Corporate Secretary Professional Expertise and Annual Report Readability

Monicha Octaviani[1], Iman Harymawan[2]

[1,2] Department of Accounting, Faculty of Economics and Business, Airlangga University, Jl. Airlangga 4-6 Surabaya, Jawa Timur 60286, Indonesia

Abstract

This paper aims to examines the relationship between professional corporate secretary expertise and annual report readability of 1,476 observations from all companies listed in the Indonesia Stock Exchange from 2014-2018 using OLS Regression with STATA 15.0. The findings obtained from this research are the legal expertise possessed by the corporate secretary will make the company's financial statements easier to understand. Meanwhile, the accounting expertise of the corporate secretary has no significant effect on the annual report readability. However, the annual report readability of firms with a corporate secretary with international expertise will be more readable. For company management, the results of this study have implications for consideration to involve professional expertise, such as legal expertise and international experience, as a part of qualifications in appointing corporate secretaries to improve the quality of information disclosure. Furthermore, this paper increases the understanding of the corporate secretary's characteristics and its effect on the company's annual report readability as a tool to measure the quality of information disclosure to reduce problems related to asymmetric information.

Keywords: Corporate Secretary, Legal Expertise, Accounting Expertise, International Experience, Readability.

INTRODUCTION

The problem of information asymmetry related to company performance is very urgent to be resolved so as not to have a negative effect on the decision-making process. Research by Harakeh et al. (2020) stated that companies with high information asymmetry conditions will tend to pay and disburse dividends in smaller amounts. Momtaz (2021) stated the results of his research that information asymmetry between management and investors causes agency costs that reduce CEO loyalty. Omran & El-Galfy (2014) and Omran et al. (2021) stated that information asymmetry can

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[2] Iman Harymawan
Email: harymawan.iman@feb.unair.ac.id

be a problem that impacts the allocation of company resources. Momtaz (2021) stated that if the information asymmetry is not resolved, the company will bear higher costs when undertaking external funding efforts through shares or debt. This information asymmetry occurs because the company's management knows more information about its performance and intricacies. In contrast, investors who do not participate directly in running the company do not get balanced or equal information to management. The risk of uncertainty from the existence of this information asymmetry causes investors to try to protect themselves by reducing the company's value in their perspective when considering their decisions.

Signaling theory explains the company's efforts in overcoming the problem of information asymmetry. First, the company's management tries to provide information (signaling) to investors to increase the company's value (Zhao et al., 2022). The annual financial report is one of the media for companies to provide this signal. More profoundly, this signaling effort is carried out by disclosing more information to the public or investors, usually conveyed in company reports.

According to Ong et al. (2020), there are two forms of information disclosure. Quantitative disclosure is carried out by providing financial information directly, and qualitative disclosure is translated into narrative form. Much research on quantitative disclosure has been carried out, but the accounting repertoire still lacks literacy about qualitative disclosure (Merkly, 2011). In qualitative disclosure, Chakraborty & Bhattacharjee (2020) stated that disclosure of information by companies, including the submission of annual financial reports, contains significant amounts of textual information or in the form of unstructured narratives. Although it can increase transparency, disclosing information in a narrative form risk having the opposite impact because of the writing style, grammar, and complicated terms that can distract and confuse those who read it (Lim et al., 2018). Chakraborty & Bhattacharjee (2020) stated that by borrowing instruments from studies in linguistics, the quality of this qualitative disclosure can be measured by readability. The ease of understanding a form of textual information related to writing style is the definition of readability (Jang & Rho, 2016).

However, certain factors that impact the annual report readability, affecting the quality of disclosure and the company's value. Lo et al. (2017) found that companies with high levels of earnings management were positively related to high readability, which means that reports are increasingly difficult to understand. Chakraborty & Bhattacharjee (2020) found that companies with low-income levels have reports that are difficult to understand. Habib & Hasan (2020) found that companies that use a prospector business strategy have financial statements that are more difficult to understand. Moreno & Casasola (2016) found that firm size affects readability. Dempsey et al. (2012) stated that the company's low performance is related to the company's annual financial statements' difficulty understanding.

Many studies have investigated the factors that affect readability in terms of company performance. However, not many have investigated the characteristics of management as the party operating the company. Previously, Ginesti et al. (2018) have examined the relationship between women's participation in the ranks of company leaders and readability. Moreno & Casasola (2016) also found that management leadership turnover was related to readability. Hasan (2020) found that managerial ability affects readability.

The corporate secretary is among the company's management, which has not been studied empirically, and its influence on readability. Whereas the corporate secretary influences the

practice of corporate governance, disclosure, and financial reporting of companies (Nowland et al., 2021; Peng et al., 2019). Financial Services Authority Regulation Number 35/POJK.04/2014 dated 8 December 2014 concerning Corporate Secretary of Issuers or Public Companies stipulates that every public company in Indonesia is required to appoint a company secretary carried out by the Board of Directors and reported to OJK and the Indonesia Stock Exchange.

