, this study is conducted to analyze the relationship between board diversity and FRQ in listed Vietnamese commercial banks.

1. LITERATURE REVIEW AND RESEARCH HYPOTHESES

Given the importance of FRQ in supporting stakeholders' decisions, establishing a clear basis for its evaluation is essential. However, the Conceptual Framework for Financial Reporting does not provide an explicit definition of FRQ, but instead identifies the qualitative characteristics of useful financial information, including relevance, faithful representation, comparability, verifiability, timeliness, and understandability (IASB, 2018). In Vietnam, FRQ is not explicitly defined, but is reflected through the fundamental requirements for financial information in Vietnamese Accounting Standard No. 01. These include reliability, objectivity, completeness, timeliness, understandability, and comparability. The absence of a clear definition of FRQ poses significant challenges for its assessment, particularly in the banking sector, where financial assets are often complex, opaque, and difficult to value (Beatty & Liao, 2014).

Within the corporate governance structure, the board of directors is a collective body whose members play a crucial role in monitoring management and approving key strategic and financial decisions (Mukhibad et al., 2024). Each member brings distinct attributes that may shape different per-

spectives, problem-solving approaches, and policy choices. Accordingly, Van Knippenberg et al. (2004) define board diversity as the presence of heterogeneity among board members. Board diversity encompasses multiple dimensions, such as age, nationality, religion, and professional background. However, existing research on board diversity has primarily focused on gender, age, tenure, and educational background (Khan et al., 2024; Alqatan et al., 2025). There are divergent perspectives regarding board diversity. Mendiratta and Tasheva (2025) suggest that diversity may slow down decision-making processes, as differences can lead to informal subgroups, reducing communication effectiveness and limiting the participation of certain members. This phenomenon can be explained by the concept of faultlines, whereby overlapping demographic characteristics create subgroup divisions and increase coordination costs (Lau & Murnighan, 1998). In contrast, other scholars argue that diversity enhances decision-making processes by improving monitoring effectiveness, reducing groupthink, and constraining managerial opportunism, thereby lowering agency costs (Ning et al., 2022). Empirical evidence from non-financial firms indicates that more heterogeneous boards are associated with higher FRQ (Tan & Taufik, 2022; Ullah et al., 2023).

Among the dimensions of board diversity, the role of gender diversity in FRQ has attracted increasing scholarly attention in recent years, largely due to gen-

der inequality in board composition across countries (Alqatan et al., 2025). Gender diversity is typically reflected in the balance between male and female representation on the board. A substantial body of research suggests that maintaining a certain level of female representation in corporate governance structures can enhance FRQ. This is attributed to differences in cognitive perspectives, higher risk aversion, and more prudent decision-making among female directors compared to their male counterparts (Oradi & Izadi, 2020; Wang et al., 2022). However, the effectiveness of gender diversity may depend on achieving a critical mass of female directors, as token representation often exerts limited influence on board dynamics (Dahlerup, 2006; Konrad et al., 2008). Empirical evidence further indicates that board gender diversity is associated with lower levels of earnings management, thereby improving FRQ, particularly in non-financial firms (Tan & Taufik, 2022; Fernández-Méndez & Pathan, 2023).

Board tenure diversity refers to the heterogeneity in the length of service among directors within the same board, capturing the extent to which a board combines directors with longer and shorter tenures (Ullah et al., 2023). In Vietnam, the Law on Credit Institutions allows directors to serve five-year terms with unlimited reappointment (National Assembly of Vietnam, 2024). This provision may result in relatively long average board tenure. Longer board tenure may strengthen board monitoring through the accumulation of experience and knowledge of the bank's operations (Vafeas, 2005). However, excessive tenure may reduce director independence because of closer relationships with management (Huang & Hilary, 2018; Sun & Bhuiyan, 2020). Prior studies provide mixed evidence regarding the relationship between board tenure and FRQ. Some studies suggest that longer tenure enhances board monitoring, reduces fraud, and improves FRQ (Beasley, 1996; Chronopoulos et al., 2024). However, other studies indicate that excessive tenure may increase the likelihood of accounting misstatements and corporate scandals, thereby reducing FRQ (Niu & Berberich, 2015; Ajibulu et al., 2021). Given that Vietnamese regulations permit unlimited reappointment, this study expects that combining the experience of longer-tenured directors with the perspectives of newer members may help mitigate potential reductions in independence, thereby improving FRQ.

