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Does National Culture Moderate the Relationship between CEO Characteristics and Accounting Conservatism? Evidence from SBF120

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ABSTRACT

This research aimed to examine the relationship between Chief Executive Officer (CEO) characteristics and accounting conservatism and whether national culture moderates this relationship. The sample consisted of 672 observations from French industrial and service companies listed on the SBF 120 from 2015 to 2022. The collected data were analyzed using SPSS software. To explore the moderating effect of national culture on the relationship between CEO characteristics and accounting conservatism, we applied the feasible generalized least squares (FGLS) to panel data. The results show that CEOs with greater experience and skills are positively and significantly associated with accounting conservatism. Furthermore, consistent with the arguments of the upper echelons theory, the results show that, on the one hand, the seniority of the CEO is positively and significantly associated with accounting conservatism and, on the other hand, education, age, and compensation of CEOs are positively but insignificantly associated with accounting conservatism. Furthermore, the results show that the moderating variable (national culture) positively affects the relationship between CEO characteristics and accounting conservatism.

Keywords: CEO Characteristics; Accounting Conservatism; National Culture

INTRODUCTION

Conservatism is defined as the tendency of accountants to require a high degree of verification before recognizing good news as gains, while readily acknowledging losses from bad news (Basu, 1997). This principle has been perceived as a response to information asymmetries, especially between Chief Executive Officers (CEOs) and external stakeholders (investors, creditors, and regulators). It plays a crucial role in reducing the risk of accounting manipulation, protecting creditors, and stabilizing financial markets (Watts, 2003; Solichah and Fachrurrozie, 2019).

This points to fundamental theories, namely the upper echelons theory (Hambrick and Mason, 1984) and agency theory (Jensen and Meckling, 1976). Indeed, the upper echelons theory posits that CEOs' personal attributes influence the company's decisions, thus impacting its results; However, the agency theory shows that CEOs' personal interests can come into play in the exercise of their responsibilities. Accordingly, interests, such as increased compensation and improved personal reputation, would likely lead CEOs not to communicate information or to delay its communication if doing so would negatively affect their interests.

Other studies highlight the importance of the CEO's personal characteristics, including age, experience, and tenure, in shaping accounting results, which in turn influence the level of accounting conservatism adopted by companies. For example, older or more experienced CEOs tend to favor a more conservative accounting approach, often due to risk aversion or a desire to protect their professional reputation (Hambrick and Mason, 1984; Degenhart et al., 2021; Hrazdil, 2024).

Overconfident CEOs may exhibit less conservatism, preferring aggressive earnings management to forward-looking optimism (Ahmed and Duellman, 2013). In contrast, risk-averse or ethically conscious CEOs may favor more conservative accounting practices to guard against potential legal or reputational risks.

Furthermore, Iwasak et al. (2018), examining Japanese companies, find that accounting conservatism strengthens CEO compensation and profits, particularly when the prior information system is weak. Aguir et al. (2021) highlight that in France, the highest-paid CEOs apply less conservatism, especially if their compensation is strongly linked to accounting performance.

The problem addressed by our research can be formulated through the following central question: Does national culture moderate the relationship between CEO characteristics and accounting conservatism?

The present work aimed to examine the moderating effect of national culture on the relationship between CEO characteristics and accounting conservatism in French companies listed on the SBF 120 market.

This paper contributes to the existing literature in several ways. It is largely motivated by the few studies on the relationship between CEO characteristics and accounting conservatism and the moderating effect of national culture on this link. This research provides the information user with a framework to better assess company transparency, the quality of the information disclosed, and opportunities for future growth in a context where the characteristics of the CEO occupy a central position in the evaluation of the company.

Following a review of the literature and the theoretical development of our hypotheses, we present the methodological approach adopted in this study. Finally, we report and discuss the results.

LITERATURE REVIEW

Accounting Conservatism and CEO Characteristics

Conservatism requires a significant degree of verification to account for good news versus bad news (Basu, 1997), which is likely to mitigate CEOial bias in financial reporting (Solichah and Fachrurrozie, 2019), weaken opportunistic payments, reduce CEOs' discretion to manipulate earnings (Dechow et al., 2010), and also make litigation more likely in the case of overvalued net assets (Balakrishnan et al., 2016). Several empirical studies have analyzed the effects of individual CEO characteristics on the quality of accounting information, more specifically on accounting conservatism.

CEO's age is often associated with more cautious behavior due to risk aversion (Bamber et al., 2010). However, some CEOs with imminent retirement may become more opportunistic to maximize their severance pay (Chen et al., 2018).

Tenure is expected to increase accounting conservatism for reputational reasons (Dong and Gai, 2017). However, it should be noted that a long and strong presence can lead to CEOial entrenchment, especially toward the end of the mandate, reflecting less prudent practices (Ali and Zhang, 2015).

The Moderating Effect of National Culture on the Relationship between CEO Characteristics and Accounting Conservatism

Accounting conservatism, a cautious attitude that anticipates losses while deferring the recognition of gains, is often perceived as a mechanism that reduces information asymmetry and protects stakeholders (Watts, 2003). However, this prudence can be undermined when the CEO's personal interests prevail, especially when incentivized to artificially improve accounting results in the short term (Van Essen et al., 2015). In this case, inconsistencies or paradoxes can be highlighted: cautious leaders, given their experience or seniority, can behave aggressively, especially when they approach retirement age; others, with high potential and excellent training, can exploit their expertise to circumvent the spirit of the standards (Chen et al., 2018; Bertrand and Schoar, 2003). These tensions raise the question of what factors can mitigate these opportunistic behaviors and restore the logic of accounting prudence?

