Military-experienced Directors, CEO Busyness and Financial Statement Footnotes Readability: Evidence from Indonesia

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Abstract

Purpose – This study examines the relationship between the characteristics of militarily experienced directors and financial statement footnote readability. The second research question considers whether CEO busyness impacts the relationship between military-experienced directors and financial statement footnotes readability.

Design/methodology/approach – We use nonfinancial listed firms on the Indonesian Stock Exchange from 2010 to 2018, which amounted to 1,002 firm-year observations. We test the hypotheses and use fixed effects and Heckman's two-stage regression.

Findings – This study documents a negative relationship between military directors and financial statement footnote readability. We extend this relationship by factoring board busyness into the equation. We find that the presence of military-connected and busy CEOs negatively impacts the readability of financial statement footnotes. The results remain robust after additional analyses.

Originality/value – We revisit the literature on military-experienced directors by considering political connections as one of the proxies for military connections in Indonesia. The findings largely support the convergence of the political connections literature in which rent-seeking activities are prevalent and prevent sound financial reporting.

Research limitations/implications – Future research should consider a more robust measure of military-experienced directors. A broader context of directors' busyness should be considered, such as including multiple directorships.

Keywords: Military connection, CEO busyness, Readability, Governance.

Paper type Research paper.

1. Introduction

Studies have examined the impact of military directors or connections in the capital market and have found that firms with military directors are less aggressive in terms of tax avoidance (Law & Mills, 2017), compensation (Li & Rainville, 2021), and more efficient investments (Ullah et al., 2022) and have various impacts on corporate outcomes (Cai et al., 2021). The general understanding is that military directors positively impact the capital market due to their discipline and moral compass.

In this study, we propose two research objectives. The first research objective is to investigate the relationship between military directors and the footnote readability of financial statements. We opt for footnote readability for several reasons. First, the context of readability generally assesses the quality of the information that preparers provide, as it evaluates the usefulness of information for shareholders and stakeholders (Gosselin et al., 2021). Second, readability involves thoroughly examining text characteristics that integrate information to facilitate useful decision making. Third, readability is a channel for investigating the obfuscation hypothesis, which translates to using complex language and managers' inherent motivations for producing complex accounting disclosures. Fourth, readability serves as a communication tool that can help researchers better comprehend the communication strategies employed by firms and managers (Gosselin et al., 2021). We focus on the readability of financial statement footnotes for several reasons. Financial statement footnote readability refers to the clarity and comprehensibility of the information included in the footnotes of financial statements, which provide additional information and context about an organization's financial performance. According to previous studies, readability is a critical factor in the effectiveness of financial statement footnotes because it directly affects readers' ability to understand and interpret the information presented (Chen et al., 2018; Leuz et al., 2003).

Guay et al. (2016) state that the footnotes in financial statements contain comprehensive written disclosures of accounting data and offer explanations and analyses to clarify economic outcomes, which aid in effective communication with shareholders. A departure from information clarity can cause misunderstandings, erode trust, and hinder stakeholders' ability to evaluate a company's financial health accurately (Lo et al., 2017).

One key aspect of financial statement footnote readability is the use of plain language and the avoidance of overly technical jargon or complex terminology. This can be particularly important for nonexpert readers who may struggle to understand financial terminology or concepts. Additionally, the structure and formatting of footnotes can also impact readability, with shorter paragraphs, bullet points, and tables making information more accessible and easier to understand (Abernathy et al., 2019). Overall, improving the readability of financial statement footnotes is essential for effective communication with stakeholders and enhancing transparency and trust in financial reporting (Smith, 2016).

We are motivated to test this relationship for several reasons. The extant literature on readability still presents opportunities to investigate managerial motivation, which remains mixed. Such an investigation encompassing military-connected directors enhances the understanding of their motivation to disclose. The conjecture of this relationship is simple. If the idea of a military-connected director is disciplined and follows the rules and regulations of the country, then we expect that the relationship is positive – meaning that it results in better footnote readability. Another perspective is when military directors have characteristics similar to those of politically connected directors. Indonesia and its political system, which is deeply and historically rooted in military involvement, is an excellent example. The presidents of Indonesia have mainly been generals or former generals of the military. The military's pivotal role in Indonesian governance has been extensively documented, notably as outlined by Crouch (2007), who describe historical military engagement in civilian rule stemming from insufficient

government funding. The concept of *Dwi Fungsi* aimed to integrate the military into civilian affairs, fostering alliances with Chinese businesses to navigate bureaucracy and leading to corruption allegations. President Suharto sanctioned military involvement in business to supplement funds, significantly influencing Indonesian business dynamics. Government attempts to curtail military business activities, as seen in the 2004 and 2009 decrees, faced criticism from Human Rights Watch (HRW, 2010) for potential loopholes that may perpetuate military influence. Despite these efforts, historical ties endure, with former high-ranking military officials often assuming key government roles, underscoring the lasting impact of military involvement in Indonesian politics and business.

Fisman (2001) investigates the relationship between political connections and firm performance in Indonesia and classify firms connected to President Suharto, a military general, as connected. Politically connected firms are known to have high inherent risk (Gul, 2006), weaker governance, less transparency (Chaney et al., 2011), and heightened uncertainty in generating income (Chen et al., 2011). These characteristics, supported by the extant literature, have a negative impact on footnote readability. Alternatively, studies such as Batta et al. (2014) and Fisman (2001) argue that connections benefit politically connected firms through media scrutiny. This argument suggests that politically connected firms, at the very least, attempt to picture themselves as not being connected to gain investors' confidence. Therefore, the relationship between military-connected directors and footnote readability is negative.

As our second research question, we extend the above by factoring in the role of CEO busyness and whether it impacts the relationship between military directors and footnote readability. We focus on the degree of CEO busyness, as expecting readability to be more affected by CEO busyness than by board busyness is more intuitive.

Fich and Shivdasani (2006) establish that busy boards are detrimental to organizational performance because the number of directorships weakens directors' ability to monitor them.

One expects busy boards to be detrimental to readability, as they have a larger workload and fewer incentives to monitor (Ahn et al., 2010). A CEO's busyness may compromise the readability of financial statements due to potential errors or oversights in review and limited availability for effective communication with the finance team. This situation could result in misunderstandings, delays in resolving financial issues, and suboptimal decision making, impacting investor confidence and the company's financial health.

However, recent literature on board busyness has focused on reputation capital (Field et al., 2013), experience, and increased resource dependence (Tham et al., 2019), suggesting that busy directors add positive value to firms. Whereas Field et al. (2013) agree that busy directors are not effective monitors, they excel in information sharing and have a wealth of experience. CEO busyness can benefit financial statement readability by ensuring active oversight and expedited decision making, fostering a culture of diligence and accountability. These traits are often synonymous with busy directors, as they are appointed to multiple boards to advise the firms. These arguments suggest that board busyness has an ambiguous impact on military directors and readability relationships. Busy directors having a reputation for protecting and a wealth of experience and providing relevant advice further mitigate agency costs or obfuscation by increasing voluntary information. Alternatively, busy directors decrease monitoring, worsening the obfuscation hypothesis and increasing agency costs.

We exclude firms from the finance industry and performs fixed effect regression using a cluster approach (Petersen, 2009) based on 1,002 firm-year observations from 2010 to 2018. We find a negative relationship between firms with military directors and financial statement footnote readability. The results are robust for all four measures of readability we use in this study. Our findings confirm that firms with military-connected directors mirror the characteristics of politically connected firms. Next, busy CEOs accentuate the relationship between military-connected directors and financial statement footnote readability, as they are

distracted by other workloads and cause poor management oversight. Furthermore, the results remain similar after the self-selection test for endogeneity concerns.

Our results contribute to the literature in several ways. First, we extend the extant literature on military directors by factoring in the concept of political connections in the capital market. Our next contribution is based on our results, which suggest an alternative argument that military directors are disciplined and follow rules and regulations. Third, we add to the growing literature on financial statement readability and busy directors. Finally, our study provides empirical evidence important to board design and regulatory settings to mitigate the risk of having military-connected and busy CEOs.