Age diversity within the board of directors refers to the inclusion of members from different age groups, encompassing older, middle-aged, and younger directors (Janahi et al., 2023). Age diversity promotes a balance between risk-taking and conservative attitudes, allowing for a strategic approach that maximizes opportunities while minimizing risks (Alqatan et al., 2025). Dwekat et al. (2025) contended that age diversity unites individuals from various generations, fostering the integration of experience and innovative viewpoints, thus enhancing decision-making and management efficacy. However, substantial age differences among directors may lead to divergent viewpoints, which can hinder consensus-building within the board (Milliken & Martins, 1996). However, a few empirical studies in non-financial companies indicate that older board members tend to restate financial statements due to previous material misstatements, leading to lower FRQ (Ullah et al., 2023). Janahi et al.'s (2023) study of United States banks found that boards with age diversity are associated with lower levels of earnings management, reflecting improved FRQ.

Boards with diverse educational backgrounds can mitigate agency problems and enhance the information environment. The literature suggests that educational diversity helps bank boards access rich sources of knowledge and promote the exchange of ideas and constructive debate, thereby making comprehensive and informed decisions (Harjoto et al., 2019; Issa et al., 2024). However, excessive educational heterogeneity may hinder communication, as directors trained in different disciplines often rely on distinct professional vocabularies and analytical frameworks (Bantel & Jackson, 1989). Ullah et al. (2023) conducted research on non-financial firms and found that educational diversity on the board is positively associated with FRQ. Tan and Taufik (2022) reported that boards without members holding doctoral degrees are associated with a higher likelihood of financial statement restatements and agency conflicts.

The findings of prior studies on board diversity characteristics remain mixed. Overall, theoretical arguments and empirical evidence suggest that board diversity may be associated with FRQ through its role in shaping monitoring effectiveness and board decision-making processes, with

the direction and strength of this relationship likely depending on the specific dimension of diversity and the institutional context in which the board operates. However, most empirical evidence has been conducted in developed countries and primarily focuses on non-financial firms. In contrast, banks' business characteristics and corporate governance structures differ significantly from those of non-financial firms. Moreover, evidence from the banking sector, particularly in emerging economies comparable to Vietnam, remains relatively limited. This gap is especially relevant in the Vietnamese context, where the institutional environment is characterized by distinct cultural, social, and legal features.

Therefore, motivated by inconsistencies in prior empirical evidence and the existing research gap in the banking sector, this study examines the role of both individual dimensions of board diversity and overall board diversity in relation to FRQ within the context of Vietnamese commercial banks. Accordingly, the following hypotheses are proposed:

- H1: Board gender diversity is positively associated with the financial reporting quality of banks.*
- H2: Board tenure diversity is positively related to the financial reporting quality of banks.*
- H3: Board age diversity is positively associated with the financial reporting quality of banks.*
- H4: Board educational diversity is positively related to the financial reporting quality of banks.*
- H5: Overall board diversity is associated with higher levels of financial reporting quality of banks.*

2. METHODS

2.1. Sample and data

The research sample includes all 27 listed joint-stock commercial banks in Vietnam over the period 2016–2024. Since all listed banks meeting

the data availability requirements were included, the sample represents the full population of listed commercial banks during the study period. The study employs a balanced panel dataset, yielding a total of 243 bank-year observations (27 banks $\times$ 9 years). To address the research hypotheses, data were collected from multiple sources. Corporate governance information was manually extracted from banks' annual reports, while financial data were obtained from published financial statements. All documents are publicly available on the official websites of the respective banks. The list of sampled banks is provided in Appendix A.

This study employs a panel-data model to analyze the data and determines the appropriate specification through a sequence of tests. The F-test and the Breusch-Pagan LM test are employed to assess the suitability of pooled OLS relative to fixed-effects and random-effects specifications. The Hausman test is then used to choose between the fixed-effects model (FEM) and the random-effects model (REM) (Wooldridge, 2010). When the Hausman test is not applicable because of a non-positive definite covariance matrix, the Mundlak test (1978) is adopted as an alternative approach.