Although there are some companies that use third parties in writing their annual reports, with their legal, financial and international expertise, company secretary can assist company in compiling components of their financial statements. This is because company secretaries have a vital coordination function with managers in making decisions that conform to applicable principles, standards, and regulations and influence corporate governance practices. According to OJK regulations, in addition to following capital market developments and providing input to libraries and the issuer's board of commissioners to comply with laws and regulations in the capital market sector, the company secretary also assists in providing information to the public, submitting reports and liaising between the company and shareholders and other stakeholders. Therefore, the corporate secretary should be among the management who influences disclosure as measured by the readability of the company's annual report.

According to the regulations in Indonesia, in carrying out their duties, the corporate secretary is expected to master several abilities. Namely law, finance, and corporate governance (OJK, 2014). Nowland et al. (2021) found a relationship between the corporate secretary's professional expertise (expertise) and the quality of information disclosure. The legal expertise of the corporate secretary makes them more timely in submitting financial reports (Nowland et al., 2021). This expertise has also been proven to support management earnings forecasts (Xing et al., 2019). Then Xing et al. (2019) also found that the accounting expertise of the corporate secretary is positively related to these activities. In addition to legal and accounting skills, the quality of information disclosure and corporate governance can also be better when the top management has international experience (Giannetti et al., 2015; Xing et al., 2019). Following resource dependence theory, these three pieces of knowledge are expertise that is part of the resources needed by companies to improve the quality of information disclosure.

Resource dependence theory explains that in achieving its goals, companies must try to get resources from the surrounding environment (Salancik & Pfeffer, 1978). Based on this theory, that directors will experience limitations when carrying out their role in disclosure efforts if they do not or lack accounting expertise. This expertise is a form of resource that helps companies to increase disclosure which will later add value to the company. Corporate secretary is a bridge between the company and the public which also affects the quality of disclosure (Nowland et al., 2021; Peng et al., 2019). In carrying out this role, the corporate secretary also needs the same resources. So, in line with resource dependence theory, companies also need a corporate secretary with certain expertise who is able to increase the quality of disclosure, in this study measured by readability, so that information asymmetry problems can be minimized which in turn increases company value.

From here, it emerges how the corporate secretary's expertise on legibility as a benchmark for the quality of narrative disclosure by the company to signal to the public to increase its value. The research sample to answer these questions was taken from companies that went public and were listed on the Indonesia Stock Exchange (IDX) for 2014 to 2018.

The measurement of narrative disclosure in this study is carried out in the Management Discussion and Analysis (MD&A) section because it contains management's explanation of its performance in one period and its views for the next period. In addition to financial information, the explanations in this section are a source of information used by investors to assess and consider decisions that will be made afterward. This section represents how transparent the company is in conveying a signal to the public through word choice and narrative writing style that readers can measure the level of ease of understanding (Chakraborty & Bhattacharjee, 2020; Lo et al., 2017).

Many have researched the variables that affect the readability of the company's annual financial statements. Among them are Subramanian et al. (1993), Courtis (1995), Clatworthy & Jones (2001), Lo et al. (2017), Chakraborty & Bhattacharjee (2020), Hasan (2020), Ajina et al. (2016), Moreno & Casasola (2016), Lim et al. (2018), and many more. However, all of these studies examine the related variables in terms of company performance. As for the implementing side of the company's activities, there are still not many research. There are only a few, such as Ginesti et al. (2018), Hasan (2020), and Drago et al. (2018), which discusses the criteria for corporate leaders, such as the board of directors, commissioners or managers. However, no one has examined how the influence of the corporate secretary on the readability of the company's annual financial statements. At the same time, the corporate secretary is part of the management who knows a lot of information about the company and is in charge of connecting the company with outside parties such as investors through various forms of reporting, including financial reporting.

McNulty & Stewart (2015) found that the corporate secretary can link executive and non-executive directors to develop corporate governance and the effectiveness of their roles. Sigauke et al. (2015) later confirmed that the corporate secretary plays a significant role in improving corporate governance practices and providing input to the board of directors and commissioners. Peng et al. (2019) found that companies that provide high compensation to the corporate secretary will have good disclosure quality. Then the research results of Nowland et al. (2021) strengthen the corporate secretary's significant role in corporate governance and information disclosure. Xing et al. (2019) also found that expertise (professional expertise), duality (multiple positions), equity holding (share ownership), and political connection (political connections) in the corporate secretary affect the course of corporate governance and company disclosure. However, there is not much literature that examines the influence of the corporate secretary, especially in terms of expertise on readability as a measure of the quality of information disclosure. From here, research is needed to determine whether the expertise attached to the corporate secretary affects readability to measure the quality of disclosure empirically and systematically.