The remainder of this paper is organized as follows. Section 2 describes the background of the study. Section 3 provides the rationale for our hypotheses. Section 4 explains our research methodology. Section 5 tabulates the results and the endogeneity test. Section 6 concludes.

2. Institutional background

Indonesia is an excellent example of military connection because its system of government is deeply and historically rooted in military involvement. One reason is that Indonesia's presidents have mainly consisted of generals or former generals of the military. For instance, Indonesia has been controlled by a sizable military presence for more than 30 years, starting with the presidency of Suharto. His rule resulted in military-connected people entering the corporate world (Xueying, 2014). Additionally, the military was permitted under policies during his time to engage in commercial endeavours to raise additional funds for support outside the government budget. The presence of military veterans on the current boards of state-owned businesses demonstrates that the military's influence in the Indonesian industry has persisted even after the end of Suharto's reign. Undoubtedly, the military dramatically impacts Indonesian businesses since both parties profit. The military has played a significant role in

politics in Indonesia throughout the country's history, particularly during the New Order era under the rule of President Suharto from 1967 to 1998. During this period, the military played a dominant role in politics and government, with many high-ranking military officials holding key positions in the government and bureaucracy.

However, after the fall of Suharto in 1998 and the transition to democracy, the military's role in politics significantly decreased. The Indonesian Constitution prohibits active military personnel from holding political office, and the military must remain neutral in political matters. Despite these reforms, concerns exist about the military's continuing influence on Indonesian politics, particularly on security and law enforcement. Calls have been made for greater civilian oversight of the military. In recent years, efforts have been made to further reform the military's role in Indonesian politics, including establishing a new civilian-led agency to oversee defence and security matters. However, the military remains a powerful institution in Indonesian society, and its political role is likely to continue to be a contentious issue for some time.

3. Hypothesis Development

3.1. Readability theories

Several theories dominate the literature on readability. The management impression theory or the obfuscation hypothesis tests whether managers intentionally manipulate disclosure complexity for their interests (self-serving behaviour). Obfuscation hypothesis suggests that organizations deliberately use complex or ambiguous language to avoid revealing negative information and to create a positive impression of their activities. Brennan et al. (2009) state that managers may obfuscate and hide information from investors and other stakeholders. This can involve technical jargon, acronyms, and other forms of language that are difficult for the public or other stakeholders to understand. Organizational disclosures such as annual reports

present a mechanism of impression management; hence, they could be distorted through poor readability and influence investors and stakeholders.

Another commonly used theory is agency theory, which states that the increased use of voluntary disclosure increases information, which mitigates agency costs. Providing more information is a method for conveying a message (Gosselin et al., 2021). Recent studies have offered an alternative ontology hypothesis, which stipulates that firms write more extensive reports because of the complexity of business operations and disclosure regulations rather than because of intentional choice (Rutherford et al., 2016; Dyer et al., 2017; Bushee et al., 2018; Chychyla et al., 2019). The ontology hypothesis corroborates agency or signalling theory, in which managers voluntarily disclose information to reduce information asymmetry.

3.2. Military Directors and Footnote Readability

The influence of military directors or those affiliated with military-connected firms on the capital market has been extensively documented. According to Benmelech and Frdyman (2015), individuals with military experience possess qualities essential for assuming leadership roles that demand courage and a willingness to take risks. They argue that military training instils honesty and moral values, attributing these virtues to the structured systems in the military. Furthermore, Benmelech and Frdyman (2015) assert that military background equips individuals to effectively manage pressure, making these attributes crucial in organizational decision-making processes.

An et al. (2020) suggest that military experience contributes to personal growth and fosters business expansion. This is attributed to the application of a heightened level of integrity and the promotion of vigilant oversight due to the unique expertise possessed by individuals with military backgrounds.

In a recent study, Ullah et al. (2022) propose that the presence of military directors in a boardroom has a ripple effect, influencing other directors and shaping the overall

organizational structure. The authors attribute this impact to the increased oversight, moral and ethical values, and alignment of shareholder interests that military directors bring to the table. These findings align with the conclusions drawn by Li and Rainville (2021), who discover that CEOs with military experience tend to make more prudent financial decisions. Recent articles from Lin et al. (2021) and Cai et al. (2021) provide additional support for this argument, which posits that military training leaves a lasting impression on an individual's morals and ethics. These studies have underscored the potential benefits of having military directors, emphasizing their positive influence on an organization's decision-making processes and ethical culture.

The extant literature has also suggested that connections made with military directors have benefitted organizations. Fisman (2001) states that being connected provides the necessary resources to an organization via early access to information, grants, and government contracts. Studies in connected firms, either via military or political factors in Pakistan (Cheema et al., 2016; Saeed et al., 2015; Saeed et al., 2019) or Indonesia (Harymawan, 2018), suggest that such connections allow for better loan access and lower borrowing costs. Being connected to military or political connections could harm organizations. The concept of political connections is well documented, and connected firms are known to have lower earnings predictability (Chen et al., 2011), lower earnings quality (Chaney et al., 2011) and higher audit fees (Gul, 2006). The perception of high inherent risk, rent-seeking activities and lower governance drives these traits.

We could apply the same analogy to readability. Firms with military directors apply the same moral ethics, discipline, and support for stakeholders, aligning their interests. In this sense, firms with military directors mitigate agency costs by providing more information for stakeholders. The presence of military directors enables improved transparency, which enhances readability.

Indonesia's institutional background suggests that the military plays a significant role in local politics. At least one presidential candidate has had an army history every year since 2004. An appealing backdrop for military participation in the capital market is provided by Harymawan et al. (2018). They contend that even after the Suharto (2nd president) administration fell in 1998, military members played a significant role in the capital market and frequently used their connections to buy firms, obtain government subsidies, and rise to positions of power.

The characteristics of military connections in Indonesia blend well with being politically connected. As such, connected firms manipulate earnings, engage in rent-seeking activities, and are subject to less scrutiny from regulators. These directors or connected firms have intentional and malicious intent (Gosselin et al., 2021) regarding reporting information to stakeholders. Since the arguments are ambiguous, we propose the following hypothesis, stated in the alternative:

H_1: There is an association between military directors and the readability of financial statement footnotes.

3.3. Military Directors, CEO Busyness and Footnotes Readability

Financial statement footnote readability is important for effective communication with stakeholders and to enhance transparency and trust in financial reporting (Smith, 2016). While the relationship between a busy CEO and financial statement footnote readability is complex, improving the readability and accessibility of footnotes is essential for effective decision making (Prabhawa & Harymawan, 2022). Busy CEOs may not have the time or inclination to review and understand thoroughly lengthy or technical footnotes but may rely on summary information and key performance indicators. Nonetheless, improving the readability and accessibility of footnotes is crucial for promoting accountability and improving overall financial reporting quality (Worthington, 1977).

The extant literature suggests that directors' performance is linked to their abilities, increasing their value (Chakravarty & Rutherford, 2017; Elyasiani & Zhang, 2015; Field et al., 2013). The explanation is that favoured announcement returns benefit certified directors (Fama & Jensen, 2008). The consensus is that directors provide more social capital because they have contacts, appointments at other firms, and superior skills for the company (Chakravarty & Rutherford, 2017; Field et al., 2013). The best signal for evaluating and enhancing their social capital might be provided by busy CEOs (Martins & Costa, 2020). A busy CEO could lead to a twofold reliance on resources and affect the firm's efficiency (Tan et al., 2020).

Initially, a director's busy schedule helped the company function well; however, the drawback became too substantial. In other words, depending on the relevant circumstances, the research findings vary. Overboard directors are ineffective and reduce the company's value (Cashman et al., 2012; Falato et al., 2014). A firm's performance suffers without directors on the board. Thus, the first defence is based on a higher time commitment (Jiraporn et al., 2009). The second element worsens emotional weariness (Stein et al., 2020). The third point is that they are less proficient at successfully monitoring and advising management (Fich & Shivdasani, 2006). For instance, the negative aspects of being a busy CEO have been explored in some studies (Ahn & Jacobs, 2019; Liu & Paul, 2015; Tan et al., 2020). It is always feasible that experienced board members cannot fully utilize their skills because of the two extremes related to a busy CEO.