After identifying the appropriate panel-data specification, the study conducts a series of diagnostic tests, including the Variance Inflation Factor (VIF) for multicollinearity, the Modified Wald test for groupwise heteroskedasticity, and the Wooldridge test for serial correlation in panel data (Wooldridge, 2010; Greene, 2018; Hair et al., 2019). To ensure reliable statistical inference in the presence of heteroskedasticity and serial correlation, all models are estimated using cluster-robust standard errors at the bank level (Petersen, 2009).

2.2. Variable measurement

2.2.1. Financial reporting quality

FRQ is inherently difficult to measure directly. Prior studies highlight that bank managers may exercise accounting discretion to serve their own interests (Kanagaretnam et al., 2010; Beatty & Liao, 2014). Accordingly, this study employs discretionary loan loss provisions (DLLP) as a proxy for FRQ, whereby higher levels of discretionary provisions indicate lower reporting quality. The

measurement framework is constructed following Beatty and Liao (2014), based on two credit risk provisioning models. The study first estimates ordinary least squares (OLS) regressions according to equations (1) and (2), controlling for both bank-level and year fixed effects. The residuals from these regressions are denoted as ALLP_A and ALLP_B, and the absolute values of these residuals serve as the primary measure reflecting FRQ, as modeled as follows:

$$\begin{aligned} LLP_{i,t} = & \alpha_0 + \Delta NPL_{i,t+1} + \alpha_2 \Delta NPL_{i,t} \\ & + \alpha_3 \Delta NPL_{i,t-1} + \alpha_4 \Delta NPL_{i,t-2} + \alpha_5 SIZE_{i,t-1} \\ & + \alpha_6 \Delta Loan_{i,t} + \alpha_7 \Delta GDP_t + \alpha_8 HPI_RET_t \\ & + \alpha_9 \Delta UNEMP_{i,t} + \alpha_{10} CO_{i,t} + \gamma_t + \delta_i + \varepsilon_{i,t}, \end{aligned} \quad (1)$$

$$\begin{aligned} LLP_{i,t} = & \alpha_0 + \Delta NPL_{i,t+1} + \alpha_2 \Delta NPL_{i,t} \\ & + \alpha_3 \Delta NPL_{i,t-1} + \alpha_4 \Delta NPL_{i,t-2} + \alpha_5 SIZE_{i,t-1} \\ & + \alpha_6 \Delta Loan_{i,t} + \alpha_7 \Delta GDP_t + \alpha_8 HPI_RET_t \\ & + \alpha_9 \Delta UNEMP_{i,t} + \alpha_{10} CO_{i,t} + \alpha_{11} ALW_{i,t-1} \\ & + \gamma_t + \delta_i + \varepsilon_{i,t}, \end{aligned} \quad (2)$$

where *LLP* denotes loan loss provisions. *ΔNPL* represents the change in non-performing loans. *ΔLoan* captures the change in total loans. *ALW* refers to loan loss allowances, and *CO* represents net charge-offs. These variables are scaled by lagged total assets. *SIZE* is measured as the natural logarithm of total assets. *ΔGDP* captures the change in gross domestic product over the period. *HPI_RET* is the annual return on the residential property price index, used to proxy housing market conditions. *ΔUNEMP* denotes the change in the unemployment rate over the period. All models additionally include bank-specific fixed effects to control for unobserved, time-invariant heterogeneity across banks and year fixed effects to capture common.

2.2.2. Board diversity

Board diversity is measured using four attributes. The first attribute is board gender diversity (BGEN), measured by the Blau index (Blau, 2000). This index is used to calculate the level of board gender diversity. The formula is defined as follows:

$$D = 1 - \sum_{i=1}^n P_i^2, \quad (3)$$

where P_i is the proportion of each group, and where n is the number of groups. This index is calculated based on two groups of men and women. The maximum value is 0.5, which occurs when both groups are equally represented.

The second attribute is board educational diversity (BEDU), measured by the standard deviation of directors' educational attainment. The study applies five levels of education to construct this measure: level 1 for individuals holding an associate degree or below, level 2 for a bachelor's degree, level 3 for professional certification, level 4 for a master's degree, and level 5 for a doctoral degree. The third attribute is board tenure diversity (BTUR), proxied by the standard deviation of directors' tenure. The fourth attribute is board age diversity (BAGE), measured by the standard deviation of directors' ages. These dimensions of board diversity are assessed following the approach of Farhana (2020), Mukhibad et al. (2024), and Anisykurlillah et al. (2025).