Information asymmetry related to company performance can be overcome by signaling (Omran et al., 2021; Omran & El-Galfy, 2014). Namely, the company tries to convey information (signal) its performance through various ways, the most important of which is financial reporting and the disclosure of certain information to stakeholders. The quality of information disclosure in financial statements can be measured, one of which is readability (Chakraborty & Bhattacharjee, 2020). Readability or the level of readability of financial statements describes how easily the reader can understand the report. Thus, affecting the effectiveness of absorption of information conveyed by the company's management to stakeholders. However, the readability of the company's annual financial statements is influenced by various factors. One of them is the inherent character of the

company's management, such as members of the board of directors (Ginesti et al., 2018). In addition to members of the board of directors, the corporate secretary is also part of the management that influences the disclosure of the company's performance. Nowland et al. (2021) stated that the corporate secretary who doubles as CFO is related to the lack of earnings management practices and the tendency to get a reasonable audit opinion, while the corporate secretary who doubles as legal counsel is timelier in submitting the company's financial statements. This study wants to find out whether there is a relationship between the characteristics of the corporate secretary as a form of resource needed by the company and the readability of the company's annual financial statements. Xing et al. (2019) stated that the corporate secretary who has legal expertise is more sensitive to litigation risks related to information asymmetry and improves the quality of information disclosure due to his capability in advising managers regarding legislation and compliance with regulations. A corporate secretary who has accounting expertise can understand the company's financial condition better. A corporate secretary with international expertise (experience working or studying abroad) improves management earnings forecasts because of his knowledge and experience. Therefore, researchers expect that a corporate secretary with legal expertise, accounting, or international experience can improve the readability to make the company's annual financial reports easier to understand. The researcher proposes the following hypothesis:

H1: Companies with corporate secretaries who have legal expertise (H1a), accounting expertise (H1b), or international expertise (H1c) will have a more readable annual report.

RESEARCH METHOD

Data and Sample
This study uses a mixed-method approach, which is a mixture of quantitative and qualitative approaches. At the same time, the type of data used in this study is panel data, a combination of cross-section and time-series data types. The data sources of this research are secondary data sources obtained from the company's annual reports obtained from the Indonesia Stock Exchange website (www.idx.co.id), ORBIS, and FR.

The population in this study are all companies listed on the Indonesia Stock Exchange for 2014-2018, except for financial sector companies that have the SIC 6 code. Companies with these sectors are excluded because they have a different financial reporting character from companies in other sectors. STATA carried out the sample of this research after being given a command in the form of coding to eliminate missing data and companies whose sector coded SIC 6. Observations were carried out starting in 2014 because, since that year, the OJK has mandated the existence of a corporate secretary in public companies in Indonesia. It is limited to 2018 because, in the following year, there was a major political event (Presidential Election) that could affect the economy and company performance in Indonesia, leading to bias in research. This study observes all industries to get a general idea because there is not much empirical evidence for similar research with case studies in Indonesia. However, the financial industry is excluded so as not to be biased due to differences in regulations with other industries.

Table 1. Sample Selection Criteria

Description	Total
Total research population	3,505 observations
Excluded:	
Companies with SIC code 6	831 observations
Incomplete data	1,198 observations
Total research sample	1,476 observations

Variable Operational Definition

Readability

Readability is the level of readability that states how easily a text can be understood. This study measures readability in the Management Discussion and Analysis (MD&A) section in the company's annual report. This section reflects how management makes disclosures and rationalizes its steps and performance (Chakraborty & Bhattacharjee, 2020). This section is also required to be included in the annual report with the structure and content determined by the regulations (Lo et al., 2017) including the newer OJK regulation which is sustainability report is a part of annual report. So, it can be said that MD&A is a crucial part of information disclosure through the company's annual report. Readability in this study was measured by Flesch-Kincaid Grade Level, Flesch-Kincaid Readability Index, Gunning-Fog Readability Index, SMOG Index, and Coleman-Liau Readability Index. This study uses these five indices because they are the most commonly used indices in research, especially the Flesch and Fog indexes which are often used as proxies in the accounting field (Smeuninx et al., 2020).

The Flesch-Kincaid Grade Level measures the level of education required to understand a text. The higher the value, the higher the level of education required, the more difficult the text will be to understand. Scores can be deciphered as displayed in table 2 beneath (Flesch, 2016).

Table 2. The Flesch-Kincaid Grade Level Scores

Score	School Level in (Grade)	Means
90-100	5th	Very easy to read and understood by an average 11-year-old student.
80-90	6th	Easy to read.
70-80	7th	Quite easy to read.
60-70	8th & 9th	Plain English and easily understood by 13-15-year-old student.
50-60	10th -12th	Quite hard to read.
30-50	College	Hard to read.
10-30	College graduate	Very hard to read. Best understood by university graduates.
0-10	Professional	Extremely hard to read.

The Flesch-Kincaid Grade Level (FLESCH) is calculated by:

$$FLESCH = 0.39 \left(\frac{total\ words}{total\ sentences} \right) + 11.8 \left(\frac{total\ syllables}{total\ words} \right) - 15.59$$

The Flesch-Kincaid Readability Index or Flesch Reading Ease Test states that the higher the value of a text, the easier it is to understand. The Flesch-Kincaid Readability Index (KINCAID) is calculated by:

$$KINCAID = 206.835 - 1.015 \left(\frac{total\ words}{total\ sentences}\right) - 84.6 \left(\frac{total\ syllables}{total\ words}\right)$$

Based on research Sucahyati et al. (2020), the following is the meaning of the resulting KINCAID score:
90 – 100 is easy to understand for the average 11-year-old student.
60 – 70 is easy to understand for the average 11 until 15-year-old.
0 – 30 is mostly understood by the average university graduate.