The board of directors directly oversees rules, procedures, and business plans and frequently has the greatest supervisory responsibility for risk-taking operations (Lee & Lok, 2020). According to Cooper and Uzun (2012), the decrease in managerial risk-taking measures and the over-boarded and overstretched position of directors are directly responsible for increased risk in banks. This suggests that the corporation permits the board of directors to take care.

Since individual directors have limited time and energy, those who hold several directorships are essentially too busy or too devoted to fulfilling their monitoring responsibilities (Lee & Lok, 2020). We can see that the CEO genuinely intends to maintain relationships with stakeholders by regularly communicating with them. Even though CEOs do not directly supervise financial reporting, CEO workload and the quality of financial reporting are indirectly linked (Harymawan, 2023). Even if the CEO is not constantly monitoring financial reporting, they can still have an impact. Therefore, communication and reporting can be made simpler and easier for overburdened CEOs to grasp. After all, the company ought to be able to convey information more clearly using straightforward language. The presence of a busy CEO suggests that they are being appointed due to their vast experience and reputations, which positively impact readability in general if they hold.

Conversely, if a busy director's reputation and extensive monitoring experience eclipse an active CEO's dedication, the company's financial reporting quality may deteriorate (Field et al., 2013). We believe the busy CEO is less careful about appearing trivial and unimportant. When these CEOs overlook the readability of textual reporting, they can do so and are less likely to allow their business operations to fail. As a result, firms employ more complex reporting to hide potential faults. Therefore, busier boards impair the readability of financial statement footnotes in military-connected firms. Thus, we propose the following hypothesis:

H_2: The association between military directors and financial statement footnotes readability is mitigated by CEO busyness.

4. Research Methodology

4.1. Sample attrition

As shown in Table 1, an original sample of 4,909 firm-year observations was collected from the Indonesian Stock Exchange. This was reduced by 1,010 financial firms and 2,897 missing

data points, yielding a final sample of 1,002 firm-year observations.[1] Panel B of Table 1 provides the yearly distribution of militarily connected firms, in which 2017 has the largest sample of military-connected firms. There are 528 firm-year observations for firms with at least one military-experienced director and 474 firm-year observations that do not have such a director. Panel C provides the industry distribution. The construction industry has the largest sample of militarily connected firms, followed by the mining industry. These align with the needs and the beneficial effect of having militarily connected directors, such as access or permission to certain construction and mining areas (Mietzer & Misol, 2012).

{Table 1 about here}

4.2. Regression model

We use a fixed effect regression to test the following hypothesis:

$$READABILITY_{it} = a_0CONSTANT_{it} + a_1MCON\_D_{it} + a_2BUSY_{it} + a_3RMC_{it} + a_4BSIZE_{it} + a_5INDCOM_{it} + a_6TENURE_{it} + a_7BIG4_{it} + a_8LISTAGE_{it} + a_9FSIZE_{it} + a_{10}LEVERAGE_{it} + a_{11}GROWTH_{it} + a_{12}ROA_{it} + a_{13}OCF_{it} + a_{14}SALES_{it} + a_{15}LOSS_{it} + a_{16\text{-}23}INDUSTRIES_{it} + a_{24\text{-}32}PERIOD_{it} + a_{33}ERROR_{it}$$

(Equation 1)

To address the second hypothesis (H_2), we propose the following regression analysis:

$$READABILITY_{it} = a_0CONSTANT_{it} + a_1MCON\_D_{it} + a_2BUSY_{it} + a_3MCON\_D_{it}*BUSY_{it} + a_4RMC_{it} + a_5BSIZE_{it} + a_6INDCOM_{it} + a_7TENURE_{it} + a_8BIG4_{it} + a_9LISTAGE_{it} + a_{10}FSIZE_{it} + a_{11}LEVERAGE_{it} + a_{12}GROWTH_{it} + a_{13}ROA_{it} + a_{14}CF_{it} + a_{15}SALES_{it} + a_{16}LOSS_{it} + a_{17\text{-}24}INDUSTRIES_{it} + a_{25\text{-}33}PERIOD_{it} + a_{34}ERROR_{it}$$

(Equation 2)

[1] We excluded financial firms since the footnotes in their annual reports are technical in nature.

4.3. Dependent variables[2]

The readability of the text in the financial footnotes is used as our dependent variable to create a readability index. According to previous research (Bonsall & Miller, 2017; Kim et al., 2019; Lehavy et al., 2011; Rennekamp, 2012), readability was assessed in this study using the Flesch–Kincaid Grade Level (*FLESCH*), Flesch–Kincaid Readability Index (*KINCAID*), Gunning-Fog Readability Index (*GFOX*), and Simple Measure of Gobbledygook (SMG) (*SMOG*).

The Flesch–Kincaid Grade Level (*FLESCH*) extends the Flesch Reading Ease Index. The results represent the number of years of education generally needed to comprehend text. A higher value of the *FLESCH* variable indicates that additional years of education are required to comprehend text, which implies lower text readability (Gosselin et al., 2021). The *KINCAID* model is probably the oldest, representing the oldest readability and being considered precise. Gosselin et al. (2021) state that texts that obtain scores between 90 and 100 are easily readable, whereas those with scores lower than 50 are considered academic literature.

$$KINCAID = 0.39\left(\frac{\text{total words}}{\text{total sentence}}\right) + 11.8\left(\frac{\text{total syllables}}{\text{total words}}\right) - 15.59$$

The *GFOX* (Gunning, 1969) is a variation of the FLESCH indices. It replaces the number of syllables with the number of words composed of more than three syllables – considered more difficult to read. With this measure, text readability decreases with an increasing *GFOX* index.[3] The measurement is as follows:

$$GFOX = 0.4\left\{\left(\frac{\text{total words}}{\text{total sentence}}\right) - 100\left(\frac{\text{wordscomplex}}{\text{word total}}\right)\right\}$$

[2] These dependent variables are not without caveats. Gosselin et al. (2021) argue that these measures do not work with specific financial reporting cases. Interpreting a balance sheet or cash flow statement does not require fewer complete words or sentences than other tasks.

[3] Gosselin et al. (2021) state that the relationship between text readability and the GFOX is as follows: unreadable (GFOX>18), difficult (18>GFOX>14), ideal (14>GFOX>12), acceptable (12>GFOX>10) and childish (10>GFOX>8).

The *SMOG* Index developed by McLaughlin (1969) is defined as the years of education required to understand a piece of text. McLaughlin (1969) suggests that polysyllabic words, which contain two or more syllables in a fixed number of sentences, accurately index the relative difficulty of various tests. A higher *SMOG* index indicates that more years of education are required to comprehend a text, which implies lower readability. The formula for the *SMOG* index is as follows:

$$SMOG = 1{,}043\sqrt{30 \text{ x } \frac{\text{total syllables}}{\text{of the sentence}}} - 3.1291$$

The footnotes readability measures are multiplied by -1 to facilitate the interpretation of the results.

4.4. Independent variables

Our first independent variable is militarily connected directors (*MCON_D*), measured using a dummy variable of 1 if the director has military experience (An et al., 2020; Cai et al., 2021; Ullah et al., 2022; Li & Rainville, 2021; Lin et al., 2021) and zero otherwise. The second independent variable is CEO busyness (*BUSY*), which takes the value of 1 if the CEO holds three or more other directorships or zero (Daniliuc et al., 2020; Fich & Shivdasani, 2006; Habib & Bhuiyan, 2016; Kusnadi et al., 2016; Larasati et al., 2019).