The Board Diversity Index (BDI) serves as a composite measure reflecting the extent of diversity and the monitoring effectiveness of the board of directors within the firm. The index ranges from 0 to 4, with higher values indicating greater board diversity relative to other firms in the sample. BDI is constructed based on four key dimensions of board diversity:

- (i) gender diversity (BGEN);
- (ii) tenure diversity (BTUR);
- (iii) age diversity (BAGE); and
- (iv) educational diversity (BEDU).

For each dimension, if the value of the corresponding variable exceeds the sample median, it is assigned a score of 1; otherwise, it is assigned a score of 0. The total BDI score is then calculated by summing the binary values of these four components.

2.2.3. Control variables

The study controls for several factors that prior research has identified as being associated with abnormal accruals, including return on equity (ROE), financial leverage (LEV), and bank size (SIZE), to account for banks' financial characteristics. According

to Guo et al. (2021), SIZE is included because larger banks may have stronger incentives to engage in earnings management to avoid reporting earnings declines, whereas ROE and LEV reflect profitability and capital adequacy, both of which are related to incentives for earnings and capital management. In addition, BIG4 is included to control for audit quality, as banks audited by Big Four audit firms tend to exhibit higher FRQ (Khalil, 2022). At the board level, board size is included as a control variable, as larger boards are more likely to possess diverse experience and skills that enhance monitoring effectiveness (Janahi et al., 2023).

2.3. Analytical approach

Based on theoretical foundations and prior studies, four regression models are specified. Models 1 and 2 examine individual dimensions of board diversity (gender, tenure, age, and education), again with FRQ proxied by ALLP_A and ALLP_B. Models 3 and 4 use the overall board diversity index (BDI) as the main explanatory variable, with FRQ proxied by ALLP_A and ALLP_B.

Models 1 and 2:

$$Y_{i,t} = \alpha_0 + \alpha_1 BGEN_{it} + \alpha_2 BTUR_{it} + \alpha_3 BAGE_{it} + \alpha_4 BEDU_{it} + \alpha_5 BSIZE_{i,t} + \alpha_6 ROE_{i,t} + \alpha_7 LEV_{i,t} + \alpha_8 BIG4_t + \alpha_9 SIZE_t + \gamma_t + \delta_i + \varepsilon_{i,t}, \quad (4)$$

Models 3 and 4:

$$Y_{i,t} = \alpha_0 + \alpha_1 BDI + \alpha_2 BSIZE_{i,t} + \alpha_3 ROE_{i,t} + \alpha_4 LEV_{i,t} + \alpha_5 BIG4_t + \alpha_6 SIZE_t + \gamma_t + \delta_i + \varepsilon_{i,t}. \quad (5)$$

The dependent variable $Y_{i,t}$ represents banks' FRQ, proxied by ALLP_A and ALLP_B, which are the absolute values of discretionary loan loss provisions derived from equations (1) and (2), respectively. The independent variables include gender diversity (BGEN), board tenure diversity (BTUR), age diversity (BAGE), educational diversity within the board of directors (BEDU), and the overall board diversity index (BDI).

Control variables comprise board size (BSIZE), return on equity (ROE), financial leverage (LEV), Big Four auditor affiliation (BIG4), and bank size (SIZE). In addition, δ_i denotes bank fixed effects, while γ_t captures year fixed effects. Detailed definitions and measurements of all variables are presented in Table 1.

3. RESULTS

Table 2 presents the descriptive statistics of all variables employed in the model. FRQ, measured by the absolute value of discretionary loan loss provisions, has mean values of 0.0031 for ALLP_A and 0.0030 for ALLP_B, indicating a relatively low level of accrual manipulation within the sample.