Gunning-Fog Readability Index (GUNNING) is calculated by:

$$GUNNING = 0.4 \times \left(\left(\frac{total\ words}{total\ sentences}\right) - 100 \left(\frac{complex\ words}{total\ words}\right)\right)$$

For GUNNING, the readability states for this measurement are score ≥18 means the text is very difficult to read and understand; 14-18 (difficult); 12-14 (ideal); 10 -12 (quite easy) and 8-10 (very easy). So, the higher the gunning-fog index, the more difficult an article is to read and understand (Rahman & Wahyuni, 2020).
SMOG (Simple Measure of Gobbledygook) Index is calculated by:

$$SMOG = 1.043 \sqrt{30 \times \frac{total\ polysyllables}{total\ sentences} - 3.1291}$$

The result approximates the U.S. grade level that readers need to comprehend the text. For example, if the output score is 7.1, then the text is appropriate for a 7th grade student.
Coleman-Liau Readability Index is calculated by:

$$CL = 5.89 \left(\frac{total\ characters}{total\ words}\right) - 29.5 \left(\frac{total\ sentences}{total\ words}\right) - 15.8$$

Same as SMOG index, the result of Coleman-Liau Readability Index scores approximates the U.S. grade level that readers need to comprehend the text.

A complex word is a word that has three or more syllables (syllables). The Flesch-Kincaid Grade Level, Gunning-Fog Readability Index, SMOG Index, and Coleman-Liau Readability Index also state that the higher the score, the more difficult the text is to understand.

The readability score calculation for each index is done by copying all the words in the MD&A section of the Notepad application, so the file.txt format is obtained and then inputted into the Readability application, which is often used in the linguistic field to get the readability value.

The expertise of Corporate Secretary
The expertise or expertise of the corporate secretary is the dependent variable used as a variable in this study. Expertise in this research includes legal expertise, accounting expertise, and international expertise.

The definition of all expertise in this study uses a dummy variable because this study wants to see the existence of professional expertise in the corporate secretary in Indonesia. Legal expertise (LAW) is a dummy variable with a value of 1 if the corporate secretary has at least an academic law degree, has a legal license, or has worked as a lawyer or legal counsel (Syofyan et al., 2021). Accounting expertise (ACCT) is a dummy variable with a value of 1 if the corporate secretary has at least an accounting profession certification or has worked as a controller/treasurer/auditor/tax professional (Chychyla et al., 2019) or an accounting education background and 0 if not. International expertise (INTER) is a dummy variable with a value of 1 if the corporate secretary has worked or studied abroad (Xing et al., 2019).

This study uses firm size, leverage, profitability, loss, firm age, and corporate governance as control variables. Firm size (SIZE) is the company's size as measured by the natural logarithm of the company's total assets (Chakraborty & Bhattacharjee, 2020). Leverage (LEV) is measured by total long-term debt divided by total assets (Ginesti et al., 2018). Profitability (EARN) is measured by earnings before tax divided by total assets (Lo et al., 2017). Loss (LOSS) is a loss measured by a dummy variable, given a value of 1 if profitability is less than 0 and 0 if profitability is more than equal to 0 (Lo et al., 2017). Firm age (AGE) is the company's age as measured by the natural logarithm of the number of years since the company was founded (Chakraborty & Bhattacharjee, 2020). Finally, the percentage of independent directors to the number of directors (INDDIR) and the percentage of independent commissioners to the number of commissioners (INDCOM) are defined as corporate governance variables (Ginesti et al., 2018).

Research Design

This study uses analytical techniques that include descriptive statistical analysis test, Pearson correlation test, and multiple linear regression analysis tests with the help of STATA 15.0 software. Before all the analytical tests were carried out, the author did a Winsorize first. Winsorize pulls the lowest outlier data to the 1% level and the highest outlier data to 99% so that there is no bias. Previously, the anti-heteroscedasticity command was also carried out to avoid heteroscedasticity problems.

The Ordinary Least Square Regression test was carried out in this study to determine the magnitude of the influence between two or more independent variables on the dependent variable. The regression model used to test the hypothesis in this study is formulated as follows:

$$READ_{i,t} = \beta_0 + \beta_1 LAW_{i,t} + \beta_2 ACCT_{i,t} + \beta_3 INTER_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 EARN_{i,t} + \beta_7 LOSS_{i,t} + \beta_8 AGE_{i,t} + \beta_9 INDCOM_{i,t} + \beta_{10} INDDIR_{i,t} + \beta_{11} YEAR_{i,t} + \beta_{12} INDUSTRY_{i,t} + \varepsilon_{i,t} \quad \text{...................} \quad (1)$$

RESULTS AND DISCUSSION

Results

The distribution of this research sample is depicted in table 2, which is based on industry groups. Panel A stated that the corporate secretary who has legal expertise is 26.08%. Panel B stated that the corporate secretary who has accounting expertise is 38.75%. Panel C stated that the corporate

secretary who has international expertise is 26.08%. Table 2 shows that the largest sample distribution is in the manufacturing industry (SIC code 2).