4.5. Control variables

We have included several control variables that are largely similar to those in the extant literature (Andres et al., 2013; Cashman et al., 2012; Charas, 2015; Daniliuc et al., 2020; Falato et al., 2014; Field et al., 2013; Habib & Bhuiyan, 2016; Harymawan et al., 2019; Jiraporn et al., 2009; Kusnadi et al., 2016; Larasati et al., 2019; Masulis & Mobbs, 2014; Tao & Hutchinson, 2013).

The first is an indicator variable that takes the value of 1 if the firm has a risk management committee (*RMC*) and zero otherwise, which is predicted to have a positive

relationship. Arguably, the presence of RMCs lessens firms' risk exposure, which could be achieved by increasing transparency (Brown et al. 2009). Next, we include the log transformation of the number of directors on the board (*BSIZE*). Since Indonesia has a two-tier board system, we include the percentage of independent commissioners (*INDCOM*) and predict a positive impact on readability.

Next, we operationalized *TENURE*, which takes the value of 1 if the CEO served the firm for more than five years and zero otherwise. We include a dichotomous variable that takes the value of 1 if the firm engaged with an international Big 4 auditor (*BIG4*) and a positive relationship is predicted. The inclusion of Big 4 auditors is in the spirit of Fan and Wong (2002), who argue that they could play a governance role in firms in Asian markets. Next, we include the natural log transformation for the years the firm is listed on the stock exchange (*LISTAGE*). We include the log of total assets as firm size (*FSIZE*). In addition, we control for total debt (*LEVERAGE*), return on assets (*ROA*), operating cash flows (*OCF*), and asset growth (*GROWTH*), which are scaled against total assets. Finally, we include a dummy variable that takes the value of 1 if the firm recorded a loss during the fiscal year. We included industry and period fixed effects to control for any unobserved heterogeneity. Please refer to Appendix A for the variable definitions.

{Appendix A about here}

4.6. Descriptive statistics

Panel A of Table 2 tabulates the descriptive statistics for the dependent variables. The mean (median) for the first measure, *FLESCH,* is -21.234 (-21.220) and ranges between -24.058 and -18.991. The other three dependent variables (*KINCAID*, *GFOX,* and *SMOG*) yield similar descriptive results.

Panel B of Table 2 provides the tabulation of the dependent variables. A total of 3.1 percent of the sample firms have at least one director with military experience (*MCON_D*).

Next, 33.2 percent of the sample firms' CEOs sit on more than three other boards of different firms (*BUSY*).

Panel C describes the control variables. A total of 21.4 percent of the sample firms have a risk management committee (*RMC*). The average board size (Board size) consists of 9 members (9.635) with a maximum of 18 directors on the board. The average percentage of independent commissioners (*INDCOM*) is 37.28 percent, whereas CEOs served the firm for an average of approximately 8 years (7.819). Meanwhile, 44.8 percent of the sample firms are audited by a Big4 auditor (*BIG4*).

The average listing age (*LISTAGE*) is 14 years, with a maximum of 34 years. The mean leverage (*LEVERAGE*) is 0.546, ranging from 0.077 to 2.876. The average (median) for return on assets (*ROA*) is 3.337 (3.178). The scaled operating cash flow (*OCF*) and sales (*SALES*) averages are 0.065 and 0.857, respectively. Finally, 23.9 percent of the sample firms reported a loss (*LOSS*) during the financial year.

{Table 2 about here}

5. Results

5.1. Univariate analyses

Table 3 presents the Pearson and Spearman-rank correlations. The Pearson and Spearman-rank correlations for the dependent variables yield high correlations (>0.70), showing that these measures identify the same construct.

The correlations between *MCON_D* and the dependent variables are negatively and significantly associated with the dependent variables, except for *KINCAID* (Pearson only). In general, the correlation results provide some initial support for a negative association between *MCON_D* and financial statement footnote readability. Pending multivariate analysis, this finding suggests that firms with at least one military director mitigate footnote readability.

The correlations between *BUSY* and the dependent variables also yield negative and significant results, suggesting that busier CEOs make financial statement footnotes less informative to stakeholders. We do not observe any other correlations (>0.70) that might present an issue.

{Table 3 about here}

Table 4 presents the differences in the means and medians when we separate the firms with at least one director with military experience from those with no experience. The premise of the tests is to differentiate the test variables and firm characteristics between these samples. Panel A presents the results for the dependent variables. We find that firms with military directors have significantly lower footnote readability than do firms without experienced military directors, except for *KINCAID* (the t test is not significant).

Firms with military-experienced directors have a significantly larger board (*BSIZE*), a higher percentage of independent commissioners (*INDCOM*), and are younger (only Kruskal–Wallis test). We do not find any significant differences between firms with military-experienced directors for CEO busyness (*BUSY*), as presented in Panel B of Table 4. Panel C of Table 4 tabulates the differences in the means and medians for the control variables.

{Table 4 about here}

Table 5 presents the differences in the means and medians between firms with a busy CEO (CEO with more than three directorships) who reflect significantly lower readability for all measures. Furthermore, firms with busy CEOs are considerably larger and record lower sales.

{Table 5 about here}

5.2. Multivariate analyses

Table 6 presents the baseline regression results. Columns 1 to 4 of Table 6 tabulate the regressions based on the readability measures. We find that firms with at least one director with military experience are negatively and significantly associated with the readability of

footnotes. This finding suggests that firms with at least one military-connected director tend to have more complex financial statement footnotes or less readable reports. This finding supports the obfuscation hypothesis (Brennan et al., 2009) that states that managers intentionally manipulate disclosure complexity for their interests (self-serving behaviour).

More importantly, our findings support our earlier conjecture that military-connected directors carry similar traits as political connections that hinder transparency due to rent-seeking activities (Chen et al., 2011; Chaney et al., 2011). The findings shed some light on the different perspectives of military connections in the literature. The findings might also suggest that the appointment and lack of business expertise and communication skills of militarily experienced directors (An et al., 2020; Chen et al., 2021) are largely ceremonial.

We find that the standalone busy CEO coefficient (*BUSY*) is also negatively and significantly related to all measures of footnote readability. This finding supports the argument that busier CEOs are less effective at monitoring additional responsibilities in other firms (Cashman et al., 2012; Falato et al., 2014.) We find that firms with a risk management committee (*RMC*) have a positive and significant relationship with the readability of financial statement footnotes. We find negative and significant relationships for firms with higher independent commissioner (*INDCOM*), that engaged an international auditor (*BIG4*), are younger (*LISTAGE*) and that recorded a loss (*LOSS*) during the year.

{Table 6 about here}

Table 7 presents the regression with the interaction of the two test variables *MCON_D* and *BUSY (MCON_D*BUSY)*. We find that the interaction terms are negative and significant across all readability measures. From an econometric perspective, the negative coefficients for the interaction imply that the presence of a busy CEO worsens the negative impact of the presence of military directors on financial statement footnote readability.

Having experienced military directors and CEOs who sit on three or more boards of directors weakens the overall readability of financial statement footnotes. A busy CEO further increases the negative relationship between *MCON_D* and financial statement footnote readability. The remaining control variables are qualitatively similar to those in Table 6. In addition, the variance inflation factors (VIFs) for all regressions are below the threshold of 10 (Hair et al., 2006).

{Table 7 about here}

5.3. Self-selection test

Hiring militarily connected directors may reflect self-selection issues, as the firms are free to choose whether to hire directors with such connections. This potential issue could affect the regression estimation results. Therefore, our primary concern is that the results presented herein may suffer self-selection bias because *MCON_D* could be driven by firm characteristics that affect the footnote readability of financial statements.