Table 1. Variable definitions

Variable	Definition and measurement
ALLP_A	Absolute discretionary loan loss provisions for bank i in year t , derived from the residuals of Equation (1).
ALLP_B	Absolute discretionary loan loss provisions for bank i in year t , derived from the residuals of Equation (2).
BDI	Board Diversity Index. The BDI is constructed from four component variables, namely BGEN, BEDU, BTUR, and BAGE, where each component is measured individually and subsequently aggregated to form the BDI.
BGEN	Board gender diversity, Blau index: $D = 1 - \sum_{i=1}^n p_i^2,$ where p_i is the proportion of each group, and where n is the number of groups. This index is calculated based on two groups of men and women
BTUR	Board tenure diversity, proxied by the standard deviation of directors' tenure.
BAGE	Board age diversity, the standard deviation of the age of board members
BEDU	Board educational diversity, the standard deviation of the education level of board members
BSIZE	The total number of directors on the board
ROE	Return on equity, calculated as the ratio of net income to shareholders' equity.
LEV	Financial leverage, proxied by the ratio of total liabilities to total assets.
BIG4	Big 4 audit firm dummy, equal to 1 if the auditor is one of the Big Four, and 0 otherwise
SIZE	Logarithm of total assets

Regarding board diversity variables, the Board Diversity Index (BDI) has a mean of 1.959, reflecting a moderate level of diversity in board composition. Gender diversity (BGEN) records a mean of 0.288, suggesting that female participation in the boards of Vietnamese banks remains limited and far from gender balance. Board tenure diversity (BTUR) averages 4.03 years, indicating the coexistence of both long-serving and newly appointed directors. Similarly, board age diversity (BAGE) reaches 7.777 years, highlighting considerable variation in directors' ages. In contrast, board educational diversity (BEDU) has a mean of 1.111, implying relatively low dispersion in educational backgrounds among board members.

With respect to control variables, the sample banks have an average board size (BSIZE) of 7.095 members. The average return on equity (ROE) is 12.5%, while financial leverage (LEV) stands at 0.915, reflecting the structural characteristics of the banking sector. Bank size (SIZE),

measured by the natural logarithm of total assets, has an average value of 11.312. The majority of banks in the sample are audited by Big Four firms, with the mean value of the BIG4 variable being 0.807.

Table 3 reports the Pearson correlation matrix among the variables included in the model. The correlation coefficients are generally moderate, and all remain below the threshold of 0.8, indicating that multicollinearity is not a serious concern. Accordingly, the variables are deemed appropriate for subsequent regression analysis.

Table 4 reports the results of the model selection tests. The findings suggest that the pooled OLS model is inappropriate for all four model specifications. The Mundlak test confirms the appropriateness of FEM for Models 1 and 2, whereas the Hausman test favors the FEM for Models 3 and 4. Accordingly, all subsequent estimations are performed using a fixed effects specification with both bank and year fixed effects.

Table 2. Descriptive statistics

Variables	Obs	Mean	SD	Min.	Max.
ALLP_A	243	0.0031	0.003	0.000	0.0161
ALLP_B	243	0.0030	0.003	0.000	0.0163
BDI	243	1.959	1.105	0	4
BGEN	243	0.288	0.174	0	0.5
BTUR	243	4.030	2.118	0	10.661
BAGE	243	7.777	2.319	1.303	13.615
BEDU	243	1.111	0.199	0.000	1.506
BSIZE	243	7.095	1.602	4	11
ROE	243	0.125	0.103	-0.917	0.303
LEV	243	0.915	0.030	0.815	0.959
BIG4	243	0.807	0.396	0	1
SIZE	243	11.312	0.488	10.280	12.418

Table 3. Correlation analysis results

Variables	ALLP_A	ALLP_B	BDI	BGEN	BTUR	BAGE	BEDU	BSIZE	ROE	LEV	BIG4
ALLP_A											
ALLP_B	0.990										
BDI	-0.085	-0.099									
BGEN	-0.114	-0.101	0.346								
BTUR	-0.043	-0.055	0.546	-0.168							
BAGE	-0.076	-0.094	0.518	0.161	0.203						
BEDU	0.062	0.048	0.506	-0.002	0.202	0.087					
BSIZE	-0.002	0.000	-0.016	-0.048	0.054	0.073	-0.103				
ROE	-0.013	-0.016	0.029	-0.175	0.264	0.041	-0.069	0.222			
LEV	-0.184	-0.156	0.018	0.262	-0.134	0.015	-0.049	0.013	-0.087		
BIG4	-0.115	-0.104	-0.122	-0.122	0.165	0.065	-0.217	0.289	0.444	0.032	
SIZE	-0.083	-0.074	-0.160	-0.143	0.121	-0.044	-0.197	0.457	0.493	0.120	0.520