Table 2. Sample Distribution by Industry

	Panel A: *Legal Expertise* (LAW)						
SIC	Industry	With LAW		Without LAW		Total	
		n	%	n	%	n	%
0	Agriculture, Forestry and Fisheries	15	26.79	41	73.21	56	100
1	Mining and Construction	64	28.44	161	71.56	225	100
2	Manufacture (1)	96	24.43	297	75.57	393	100
3	Manufacture (2)	60	23.81	192	76.19	252	100
4	Transportation, Communications and Utilities	75	30.74	169	69.26	244	100
5	Wholesale & Retail Trade	43	30.50	98	69.50	141	100
7	Service Industries	27	20.45	105	79.55	132	100
8	Health, Legal, and Educational Services and Consulting	5	15.15	28	84.85	33	100
	Total	385	26.08	1,091	73.92	1,476	100

	Panel B: *Accounting Expertise* (ACCT)						
SIC	Industry	With ACCT		Without ACCT		Total	
		n	%	n	%	n	%
0	Agriculture, Forestry and Fisheries	26	46.43	30	53.57	56	100
1	Mining and Construction	50	22.22	175	77.78	225	100
2	Manufacture (1)	182	46.31	211	53.69	393	100
3	Manufacture (2)	85	33.73	167	66.27	252	100
4	Transportation, Communications and Utilities	88	36.07	156	63.93	244	100
5	Wholesale & Retail Trade	60	42.55	81	57.45	141	100
7	Service Industries	60	45.45	72	54.55	132	100
8	Health, Legal, and Educational Services and Consulting	21	63.64	12	36.36	33	100
	Total	572	38.75	904	61.25	1,476	100

	Panel C: *International Expertise* (INTER)						
SIC	Industry	With INTER		Without INTER		Total	
		n	%	n	%	n	%
0	Agriculture, Forestry and Fisheries	13	23.21	43	76.79	56	100
1	Mining and Construction	78	34.67	147	65.33	225	100
2	Manufacture (1)	95	24.17	298	75.83	393	100
3	Manufacture (2)	56	22.22	196	77.78	252	100
4	Transportation, Communications and Utilities	56	22.95	188	77.05	244	100
5	Wholesale & Retail Trade	45	31.91	96	68.09	141	100
7	Service Industries	25	18.94	107	81.06	132	100
8	Health, Legal, and Educational Services and Consulting	17	51.52	16	48.48	33	100
	Total	385	26.08	1,091	73.92	1,476	100

Table 3 provides descriptive statistical information of the study, including the mean, median, minimum, and maximum values of each research variable. In this study, readability was measured using five indices. Based on table 3, LAW has an average value of 0.261. This means, as many as 26.1% of the research sample have a corporate secretary with expertise in the field of law. ACCT shows an average value of 0.388. This means that 38.8% of the entire research sample has a corporate secretary with accounting expertise. While INTER in this research sample has an average value of 0.261. This means that 26.1% of the entire research sample has a corporate secretary who has worked or studied abroad (international expertise).

Table 3. Statistic Descriptive

Variable	Mean	Median	Minimum	Maximum	Standard Deviation
LAW	0.261	0.000	0.000	1.000	0.440
ACCT	0.388	0.000	0.000	1.000	0.487
INTER	0.261	0.000	0.000	1.000	0.440
FLESCH	21.961	22.024	17.451	26.157	1.573
KINCAID	26.576	27.147	7.985	43.815	6.599
GUNNING	25.775	25.805	21.010	30.356	1.764
SMOG	20.118	20.207	15.271	24.141	1.609
CL	23.620	23.600	20.971	26.467	1.097
SIZE	28.652	28.650	24.899	32.274	1.589
LEV	0.493	0.478	0.033	1.823	0.268
EARN	0.067	0.059	-0.212	0.505	0.101
LOSS	0.191	0.000	0.000	1.000	0.393
AGE	3.290	3.401	1.609	4.454	0.556
INDCOM	37.890	33.333	0.000	66.667	12.675
INDDIR	17.010	16.667	0.000	50.000	13.864

The results of the Pearson correlation test listed in table 4 show that LAW was significantly negatively related to KINCAID and CL but not significant to FLESCH, GUNNING, and SMOG. This means that the annual reports of companies that have a corporate secretary with legal expertise will be easier to understand than those without a corporate secretary with legal expertise. ACCT was not significantly positively related to all readability variables, namely FLESCH, KINCAID, GUNNING, SMOG, and CL. This is because the corporate secretary with accounting expertise does not make the annual report easier to understand. Finally, INTER was significantly negative with CL but significantly positive with FLESCH and SMOG, and not significant for KINCAID and GUNNING.