We apply a Heckman two-stage selection model to address this potential endogenous selection. We run a probit regression in the first stage to predict the association with military-connected directors. The self-selection equation is as follows:

$$MCON\_D_{it} = a_0 CONSTANT_{it} + a_1 LNDISTANCE_{it} + a_2 BUSY_{it} + a_3 RMC_{it} + a_4 BSIZE_{it} + a_5 INDCOM_{it} + a_6 TENURE_{it} + a_7 BIG4_{it} + a_8 LISTAGE_{it} + a_9 FSIZE_{it} + a_{10} LEVERAGE_{it} + a_{11} GROWTH_{it} + a_{12} ROA_{it} + a_{13} OCF_{it} + a_{14} SALES_{it} + a_{15} LOSS_{it} + a_{16\text{-}23} INDUSTRIES_{it} + a_{24\text{-}32} PERIOD_{it} + a_{33} ERROR_{it}$$

(Equation 3)

In Equation 3, the control variables are as previously used and defined. In addition, following Kim and Zhang (2016) and Harymawan (2018), we include the natural log transformation of the distance between the firm's headquarters and the Indonesian military bases (*LNDISTANCE*) as an exclusion restriction to generate credible estimates. The exclusion restriction should

influence the sample selection (first stage) but not the second stage's ultimate disturbance term (Certo et al., 2016). Similar to Cooper et al. (2010), we believe that a closer distance between a firm's headquarters and the Indonesian military bases could make firms interested in hiring ex-military personnel for their board position. Next, we generate the inverse Mills ratio (*IMILLS*) after the probit choice regression. In the second stage, the *IMILLS* generated in the first stage is added to Equation 3 to control for any endogeneity in the choice of *MCON_D*. The resulting equation is as follows:

$$READABILITY_{it} = a_0CONSTANT_{it} + a_1MCON\_D_{it} + a_2BUSY_{it} + a_3RMC_{it} + a_4BSIZE_{it} + a_5INDCOM_{it} + a_6TENURE_{it} + a_7BIG4_{it} + a_8LISTAGE_{it} + a_9FSIZE_{it} + a_{10}LEVERAGE_{it} + a_{11}GROWTH_{it} + a_{12}ROA_{it} + a_{13}OCF_{it} + a_{14}SALES_{it} + a_{15}LOSS_{it} + a_{16}IMILLS + a_{17\text{-}24}INDUSTRIES_{it} + a_{25\text{-}33}PERIOD_{it} + a_{34}ERROR_{it}$$

(Equation 4)

Table 8 presents the results of the selection tests. The exclusion restriction (*LNDISTANCE*) is negatively and significantly associated with *MCON_D*. This result implies that the proximity between firms' headquarters and the Indonesian military bases deliberately influences firms' decisions to hire militarily connected directors. Furthermore, we find that the *IMILLS* coefficients are significant, except for those of *SMOG*. After controlling for the selection test, the endogenous variable *MCON_D* remains negative and significantly related to the readability measures, except for *KINCAID*.

{Table 8 about here}

6. Conclusion

We investigate the relationship between military-experienced directors and the readability of financial statement footnotes. Based on a sample of 1,002 firm-year observations, we find a negative and significant relationship between military-experienced directors and footnote readability. This finding supports our argument that firms with military-experienced directors

have characteristics similar to those with political connections in which they hide information by using less readable footnotes. These findings provide additional information on the impact of military boards, especially in developing countries, as the discussion on the role of capital markets is in its infancy stage. More importantly, the findings of this research suggest an alternative, but not conventional, approach to military connections. We view the findings as a catalyst for further investigating their role in the capital market.

A compelling pattern emerges when examining the relationship between a CEO's board commitments, the presence of military-experienced directors, and footnote readability. For firms in which CEOs oversee more than three boards, military-experienced directors have an intensified negative impact on financial reporting clarity. This suggests a crucial role for the CEO's workload, as the demands of managing multiple boards seem to limit their ability to effectively monitor and address challenges associated with military-experienced directors. The dispersion of attention and strategic focus among various corporate entities compromises CEO oversight, accentuating the detrimental effects on footnote readability.

Our findings highlight the intricate interplay among CEO characteristics, board composition, and governance dynamics in shaping financial disclosure quality. The observed magnification of issues in firms with busy CEOs underscores the need to consider the broader executive landscape when evaluating the effectiveness of corporate governance structures in ensuring transparent and understandable financial reporting.

However, interpreting the findings of this research within the context of its inherent limitations is essential. The classification of firms as military-connected is currently binary and based solely on their existence in this category. This approach overlooks measures such as the percentage of management with a military connection, which could be crucial in understanding the depth of their influence on corporate policy. Future studies may benefit from a more granular examination considering additional metrics related to military connections or director

attributes. Doing so could involve exploring educational backgrounds or conducting an in-depth imprint study to better understand the intricate relationships among military connections, management influence, and corporate decision making. Future studies focusing on readability in the Indonesian capital market could consider boilerplates or repeated words and phrases that might influence readability.

In conclusion, although our research sheds light on certain aspects of the relationship between military-connected firms and corporate policy, recognizing and addressing these limitations is imperative for future studies aiming to delve deeper into the complexities of this dynamic. Incorporating more objective measures and expanding the scope of the investigation will contribute to a more thorough comprehension of the multifaceted influences stemming from military connections in the corporate landscape.

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Table 1. Sample Attrition

Panel A: Sample selection for firm-year observations	Firm-Years
Number of firm-years with available information	4,909
Less:	
Financial industry firms (SIC 6)	(1,010)
Missing Data	(2,897)
Total	1,002

Panel B: Yearly distribution

Year	MCON		Non-MCON		Total	
	N	%	N	%	N	%
2010	35	27.13	94	72.87	129	100
2011	43	66.15	22	33.85	65	100
2012	39	75.00	13	25.00	52	100
2013	53	80.30	13	19.70	66	100
2014	72	79.12	19	20.88	91	100
2015	62	76.54	19	23.46	81	100
2016	72	83.72	14	16.28	86	100
2017	82	80.39	20	19.61	102	100
2018	70	21.21	260	78.79	330	100
Total	528	52.69	474	47.31	1,002	100

Panel C: Industry distribution

Industry	MCON		Non-MCON		Total	
	N	%	N	%	N	%
(SIC 0) Agriculture, Forestry and Fisheries	16	45.71	19	54.29	35	100
(SIC 1) Mining	105	53.03	93	46.97	396	100
(SIC 2) Construction Industries	119	50.21	118	49.79	672	100
(SIC 3) Manufacturing	60	43.48	78	56.52	442	100
(SIC 4) Transportation, Communications and Utilities	97	56.07	76	43.93	397	100
(SIC 5) Wholesale & Retail Trade	72	60.00	48	40.00	253	100
(SIC 7) Service Industries	44	55.00	36	45.00	209	100
(SIC 8) Health, Legal, and Educational Services and Consulting	15	71.43	6	28.57	39	100
Total	528	52.69	474	47.31	1,002	100

Table 2. Descriptive Statistics

	Mean	Med	Min	Max	Stdev
Panel A: Dependent Variables					
FLESCH	-21.234	-21.220	-24.058	-18.991	0.901
KINCAID	-24.826	-24.750	-41.334	-13.332	4.351
GFOX	-24.749	-24.709	-27.890	-22.667	0.917
SMOG	-19.252	-19.189	-23.692	-17.266	0.978
Panel B: Independent variables					
MCON_D	0.031	0.000	0.000	1.000	0.173
BUSY	0.332	0.000	0.000	1.000	0.471
Panel C: Control variables					
RMC	0.214	0.000	0.000	1.000	0.410
Board size	9.635	9.000	4.000	18.000	3.245
BSIZE	2.209	2.197	1.386	2.944	0.355
INDCOM	37.277	33.333	0.000	75.000	14.335
Tenure	7.819	5.000	1.000	48.000	8.388
TENURE	0.451	0.000	0.000	1.000	0.498
BIG4	0.448	0.000	0.000	1.000	0.498
Listing age	14.069	13.000	1.000	34.000	8.948
LISTAGE	2.328	2.565	0.000	3.526	0.924
FSIZE	28.925	29.037	24.678	32.043	1.629
LEVERAGE	0.546	0.495	0.077	2.876	0.384
GROWTH	0.116	0.076	-0.306	1.642	0.251
ROA	3.377	3.178	-34.705	35.982	10.258
OCF	0.065	0.052	-0.171	0.369	0.093
SALES	0.857	0.718	0.011	3.519	0.689
LOSS	0.239	0.000	0.000	1.000	0.426

Please refer to Appendix A for the definition of variables.