Table 4. Model selection tests

Test	Model 1	Model 2	Model 3	Model 4
F	F(17,26) = 9.97	F(17,26) = 8.52	F(14,26) = 6.60	F(14,26) = 6.58
p-value	0.0000	0.0000	0.0000	0.0000
Breusch-Pagan LM	$\chi^2 = 10.01$	$\chi^2 = 10.57$	$\chi^2 = 10.73$	$\chi^2 = 11.55$
p-value	0.0008	0.0006	0.0005	0.0003
Hausman	$\chi^2(8) = 11.16^a$	$\chi^2(8) = 12.22^a$	$\chi^2(5) = 10.98$	$\chi^2(5) = 12.14$
p-value	0.2648 ^a	0.2010 ^a	0.0890	0.0590
Mundlak	$\chi^2(8) = 35.78$	$\chi^2(8) = 38.78$	–	–
p-value	0.0000	0.0000	–	–
Selected	FEM	FEM	FEM	FEM

Note: a Hausman test produced a non-positive definite covariance matrix. Therefore, the Mundlak (1978) test was used to determine whether the unobserved effects were correlated with the explanatory variables.

Table 5 reports the results of the model diagnostic tests. The low VIF values indicate the absence of serious multicollinearity. However, the Modified Wald and Wooldridge tests are statistically significant at the 1% level, suggesting the presence of heteroskedasticity and serial correlation. Therefore, cluster-robust standard errors at the bank level are employed to ensure robust statistical inference. Taken together, the model selection and diagnostic test results support the use of a fixed-effects specification with bank and year fixed effects and cluster-robust standard errors at the bank level.

Table 5. Model diagnostic tests

Test	Model 1	Model 2	Model 3	Model 4
VIF				
Mean VIF	1.34	1.34	1.38	1.38
Modified Wald test				
Statistic	$\chi^2(27) = 870.22$	$\chi^2(27) = 686.69$	$\chi^2(27) = 717.47$	$\chi^2(27) = 712.31$
p-value	0.0000	0.0000	0.0000	0.0000
Wooldridge test				
Statistic	F(1,26) = 19.388	F(1,26) = 16.807	F(1,26) = 13.903	F(1,26) = 10.874
p-value	0.0002	0.0004	0.0009	0.0028
Correction Method	Cluster-robust SE	Cluster-robust SE	Cluster-robust SE	Cluster-robust SE

The study empirically tests hypotheses H1 through H5, with discretionary loan loss provisions serving as a proxy for FRQ. The regression results are reported in Table 6. Columns (1) and (2) present the results for individual board diversity attributes, while Columns (3) and (4) report the results for the composite BDI.

The results show that Board tenure diversity (BTUR) exhibits a negative and statistically sig-

nificant coefficient in both specifications. Given that FRQ is proxied by the absolute value of discretionary loan loss provisions, this finding indicates that greater tenure diversity is associated with lower discretionary accruals and, hence, enhanced FRQ. These results provide empirical support for Hypothesis H2.

In contrast, the coefficients on board gender diversity (BGEN), board age diversity (BAGE), and board educational diversity (BEDU) are not statistically significant in either model. This suggests no empirical evidence supporting a systematic relationship between these individual board diversity attributes and FRQ. Accordingly, Hypotheses H1, H3, and H4 are not supported.

The coefficient on BDI is negative and statistically significant at the 5% level in both specifications, indicating that higher overall board diversity is associated with lower discretionary loan loss provisions and improved FRQ. This finding is consistent across alternative measures of discretionary accruals and provides support for Hypothesis H5.

With respect to the control variables, the coefficients on financial leverage (LEV), audit quality (BIG4), and bank size (SIZE) are consistently negative and statistically significant across model specifications, indicating lower levels of discretionary accruals and, consequently, higher FRQ. In contrast, the coefficients on board size (BSIZE) and return on equity (ROE) are statistically insignificant across all model specifications.