Table 4. Pearson Correlation

Panel A: From LAW to SMOG

	[1]	[2]	[3]	[4]	[5]	[6]	[7]
[1] LAW	1.000						
[2] ACCT	-0.397***	1.000					
	(0.000)						
[3] INTER	-0.068***	-0.080***	1.000				
	(0.009)	(0.002)					
[4] FLESCH	-0.013	0.018	0.059**	1.000			
	(0.607)	(0.487)	(0.023)				
[5] KINCAID	-0.055**	0.033	0.018	0.833***	1.000		
	(0.034)	(0.201)	(0.479)	(0.000)			
[6] GUNNING	-0.031	0.007	0.029	0.962***	0.858***	1.000	
	(0.228)	(0.795)	(0.268)	(0.000)	(0.000)		
[7] SMOG	-0.002	0.008	0.057**	0.963***	0.711***	0.936***	1.000
	(0.945)	(0.765)	(0.030)	(0.000)	(0.000)	(0.000)	
[8] CL	-0.069***	0.012	-0.050*	0.370***	0.585***	0.431***	0.251***
	(0.008)	(0.653)	(0.053)	(0.000)	(0.000)	(0.000)	(0.000)
[9] SIZE	0.145***	-0.082***	0.100***	0.174***	0.065**	0.123***	0.202***
	(0.000)	(0.002)	(0.000)	(0.000)	(0.012)	(0.000)	(0.000)
[10] LEV	-0.002	-0.034	0.051*	-0.021	-0.045*	-0.033	-0.010
	(0.931)	(0.193)	(0.052)	(0.423)	(0.086)	(0.206)	(0.694)
[11] EARN	-0.020	0.086***	0.001	0.074***	0.074***	0.081***	0.073***
	(0.449)	(0.001)	(0.957)	(0.005)	(0.004)	(0.002)	(0.005)
[12] LOSS	0.002	-0.040	0.045*	-0.031	-0.061**	-0.043	-0.024
	(0.947)	(0.125)	(0,085)	(0.230)	(0.018)	(0.101)	(0.356)
[13] AGE	0.039	-0.016	0,010	-0.026	-0.047*	-0.052**	-0.026
	(0.132)	(0.538)	(0,696)	(0.318)	(0.068)	(0.047)	(0.323)
[14] INDCOM	-0.023	0.015	-0,009	0.046*	0.056**	0.049*	0.026
	(0.387)	(0.567)	(0,735)	(0.074)	(0.032)	(0.062)	(0.309)
[15] INDDIR	0.058**	0.043*	-0,036	0.063**	0.066**	0.073***	0.055**
	(0.026)	(0.097)	(0,163)	(0.015)	(0.012)	(0.005)	(0.035)

Panel B: From CL to INDDIR

	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]
[8] CL	1.000							
[9] SIZE	-0.073***	1.000						
	(0.005)							
[10] LEV	-0.101***	0.127***	1.000					
	(0.000)	(0.000)						
[11] EARN	0.021	0.173***	-0.129***	1.000				
	(0.419)	(0.000)	(0.000)					
[12] LOSS	-0.075***	-0.172***	0.082***	-0.586***	1.000			
	(0.004)	(0.000)	(0.002)	(0.000)				
[13] AGE	-0.041	0.078***	0.066**	0.091***	-0.092***	1.000		
	(0.118)	(0.003)	(0.012)	(0.000)	(0.000)			
[14] INDCOM	0.018	0.033	0.014	0.003	-0.001	-0.039	1.000	
	(0.482)	(0.203)	(0.591)	(0.900)	(0.957)	(0.135)		
[15] INDDIR	0.020	-0.186***	-0.093***	-0.084***	0.082***	-0.164***	0.198***	1.000
	(0.447)	(0.000)	(0.000)	(0.001)	(0.002)	(0.000)	(0.000)	

p-value in parentheses
* *p* < 0.1; ** *p* < 0.05; *** *p* < 0.01

Based on table 5, LAW has a significant negative relationship with three readability indices: KINCAID, GUNNING, and CL. At KINCAID significant level 5% (*t*-value -2.29) and regression

coefficient -1.006. This means that for every 1-point increase in LAW, the KINCAID value will decrease by 1.006, which means that the financial statements will be easier to understand. Likewise, GUNNING is significant at the 10% level (t-value -1.96), and the regression coefficient is -0.235. It shows that for every 1-point increase in LAW, the GUNNING value will decrease by 0.235, making the financial statements easier to understand. It also applies to CL which has a significant level of 1% (t-value -2.65) and a regression coefficient of -0.180. This indicates that for every 1-point increase in LAW, the CL value will decrease by 0.180, making the financial statements easier to understand. The FLSECH and SMOG regressions result with t-values of -1.25 and -1.09, respectively, and regression coefficients of -0.132 and -0.117. So, in general, the results of this regression state that the company's financial statements with a corporate secretary who has legal expertise will be easier to understand. This is following H1a.