Table 3. Correlations

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
FLESCH	1		*0.892***	*0.933***	*0.931***	*-0.089***	*-0.104***	*0.105***	*0.016*	*-0.111***	*-0.048*	*-0.013*	*-0.048*	*-0.037*	*0.082***	*0.086***	*0.110***	*0.037*	*0.089***	*-0.081***
KINCAID	2	0.898***		*0.876***	*0.740***	*-0.061**	*-0.102***	*0.140***	*0.059**	*-0.068***	*-0.034*	*-0.051*	*-0.063***	*0.03*	*0.131***	*0.090***	*0.083***	*0.03*	*0.028*	*-0.071***
GFOX	3	0.936***	0.878***		*0.922***	*-0.076***	*-0.099***	*0.085***	*0.033*	*-0.077***	*-0.027*	*-0.026*	*-0.006*	*-0.016*	*0.062***	*0.082***	*0.111***	*0.068***	*0.074***	*-0.083****
SMOG	4	0.882***	0.782***	0.912***		*-0.093****	*-0.095****	*0.066***	*-0.005*	*-0.119****	*-0.041*	*0.013*	*-0.025*	*-0.072***	*0.03*	*0.084****	*0.139****	*0.057**	*0.122****	*-0.097****
MCON_D	5	-0.086***	-0.046	-0.074**	-0.075**		*-0.004*	*-0.051*	*0.067***	*0.090****	*0.002*	*0.024*	*-0.054**	*-0.006*	*-0.042*	*0.017*	*-0.04*	*0.031*	*0.023*	*0.022*
BUSY	6	-0.084***	-0.082***	-0.097***	-0.098***	-0.004		*-0.042*	*0.045*	*0.006*	*0.093****	*0.003*	*0.033*	*0.069***	*0.053**	*-0.056**	*-0.051*	*-0.041*	*-0.093****	*0.003*
RMC	7	0.092***	0.134***	0.072**	0.049	-0.051	-0.042		*0.245****	*-0.101****	*-0.203****	*0.250****	*-0.075***	*0.351****	*0.019*	*0.075***	*0.100****	*0.129****	*-0.017*	*-0.012*
BSIZE	8	0.002	0.041	0.023	-0.003	0.066**	0.049	0.231***		*0.014*	*-0.066***	*0.412****	*0.115****	*0.666****	*0.008*	*0.165****	*0.225****	*0.221****	*0.133****	*-0.160****
INDCOM	9	-0.107***	-0.067**	-0.099***	-0.129***	0.074**	0.02	-0.076**	0.033		*0.025*	*-0.038*	*-0.059**	*0.013*	*0.043*	*-0.022*	*-0.015*	*0.108****	*-0.001*	*0.036*
TENURE	10	-0.018	-0.01	-0.01	-0.022	`0.000	0.093***	-0.203***	-0.045	0.036		*-0.067***	*0.084****	*-0.051*	*-0.007*	*0.025*	*0.074*	*0*	*0.112****	*-0.098****
BIG4	11	-0.034	-0.048	-0.037	0.008	0.024	0.003	0.250***	0.393***	-0.018	-0.067**		*0.176****	*0.405****	*-0.078***	*0.085****	*0.263****	*0.284****	*0.216****	*-0.118****
LISTAGE	12	-0.067**	-0.076**	-0.035	-0.062**	-0.029	0.037	-0.03	0.107***	-0.024	0.087***	0.186***		*0.073***	*0.047*	*-0.065***	*0.058**	*0.016*	*0.193****	*-0.016*
FIRMSIZE	13	-0.045	0.022	-0.032	-0.073**	-0.005	0.059*	0.333***	0.648***	0.039	-0.053*	0.412***	0.078**		*0.130****	*0.200****	*0.186****	*0.225****	*-0.077***	*-0.155****
LEVERAGE	14	0.02	0.060*	0.001	-0.041	`-0.040	0.036	-0.046	-0.110***	0.101***	-0.018	-0.123***	0.099***	-0.064**		*-0.012*	*-0.361****	*-0.203****	*0.055**	*0.237****
GROWTH	15	0.068**	0.070**	0.066**	0.074**	0.011	-0.034	0.027	0.098***	-0.015	0.014	0.012	-0.036	0.138***	-0.104***		*0.369****	*0.071***	*0.157****	*-0.378****
ROA	16	0.070**	0.052*	0.091***	0.106***	-0.03	-0.027	0.135***	0.225***	-0.016	0.076**	0.259***	0.034	0.187***	-0.390***	0.254***		*0.534****	*0.406****	*-0.731****
OCF	17	0.02	0.015	0.055*	0.038	0.038	-0.039	0.138***	0.189***	0.081**	-0.017	0.286***	0.037	0.206***	-0.178***	-0.03	0.535***		*0.222****	*-0.354****
SALES	18	0.060*	0.008	0.046	0.081**	-0.002	-0.094***	-0.074**	0.055*	0.057*	0.096***	0.171***	0.136***	-0.146***	0.109***	0.005	0.254***	0.153***		*-0.289****
LOSS	19	-0.096***	-0.082***	-0.096***	-0.105***	0.022	0.003	-0.012	-0.166***	0.029	-0.098***	-0.118***	0.001	-0.160***	0.261***	-0.246***	-0.650***	-0.307***	-0.228***	

Please refer to Appendix A for the definition of variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 4. Differences of Mean and Median for Military Experience Directors

	MCON_D=0		MCON_D=1		T-test	Kruskal-Wallis
	Mean	Median	Mean	Median		
Panel A: Dependent Variables						
FLESCH	-21.220	-21.216	-21.666	-21.629	2.721***	7.917***
KINCAID	-24.790	-24.735	-25.953	-25.953	1.466	3.773*
GFOX	-24.737	-24.700	-25.127	-25.208	2.339**	5.735**
SMOG	-19.239	-19.181	-19.661	-19.546	2.370**	8.581***
Panel B: Independent Variable						
BUSY	0.333	0.000	0.323	0.000		(0.014)
Panel C: Control variables						
RMC	0.217	0.000	0.097	0.000		(2.595)**
BSIZE	2.204	2.197	2.339	2.303	-2.084**	4.553**
INDCOM	37.088	33.333	43.184	40.000	-2.336**	8.018***
TENURE	0.451	0.000	0.452	0.000		(0.028)
BIG4	0.446	0.000	0.516	1.000		(0.598)
LISTAGE	2.333	2.639	2.177	2.398	0.923	2.939*
FSIZE	28.926	29.008	28.877	29.204	0.164	0.036
LEVERAGE	0.548	0.494	0.459	0.501	1.274	1.764
GROWTH	0.116	0.075	0.131	0.088	-0.340	0.303
ROA	3.432	3.229	1.661	0.909	0.946	1.586
OCF	0.065	0.052	0.085	0.057	-1.207	0.979
SALES	0.858	0.713	0.849	0.827	0.071	0.535
LOSS	0.237	0.000	0.290	0.000		(0.472)

Please refer to the Appendix A for the definition of variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Chi-square (□2) are in parentheses.

Table 5. Differences in Mean and median for firms with Busy Directors

	BUSY =0		BUSY =1		T-test	Kruskal-Wallis
	Mean	Median	Mean	Median		
Panel A: Dependent Variables						
FLESCH	-21.180	-21.141	-21.342	-21.368	2.675***	10.859***
KINCAID	-24.574	-24.484	-25.332	-25.307	2.606***	10.480***
GFOX	-24.686	-24.648	-24.876	-24.885	3.091***	9.788***
SMOG	-19.185	-19.132	-19.388	-19.319	3.110***	9.082***
Panel B: Independent Variable						
MCON_D	0.031	0.000	0.030	0.000		(0.014)
Panel C: Control variables						
RMC	0.226	0.000	0.189	0.000		(1.764)
BSIZE	2.196	2.197	2.233	2.303	-1.537	2.015
INDCOM	37.078	33.333	37.675	33.333	-0.620	0.040
TENURE	0.419	0.000	0.517	1.000		(8.612)***
BIG4	0.447	0.000	0.450	0.000		(0.011)
LISTAGE	2.304	2.565	2.376	2.640	-1.164	1.110
FSIZE	28.857	28.847	29.061	29.273	-1.867*	4.799**
LEVERAGE	0.536	0.489	0.565	0.502	-1.148	2.833*
GROWTH	0.122	0.083	0.104	0.068	1.089	3.154*
ROA	3.570	3.34	2.988	2.666	0.846	2.575
OCF	0.068	0.055	0.060	0.047	1.236	1.660
SALES	0.903	0.764	0.766	0.613	2.974***	8.665***
LOSS	0.238	0.000	0.240	0.000		(0.008)

Please refer to Appendix A for the definition of variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$. Chi-square (□2) are in parentheses.