Table 6. Board diversity and financial reporting quality

Variables	ALLP_A (1)	ALLP_B (2)	ALLP_A (3)	ALLP_B (4)
BDI			−0.000** (0.000)	−0.000** (0.000)
BGEN	−0.001 (0.001)	−0.001 (0.001)		
BTUR	−0.003* (0.001)	−0.002* (0.001)		
BAGE	−0.001 (0.002)	−0.001 (0.002)		
BEDU	0.001 (0.002)	0.000 (0.002)		
BSIZE	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	−0.000 (0.000)
ROE	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)	0.001 (0.002)
LEV	−0.027* (0.014)	−0.026** (0.013)	−0.026* (0.014)	−0.026* (0.013)
BIG4	−0.004*** (0.001)	−0.004*** (0.001)	−0.004** (0.001)	−0.004** (0.001)
SIZE	−0.006* (0.003)	−0.007** (0.003)	−0.008** (0.003)	−0.009*** (0.003)
Constant	0.101** (0.038)	0.113*** (0.038)	0.116*** (0.037)	0.127*** (0.036)
Bank fixed effects	Yes	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes	Yes
Observations	243	243	243	243
R-squared	0.133	0.134	0.132	0.136

Note: ***, **, and * denote $p < 1\%$, 5% , and 10% , respectively.

4. DISCUSSION

This study provides empirical evidence on the role of board diversity on FRQ in Vietnamese commercial banks. The results indicate that overall board diversity is negatively associated with discretionary loan loss provisions, suggesting that greater board diversity is linked to higher FRQ. This finding is consistent with prior studies documenting a positive association between board diversity and reporting quality, such as García-Sánchez et al. (2017), Onuoha et al. (2021), and Ullah et al. (2023). The evidence supports the view that a more diverse board enhances monitoring effectiveness, thereby constraining managerial discretion in financial reporting. The findings are supported by agency theory and the resource dependence perspective. Effective board oversight reduces conflicts of interest between managers and shareholders, while

a more diverse board provides broader expertise, experience, and external resources that enhance governance outcomes.

Regarding individual board attributes, the results show that tenure diversity is positively associated with FRQ, as reflected by lower discretionary accruals. This finding suggests that the combination of long-tenured directors and newly appointed board members may create a balance between accumulated experience, deep knowledge of banking operations, and fresh perspectives in the monitoring process. In the Vietnamese context, where directors may be reappointed for an unlimited number of terms, tenure diversity may help mitigate the potential drawbacks of boards being dominated by excessively long-serving members. This finding is consistent with Li and Wahid (2018).

The research findings indicate that gender diversity does not have a significant relationship with earnings management through loan loss provisions. One possible explanation is that the proportion of female directors on the boards of Vietnamese banks remains relatively low, and thus has not reached a critical threshold sufficient to exert a meaningful influence on monitoring and decision-making processes. Unlike Norway or France, current legislation does not mandate a minimum female representation, resulting in women often serving as isolated members rather than forming a sufficiently large group capable of exerting substantive oversight. This outcome is consistent with Dobija et al. (2022), who argue that the benefits of gender diversity only emerge when the proportion of female directors reaches a certain level.

Similarly, educational diversity does not show statistical significance, which may be attributed to the relatively homogeneous educational background of board members in the Vietnamese banking sector. This homogeneity stems from standardized qualification requirements, which mandate that directors hold at least a bachelor's degree. Consequently, differences in educational attainment may not be sufficient to influence FRQ. This finding aligns with Budiyati and Wijaya (2022) and Mukhibad et al. (2024), both of which report no significant association between educational diversity and monitoring quality or corporate performance.

Regarding age diversity, the study does not record a statistically significant relationship with earnings management through loan loss provisions, indicating no significant association with FRQ. In the context of Vietnamese banks, although differences in age among board members exist, these differences do not enhance monitoring effectiveness. This result contradicts Janahi et al. (2023) but is consistent with Gardiner's (2024) review of 54 empirical studies conducted between 1996 and 2022, which found that most studies did not identify age diversity as a key predictor of corporate performance. The findings are further supported by faultline theory, which suggests that generational differences within boards may foster subgroup formation with divergent perspectives and decision-making styles, thereby reducing coordination and consensus effectiveness.

Taken together, although most individual dimensions of diversity do not show statistical significance, the composite BDI demonstrates a significant association with FRQ. This finding suggests that the relationship between board di-

versity and FRQ may arise from the simultaneous combination of multiple diversity attributes rather than from any single characteristic. In other words, board decisions reflect collective intelligence, where higher levels of diversity enable the integration of varied skills, knowledge, and expertise, thereby enhancing monitoring capacity. Consequently, governance effectiveness becomes evident only when board diversity is considered as a holistic attribute of the board.