Table 5. OLS Results: Expertise of Corporate Secretary and Readability

Variable	Direction Prediction	Readability				
		FLESCH	KINCAID	GUNNING	SMOG	CL
LAW	-	-0.132	-1.006**	-0.235*	-0.117	-0.180***
		(-1.25)	(-2.29)	(-1.96)	(-1.09)	(-2.65)
ACCT	-	0.048	0.059	-0.044	0.035	-0.083
		(0.50)	(0.15)	(-0.40)	(0.35)	(-1.25)
INTER	-	0.125	0.073	0.036	0.107	-0.116*
		(1.45)	(0.20)	(0.36)	(1.22)	(-1.83)
SIZE	+	0.190***	0.300***	0.158***	0.228***	-0.050***
		(6.86)	(2.65)	(4.97)	(7.95)	(-2.66)
LEV	-	-0.187	-0.923	-0.220	-0.162	-0.311***
		(-1.15)	(-1.42)	(-1.22)	(-0.96)	(-3.10)
EARN	+	0.952**	3.168*	1.255**	1.035**	-0.259
		(2.04)	(1.73)	(2.33)	(2.11)	(-0.82)
LOSS	-	0.067	-0.664	0.010	0.134	-0.283***
		(0.52)	(-1.25)	(0.07)	(1.03)	(-3.03)
AGE	+	0.050	0.058	-0.046	0.022	-0.073
		(0.67)	(0.18)	(-0.55)	(0.28)	(-1.31)
INDCOM	+	0.003	0.018	0.003	0.000	0.002
		(0.79)	(1.30)	(0.89)	(0.03)	(0.76)
INDDIR	+	0.010***	0.029**	0.012***	0.011***	-0.002
		(3.04)	(2.13)	(3.00)	(3.16)	(-0.85)
Constant		15.826***	15.461***	20.886***	13.131***	25.390***
		(18.65)	(4.23)	(21.62)	(15.04)	(43.10)
Year Dummy		Yes	Yes	Yes	Yes	Yes
Industry Dummy		Yes	Yes	Yes	Yes	Yes
r^2		0.079	0.063	0.060	0.082	0.069
N		1,476	1,476	1,476	1,476	1,476

t statistik in parentheses
* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$

The results of the ACCT regression in table 5 illustrate the insignificant relationship with the five readability indices. FLESCH has a regression coefficient of 0.048 (*t*-value 0.50), KINCAID has a regression coefficient of 0.059 (*t*-value 0.15), and SMOG has a regression coefficient of 0.035 (t-value 0.35), which means that every 1 point increase in ACCT will increase FLESCH by 0.048, KINCAID was 0.059 and SMOG was 0.035. The GUNNING and CL coefficient values are -0.044 (*t*-value -0.40) and -0.083 (*t*-value -1.25), respectively, which means that every 1point increase in ACCT will decrease GUNNING by 0.044 and CL by 0.083. So the results of the ACCT regression on the five readability indices generally state that the accounting expertise possessed by the corporate secretary does not make the company's financial statements easier to understand. This contradicts H1b.

Table 5 also shows that INTER is significantly negatively related to CL. The significant level of CL is 10%, with a regression coefficient of -0.116 and a *t*-value of -1.83. For every 1point increase in INTER, the CL value will decrease by 0.116, which means that financial statements will be easier to understand. While the regression coefficients for the other four readability indices are FLESCH 0.125 (*t*-value 1.45), KINCAID at 0.073 (*t*-value 0.20), GUNNING at 0.036 (*t*-value 0.36) and SMOG at 0.107 (*t*-value 1.22). This shows that every 1point increase in INTER will be followed by an increase in FLESCH by 0.125, KINCAID by 0.073, GUNNING by 0.036, and SMOG by 0.107. The regression results between INTER and the five readability indices state that, in general, the annual financial statements of companies with corporate secretaries who have international expertise will be easier to understand. This corresponds to H1c. So, it can be concluded that companies with corporate secretaries who have the expertise (legal / accounting / international) will have annual financial reports that are more readable (easier to understand). This is appropriate and confirms the hypothesis (H1) proposed in this study.

For the control variable, SIZE has a significant positive relationship with FLESCH, KINCAID, GUNNING, and SMOG, all at a significance level of 1%. However, SIZE is also significantly negatively related to CL at a significance level of 1%. This follows the results of previous research conducted by Lim et al. (2018) and Ginesti et al. (2018). LEV had a significant negative relationship with CL (at a significance level of 1%), but it was not significantly negative with the other four readability indices, namely FLESCH, KINCAID, GUNNING, and SMOG. This is following previous research conducted by Ginesti et al. (2018). EARN has a significant positive relationship with FLESCH, KINCAID, GUNNING, and SMOG. With a significance level of 5% on FLESCH, GUNNING, and SMOG and 10% on KINCAID. However, EARN has an insignificant negative relationship with CL. This is following previous research conducted by Ginesti et al. (2018). LOSS had a significant negative relationship with CL at the 1% significance level, insignificant negative with KINCAID, and insignificant positive with FLESCH, GUNNING, and SMOG. This is in line with research conducted by Lo et al. (2017). Finally, AGE had an insignificant positive relationship with FLESCH, KINCAID, and SMOG, and an insignificant negative relationship with GUNNING and CL. This follows previous research conducted by Lim et al. (2018) and Drago et al. (2018). INDCOM has an insignificant positive relationship with the five readability indices, namely FLESCH, KINCAID, GUNNING, SMOG, and CL. This is following previous research conducted by Ginesti et al. (2018). INDDIR has a significant positive relationship with FLESCH, KINCAID, GUNNING, and SMOG. With a significance level of 1% on FLESCH, GUNNING, and SMOG, and 5% on KINCAID. However, INDDIR was not

significantly negatively related to CL. This is following previous research conducted by Ginesti et al. (2018).

The value of r^2 in table 4.4 shows that the regression results between the independent and dependent variables are each able to represent 7.9% of the data from a total of 1,476 samples for FLESCH, 6.3% of data from a total of 1,476 samples for KINCAID, 6% of data from a total of 1,476 samples for GUNNING, 8.2% of the data from 1,476 samples for SMOG, and 6.9% of data from a total of 1,476 samples for CL.