Table 6. Baseline Regression

	(1) FLESCH	(2) KINCAID	(3) GFOX	(4) SMOG
CONSTANT	-20.454***	-25.528***	-24.158***	-17.587***
	(-30.13)	(-7.66)	(-34.92)	(-24.19)
MCON_D	-0.387***	-0.931*	-0.377**	-0.391***
	(-2.68)	(-1.65)	(-2.37)	(-2.60)
BUSY	-0.120*	-0.570*	-0.158**	-0.148**
	(-1.86)	(-1.81)	(-2.37)	(-2.05)
RMC	0.273***	1.587***	0.237***	0.180**
	(3.30)	(3.86)	(2.80)	(2.01)
BSIZE	0.062	0.379	0.145	0.084
	(0.54)	(0.70)	(1.25)	(0.68)
INDCOM	-0.005**	-0.014	-0.004**	-0.006***
	(-2.17)	(-1.35)	(-2.22)	(-3.20)
TENURE	-0.015	0.096	-0.011	-0.045
	(-0.25)	(0.34)	(-0.18)	(-0.70)
BIG4	-0.117*	-0.886***	-0.167**	-0.008
	(-1.81)	(-2.81)	(-2.48)	(-0.11)
LISTAGE	-0.066**	-0.357**	-0.033	-0.071**
	(-2.02)	(-2.26)	(-1.03)	(-2.12)
FSIZE	-0.029	0.012	-0.025	-0.054*
	(-1.07)	(0.09)	(-0.90)	(-1.80)
LEVERAGE	0.115	1.047***	0.094	0.008
	(1.25)	(2.60)	(1.01)	(0.07)
GROWTH	0.186*	0.767	0.165*	0.196*
	(1.80)	(1.61)	(1.65)	(1.89)
ROA	-0.002	-0.003	0.000	0.001
	(-0.43)	(-0.16)	(0.04)	(0.29)
OCF	0.085	0.058	0.409	0.076
	(0.23)	(0.03)	(1.13)	(0.19)
SALES	0.024	-0.128	-0.017	0.037
	(0.51)	(-0.52)	(-0.34)	(0.69)
LOSS	-0.175**	-0.822*	-0.126	-0.125
	(-1.99)	(-1.94)	(-1.40)	(-1.27)
Industries FE	Included	Included	Included	Included
Year FE	Included	Included	Included	Included
Adjusted R^2	0.073	0.072	0.071	0.073
F-stats	3.725***	3.810***	3.952***	4.200***
VIF	2.25	2.25	2.25	2.25

Please refer to Appendix A for the definition of variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 7. Interaction with Busy

	(1) FLESCH	(2) KINCAID	(3) GFOX	(4) SMOG
CONSTANT	-20.442***	-25.482***	-24.142***	-17.576***
	(-30.12)	(-7.64)	(-34.91)	(-24.18)
MCON_D	-0.155	0.010	-0.052	-0.158
	(-0.89)	(0.02)	(-0.27)	(-0.84)
BUSY	-0.098	-0.480	-0.127*	-0.125*
	(-1.49)	(-1.49)	(-1.87)	(-1.71)
*MCON_D*BUSY*	-0.723***	-2.939***	-1.014***	-0.727***
	(-2.78)	(-2.76)	(-4.10)	(-2.78)
RMC	0.276***	1.597***	0.240***	0.182**
	(3.33)	(3.88)	(2.84)	(2.04)
BSIZE	0.065	0.388	0.148	0.086
	(0.56)	(0.72)	(1.28)	(0.71)
INDCOM	-0.005**	-0.014	-0.005**	-0.006***
	(-2.19)	(-1.37)	(-2.26)	(-3.23)
TENURE	-0.022	0.068	-0.020	-0.052
	(-0.37)	(0.24)	(-0.34)	(-0.81)
BIG4	-0.121*	-0.904***	-0.173**	-0.012
	(-1.88)	(-2.87)	(-2.58)	(-0.17)
LISTAGE	-0.063*	-0.346**	-0.030	-0.068**
	(-1.94)	(-2.19)	(-0.91)	(-2.04)
FSIZE	-0.030	0.006	-0.027	-0.055*
	(-1.12)	(0.05)	(-0.97)	(-1.85)
LEVERAGE	0.109	1.021**	0.085	0.002
	(1.18)	(2.53)	(0.91)	(0.02)
GROWTH	0.182*	0.752	0.160	0.192*
	(1.77)	(1.58)	(1.60)	(1.85)
ROA	-0.001	-0.000	0.001	0.002
	(-0.28)	(-0.02)	(0.24)	(0.42)
OCF	0.081	0.043	0.404	0.072
	(0.22)	(0.03)	(1.12)	(0.18)
SALES	0.025	-0.123	-0.015	0.038
	(0.54)	(-0.50)	(-0.30)	(0.72)
LOSS	-0.172*	-0.808*	-0.121	-0.121
	(-1.96)	(-1.91)	(-1.35)	(-1.23)
Industries FE	Included	Included	Included	Included
Year FE	Included	Included	Included	Included
Adjusted R^2	0.077	0.074	0.078	0.076
F-stats	4.174***	4.017***	5.663***	5.110***
VIF	2.25	2.25	2.25	2.25

Please refer to the Appendix A for definition of variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 8. Self-selection test

	First-stage MCON_D	Second-stage FLESCH	Second-stage KINCAID	Second-stage GFOX	Second-stage SMOG
CONSTANT	6.789**	-20.666***	-27.419***	-24.032***	-18.072***
	(2.42)	(-22.22)	(-5.98)	(-25.83)	(-18.00)
LNDISTANCE	-0.462***				
	(-2.74)				
MCON_D		-0.305*	-0.675	-0.324*	-0.341**
		(-1.85)	(-1.02)	(-1.83)	(-2.05)
BUSY	0.120	-0.036	-0.213	-0.101	-0.057
	(0.54)	(-0.41)	(-0.49)	(-1.10)	(-0.54)
RMC	-0.814***	0.236	1.072	0.184	0.113
	(-3.04)	(1.59)	(1.46)	(1.23)	(0.67)
BSIZE	1.283***	-0.016	0.140	0.170	-0.017
	(3.33)	(-0.09)	(0.16)	(0.97)	(-0.09)
INDCOM	0.019**	-0.002	0.005	-0.002	-0.004
	(2.48)	(-0.49)	(0.32)	(-0.51)	(-1.15)
TENURE	0.009	-0.001	0.181	0.021	-0.072
	(0.04)	(-0.01)	(0.46)	(0.25)	(-0.78)
BIG4	0.465**	0.105	0.508	0.036	0.086
	(1.99)	(1.02)	(1.00)	(0.33)	(0.76)
LISTAGE	-0.336***	-0.099**	-0.525**	-0.049	-0.054
	(-3.00)	(-2.01)	(-2.32)	(-0.99)	(-1.09)
FSIZE	-0.246***	-0.026	0.016	-0.040	-0.036
	(-2.79)	(-0.63)	(0.08)	(-0.97)	(-0.80)
LEVERAGE	-1.293**	-0.181	-0.436	-0.214	-0.255
	(-2.49)	(-1.32)	(-0.69)	(-1.50)	(-1.57)
GROWTH	0.284	0.206	0.750	0.176	0.310**
	(0.82)	(1.57)	(1.26)	(1.37)	(2.33)
ROA	-0.014	-0.007	-0.015	-0.006	-0.007
	(-0.75)	(-1.11)	(-0.54)	(-0.99)	(-1.03)
OCF	1.127	-0.342	-2.211	-0.138	-0.198
	(0.76)	(-0.60)	(-0.85)	(-0.25)	(-0.34)
SALES	0.008	0.059	0.064	0.014	0.082
	(0.06)	(0.95)	(0.19)	(0.22)	(1.17)
LOSS	-0.261	-0.198	-0.868	-0.182	-0.154
	(-0.71)	(-1.54)	(-1.35)	(-1.38)	(-1.08)
IMILLS		0.152**	0.843**	0.133*	0.101
		(2.15)	(2.53)	(1.85)	(1.38)
Industries and Year FE	Included	Included	Included	Included	Included
Pseudo R^2	0.252	.	.	.	.
Adjusted R^2	.	0.098	0.084	0.078	0.090
F-stats	.	3.140***	2.864***	2.536***	3.071***
VIF	.	2.21	2.21	2.21	2.21