Finally, the results reveal that bank size (SIZE) and financial leverage (LEV) are negatively associated with DLLP, suggesting that larger banks and banks with higher leverage tend to exhibit higher FRQ. This finding contradicts the evidence reported by Guo et al. (2021) but is consistent with the results of Oh and Park (2023). Furthermore, the results indicate that banks audited by Big 4 audit firms display significantly lower discretionary accruals, thereby reflecting improved FRQ. However, this finding contrasts with Khalil (2022), who did not observe significant differences between banks audited by Big 4 and those audited by non-Big 4 firms.

CONCLUSION

This study aims to empirically examine the relationship between board diversity dimensions, overall board diversity, and FRQ in Vietnamese commercial banks. Using discretionary loan loss provisions as a proxy for FRQ, the empirical results show that overall board diversity and board tenure diversity are associated with enhanced FRQ, while no significant associations are found for gender, age, and educational diversity. These findings suggest that promoting diversity at the board level, particularly through a balanced mix of directors with different tenure backgrounds, may enhance board monitoring effectiveness and contribute to improved financial reporting outcomes in the banking sector. From a practical perspective, the results highlight the importance of board composition as a governance mechanism in strengthening financial reporting discipline in Vietnamese commercial banks.

This study contributes to the literature on board diversity and FRQ, particularly in the context of emerging markets such as Vietnam. Specifically, the findings extend prior research by providing new empirical evidence on the role of board diversity in enhancing FRQ within the banking sector. In addition, the study reinforces existing literature that emphasizes the importance of board diversity in strengthening the board's monitoring effectiveness. Despite these contributions, this study is subject to certain limitations. The sample is limited to listed commercial banks in Vietnam, and only four characteristics of board diversity are considered. Subsequent research may broaden the sample to encompass non-listed commercial banks as well as other types of firms and incorporate additional dimensions of board diversity. Such extensions would provide a more comprehensive understanding of the relationship between board diversity and FRQ.

CONFLICT OF INTEREST

The author declares no conflicts of interest regarding the conduct of the research, preparation of the manuscript, or its publication.

AUTHOR CONTRIBUTIONS

Conceptualization: Doan Thi Thuy Anh.

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Formal analysis: Doan Thi Thuy Anh.

Investigation: Doan Thi Thuy Anh.

Methodology: Doan Thi Thuy Anh.

Project administration: Doan Thi Thuy Anh.

Supervision: Doan Thi Thuy Anh.

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Visualization: Doan Thi Thuy Anh.

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APPENDIX A

Table A1. List of listed Vietnamese joint-stock commercial banks

No.	Stock Code	Bank Name
1	ACB	Asia Commercial Bank
2	BID	Bank for Investment and Development of Vietnam
3	CTG	Vietnam Joint Stock Commercial Bank for Industry and Trade
4	EIB	Vietnam Export Import Commercial Joint Stock Bank
5	HDB	Ho Chi Minh City Development Joint Stock Commercial Bank
6	LPB	LienVietPostBank
7	MBB	Military Commercial Joint Stock Bank
8	MSB	Maritime Bank
9	OCB	Orient Commercial Joint Stock Bank
10	SHB	Saigon – Hanoi Commercial Joint Stock Bank
11	SSB	Southeast Asia Commercial Joint Stock Bank
12	STB	Saigon Thuong Tin Commercial Joint Stock Bank
13	TCB	Vietnam Technological and Commercial Joint Stock Bank
14	TPB	Tien Phong Commercial Joint Stock Bank
15	VCB	Joint Stock Commercial Bank for Foreign Trade of Vietnam
16	VIB	Vietnam International Commercial Joint Stock Bank
17	VPB	Vietnam Prosperity Joint Stock Commercial Bank
18	BAB	Bac A Commercial Joint Stock Bank
19	NVB	National Citizen Commercial Joint Stock Bank
20	ABB	An Binh Commercial Joint Stock Bank
21	BVB	Viet Capital Commercial Joint Stock Bank
22	KLB	Kien Long Commercial Joint Stock Bank
23	NAB	Nam A Commercial Joint Stock Bank
24	PGB	Petrolimex Group Commercial Joint Stock Bank
25	SGB	Saigon Industry and Trade Commercial Joint Stock Bank
26	VAB	Viet A Commercial Joint Stock Bank
27	VBB	Viet Nam Thuong Tin Commercial Joint Stock Bank