Discussion

Based on table 5, the regression results show that the company's annual financial statements with the corporate secretary with legal expertise are easier to understand (more readable), so H1a is accepted. This may be because the corporate secretary with legal expertise is more sensitive to litigation risk due to information asymmetry and because his capability in advising managers regarding legislation and compliance with regulations makes the corporate secretary able to improve the quality of information disclosure, one of which is through company financial reporting that is easier to understand (Xing et al., 2019). Nowland's research results (2020) also state that the corporate secretary, who is also legal counsel (meaning he has legal expertise), emphasizes the compliance aspect when reporting financially.

The results of the regression test (table 5) state that the presence of accounting expertise in the corporate secretary does not make the company's financial statements easier to understand, so H1b is rejected. This is probably because even though the corporate secretary is responsible for information disclosure, his accounting expertise is more used to provide advice on operational matters and strategic management. Therefore, it does not affect the readability of the company's financial statements. This is as the results of the study of Chychyla et al. (2019), who found that the accounting expertise of the board of directors and the audit committee was positively related to the company's financial reporting complexity.

Then, the regression results in table 5 also state that the corporate secretary's international expertise makes the company's financial statements easier to understand, so H1c is accepted. This is probably because the experience and knowledge gained by corporate secretaries abroad will be used to improve the quality of corporate governance, including company disclosures, to make financial reports easier to understand. This result is also in line with Xing et al. (2019), who found that international expertise possessed by management will improve the quality of company activities.

From this, it can be concluded that the corporate secretary's expertise (legal and international) affects the readability of the company's financial statements, making the report more readable so that H1 is accepted. These results align with previous studies (Nowland et al., 2021; Xing et al., 2019). This adds to empirical evidence about the effect of management characteristics on the readability of the company's financial statements. This study also adds to empirical evidence, which states that the expertise of the company's management will improve the quality of disclosure to reduce the impact of information asymmetry between management and company investors. Concerning signaling theory and resource dependence theory, the results of this study prove that when a company tries to avoid a decrease in value due to information asymmetry by giving a signal to the public through disclosure, the company needs qualified resources to achieve

it optimally (Myers & Majluf, 1984). One vital resource that significantly affects this signaling process is the expertise attached to the corporate secretary as a bridge between management and the public and one of the parties responsible for disclosing company information.

CONCLUSIONS

This study aims to determine the effect of the expertise possessed by the corporate secretary on the readability of the company's annual financial statements. The findings obtained from this research are the legal expertise possessed by the corporate secretary will make the company's financial statements easier to understand. This is because the legal expertise makes the corporate secretary more sensitive to risks due to information asymmetry, and his capability in advising managers on legislation and compliance with regulations can improve the quality of information disclosure. But then, the results of this study also show that the accounting expertise possessed by the corporate secretary does not affect readability. It does not make the company's financial statements easier to understand. This is because the accounting expertise possessed by the company's management, including the corporate secretary, is more likely to be used for operational issues and company management strategies to reduce the complexity of the company's financial statements. But then, this study also found that the corporate secretary's international expertise makes the company's financial reports easier to understand. This is because the experience and knowledge gained by corporate secretaries abroad improve the quality of corporate governance, including disclosure of information to make the company's financial statements easier to understand. Finally, this research finds that the expertise possessed by the corporate secretary – legal and international expertise – can affect the readability of the company's annual financial statements, namely making them more readable.

There are limitations in this study that can be used as a basis for further in-depth research in the future. These limitations include the fact that all companies listed on IDX in the 2014-2018 period were used as the population of this study. This means that the test results of the relationship between the expertise possessed by the corporate secretary and the readability of the company's annual financial statements can only be generalized in that period.

For policymakers, in choosing a corporate secretary, it is necessary to consider various characteristics possessed and needed, such as legal expertise, accounting, or experience from abroad, to be applied to the information disclosure process and improve corporate governance practices. As for academics, this research is still relatively new in Indonesia, so it is necessary to conduct more in-depth research to explore further the characteristics of the corporate secretary and the readability and condition of information disclosure in Indonesia. In addition, further research can include other factors that are usually attached to the corporate secretary, such as duality, equity holding, or political connection, such as the research conducted by Xing et al. (2019).

List of Abbreviations
ACCT: Accounting expertise; CEO: Chief Executive Officer; INDDIR: number of directors; INDCOM number of commissioners; IDX: Indonesia Stock Exchange; MD&A: Management Discussion and Analysis; OJK: Otoritas Jasa Keuangan (Financial Services Authority); SIC: Standard Industrial Classification.

Authors' Contribution
I.H. provided direction for the entire project, develop research ideas, supervise data collection, analyse and contribute to the writing of articles. M.O. developed research ideas and provided input on proposed research, as well as performed data processing and developed article writing.

Authors' Information
Iman Harymawan (harymawan.iman@feb.unair.ac.id) was a lecturer on Economy and Business Faculty, Universitas Airlangga, who has 54 Scopus publications with h-index 10 in 2022. In addition, Monicha Octaviani (monicha.octaviani.2000@gmail.com) was a bachelor student of Economy and Business Faculty, Universitas Airlangga, who graduated in 2021.

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