Please refer to Appendix A for the definition of variables. * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Appendix A. Variable Definition

Variables	Definition	Sources
Panel A: Dependent Variables		
FLESCH	Readability score using FLESCH grade level	OSIRIS
KINCAID	Readability score using Flesch-Kincaid Readability Index	OSIRIS
GFOX	Readability score using Fog Index	OSIRIS
SMOG	Readability score using SMOG Index	OSIRIS
Panel B: Independent Variables		
MCON_D	Dummy variable, 1 if any director member has military experience and 0 if otherwise	Annual Report
BUSY	Dummy variable, 1 if CEO holds three or more other directorships and 0 if otherwise	Bloomberg
Panel C: Control variables		
RMC	Dummy variable, 1 if there is a Risk Management Committee within the company and 0 if there is no Risk Management Committee within the company	Financial Report
BSIZE	Natural logarithm of the number of members of the board of directors and board of commissioners in the company	Financial Report
INDCOM	Percentage of independent commissioners in the company	Financial Report
TENURE	Dummy variable, 1 for CEO who has served the company more than five years and 0 for CEO who has served the company less than or equal to five years	Bloomberg
BIG4	Dummy variable, 1 if the firm audited by big 4 and 0 if otherwise	Financial Report
LISTAGE	Natural logarithm of the number of years since the company was listing in Indonesian Stock Exchange	OSIRIS
FSIZE	Natural logarithm of total assets at the end of the year	OSIRIS
LEVERAGE	Total debt divided by total assets	OSIRIS
GROWTH	Difference between total assets and lag total assets divided by lag total assets	OSIRIS
ROA	Net income divided by total assets	OSIRIS
OCF	Net cash flows from operating activities divided by total assets	OSIRIS
SALES	Ratio of total sales to total assets	OSIRIS
LOSS	Dummy variable, 1 if net income is negative and 0 if otherwise	OSIRIS

Author Responses to Reviewer 2's

Comments, Suggestions and Recommendations

on ARA-09-2023-0246.R2

We are thankful to the reviewer for the positive, thoughtful, and constructive comments that have helped us to improve the paper considerably. The reviewer's comments are italicized, and our responses follow each comment and suggestion.

Comment #1:

1. Some expressions are still unclear and inaccurate, e.g.:

- *"..., readability is integrating and interpreting relevant information in their decision-making process. ... Fourth, readability is a communication tool ..." (page 2). Readability is a characteristic of texts. It is not "integrating and interpreting information", nor a "communication tool".*
- *"... firms with military-experienced directors have similar characteristics with political connections in which they hide information in financial statements' footnote readability" (page 21). Information is hidden using less readable footnotes, not in footnote readability.*

Authors' Response:

We are grateful to the reviewer for this comment. We have improved on the delivery of the sentences. Please refer to the second paragraph of the introduction, reproduced below:

"In this study, we propose two research objectives. The first research objective is to investigate the relationship between military directors and the footnote readability of financial statements. We opt for footnote readability for several reasons. First, the context of readability generally assesses the quality of the information that preparers provide, as it evaluates the usefulness of information for shareholders and stakeholders (Gosselin et al., 2021). Second, readability involves thoroughly examining text characteristics that integrate information to facilitate useful decision making. Third, readability is a channel for investigating the obfuscation hypothesis, which translates to using complex language and managers' inherent motivations for producing complex accounting disclosures. Fourth, readability serves as a communication tool that can help researchers better comprehend the communication strategies employed by firms and managers (Gosselin et al., 2021). We focus on the readability of financial statement footnotes for several reasons. Financial statement footnote readability refers to the clarity and comprehensibility of the information included in the

footnotes of financial statements, which provide additional information and context about an organization's financial performance. According to previous studies, readability is a critical factor in the effectiveness of financial statement footnotes because it directly affects readers' ability to understand and interpret the information presented (Chen et al., 2018; Leuz et al., 2003)."

Comment #2:

2. The self-selection test addresses the potential self-selection issues that firms with lower footnote readability tend to hire military connected directors. However, the test does not satisfactorily address the concern of an alternative explanation, i.e., militarily connected directors are lack of the expertise to effectively monitor the production of high-quality financial information. I suggest the authors to explore cross-sectional variations in the director's (financial) expertise, e.g., does the relation between military directors and footnote readability weakens with the directors' tenure (one could reasonably assume that director's expertise increases with tenure) or financial backgrounds?

Authors' Response:

We thanked the reviewer for this insight. We included the variable tenure as a control variable. The variable is insignificant in that it does not explain the variation of readability in the footnotes. As an extended but untabulated analysis, we ran an interaction *MCON_D*TENURE* to test whether the relationship between *MCON_D* and readability depends on *TENURE*. However, we could not find any results to suggest the tenure of military-connected directors' matter. The results can be obtained from the corresponding author upon request.

Comment #3:

3. Inconsistent message behind the BUSY variable. In the Introduction (Page 5), the paper argues that the relationship between military directors and footnote readability is accentuated because busy directors have lax monitoring. In the setting of financial statement footnotes, CEOs and directors play diverse roles. CEOs (and CFOs) are responsible for the fair and faithful representation of financial statements, including footnotes. In other words, CEOs are the preparers, while directors are the monitors. Conceptually, what the authors want to capture (at least based on arguments in the Introduction) is the effect of busy monitors, not busy preparers. It is fine that your "BUSY" variable stands for CEO only. However, the paper should be consistent throughout the Introduction, the Hypothesis development, and the research designs.

Authors' Response:

We thanked the reviewer for this comment. We have made changes to address the busyness is tied to the CEO. Please refer to third paragraph on page 4, reproduced below:

"As our second research question, we extend the above by factoring in the role of CEO busyness and whether it impacts the relationship between military directors and footnote readability. We focus on the degree of CEO busyness, as expecting readability to be more affected by CEO busyness than by board busyness is more intuitive."

Comment #4:

4. Other issues with the empirical results:

- *Do the findings in Table 6 indicate that firms audited by BIG4 auditors and with more independent commissioners produce less readable footnotes? These results seem counterintuitive.*
- *What is the magnitude of within-firm (time-series) variations in the readability measures? Do financial statement footnotes contain boilerplates? If so, are the results robust after remove boilerplate words or phrases?*

Authors' Response:

1.The results suggest that firms audited by Big4 and with more independent commissioners produce less readable footnotes. Although the results might be counterintuitive, but would represent future research that could be explored.

2. We thanked the reviewer for the comments on boilerplates. Unfortunately, we did not consider boilerplates words or phrases in this paper. However, we have included this as part of future research. Please refer to the third paragraph on page 22 of the revised manuscript, reproduced below:

"Future studies focusing on readability in the Indonesian capital market could consider boiler plates or repeated words and phrases that might influence readability."