Several other studies highlight that the regulatory framework, legal system, and the tax-oriented use of financial statements are major elements of national culture and can explain cross-country differences in conservatism practices. Thus, for example, in Romano-Germanic countries, where accounting is used to determine taxable income, companies would apply more prudent practices to limit legal risks (Albuquerque et al., 2019). These findings indicate that accounting conservatism reveals not only technical choices but also institutional values specific to each national environment.

The Upper Echelons Theory

The Upper Echelons Theory was developed by Hambrick and Mason (1984) in their seminal article, which argued that organizations are, to a large extent, a reflection and representation of their leaders. This theory claims that decision-makers' personal characteristics, such as age, gender, education level, professional experience, beliefs, or risk tolerance, directly influence corporate strategy and, by extension, organizational performance.

This theory is based on the idea that CEOs interpret the strategic environment through the prism of their cognitive lenses and make decisions shaped by their personal values and experiences (Hambrick, 2007). Thus, a CEO's worldview shapes the accounting, financial, and CEOial decisions made within the company.

In the context of accounting conservatism, several studies have shown that some CEO characteristics directly influence their propensity to adopt a more or less prudent policy. For example, as already mentioned, older, conservative CEOs or those with an accounting background are often associated with more cautious accounting (Ason, 2021; Degenhart et al., 2021). Conversely, younger, confident CEOs or those with a strong risk appetite may implement more aggressive, or even opportunistic, accounting policies.

Institutional Theory

Institutional theory, developed by Meyer and Rowan (1977), constitutes a central approach to explain how normative, cultural, and regulatory contexts influence organizational and accounting behaviors. Indeed, institutions structure the expectations of actors and impose constraints and opportunities that shape practices (Scott, 2014).

Several recent studies highlight that national culture, as an institutional dimension, acts as a normative framework that guides accounting behaviors, particularly in terms of conservatism. For example, Cziffra et al. (2023) note that in countries where institutional culture emphasizes prudence, companies adopt stronger accounting conservatism, regardless of CEOs' individual characteristics.

These studies are reinforced by the work of DiMaggio and Powell (1983), which shows that institutional norms vary according to legal and cultural systems and influence financial decisions through mechanisms of coercive, normative, and mimetic isomorphism.

Hypotheses Development

CEO's Age and Accounting Conservatism

Chouaibi and Chiekh (2017) claim that younger CEOs are relatively more willing to take risks and more motivated to generate innovative ideas, whereas their older counterparts are more conservative. In the same vein, Horváth and Spirollari (2012) noted that older CEOs prefer investments with quick returns and are, therefore, less willing to take risks.

Bamber et al. (2010) and Degenhart et al. (2021) found that older CEOs are associated with more conservative accounting disclosures, hence the first hypothesis:

H1: CEO's age is positively associated with the level of accounting conservatism.

CEO's Mandate and Accounting Conservatism

Research on the relationship between CEO tenure and accounting conservatism has yielded mixed results. Ali and Zhang (2015) found that CEOs in publicly traded US firms tend to overstate their earnings in the early years of their tenure. Similarly, Suherman et al. (2021) found that in Indonesian companies, CEOs with low seniority tend to prioritize short-term investments and therefore retain excess cash to finance them.

However, seniority within the firm is associated with greater knowledge of internal risks and a higher perceived level of responsibility, which would encourage CEOs to adopt more conservative accounting policies (Riaz et al., 2024). In their study on Chinese firms, Dong and Gai (2017) noted that CEOs' tenure, particularly that of the Chief Financial Officer (CFO), is positively associated with the proportion of asset impairment provisions. It is then expected that long-tenured CEOs, well-placed within their firm and sector and with long working relationships, will be more conservative. Therefore, our Second hypothesis is as follows:

H2: CEO's seniority is positively associated with the level of accounting conservatism.

CEO Training and Accounting Conservatism

The CEOs' education level reflects their cognitive abilities and skills, and is an important factor in improving business performance (Darmadi, 2013). For example, directors who have undertaken higher (tertiary) education acquire sufficient skills in strategic thinking and decision-making.

In this case, CEOs' academic training influences their sensitivity to accounting standards. Those with degrees in accounting, finance, or MBAs understand the implications of accounting choices better and are generally more inclined to adopt prudent policies. Degenhart et al., (2021), using French and Brazilian companies, show that the diversity of educational profiles and accounting specialization reinforces and strengthens accounting conservatism. These results corroborate those of Ason (2021), who reports that in Malaysian companies, CEOs with higher levels of education exhibit greater accounting conservatism. Based on the above discussion, we propose the following Hypothesis 3:

H3: CEO's training is positively linked to the level of accounting conservatism.

CEO's Experience and Accounting Conservatism

Experienced CEOs can effectively handle complex tasks (Mishra, 2014). As Haider et al. (2021) argue, such CEOs are expected to manage corporate contracts, including debt contracts, and are therefore likely to incorporate economic losses into financial statements promptly. Moreover, because they have more to lose in the event of failing to provide timely information to various financial statement users, they risk damaging their reputation in the market and are less likely to engage in opportunistic and aggressive activities or expropriate the firm's resources. Furthermore, CEOs with diverse experience are likely to have a better understanding of strategic and financial issues, leading them to adopt more conservative accounting policies to manage agency problems and meet stakeholder expectations (Hrazdil, 2024). Similarly, Haider et al. (2021) found that experienced CEOs tend to prepare more conservative reports. Hence, we formulate the following hypothesis:

H4: CEO's experience is positively associated with the level of accounting conservatism.

Executive Remuneration and Accounting Conservatism

This paper distinguishes two types of executive compensation: base salary and share-based compensation.

Basic Remuneration of CEOs and Accounting Conservatism

Several studies have explored how accounting conservatism influences the structure of CEO compensation, particularly cash-based compensation. Wen (2008) demonstrates that accounting conservatism is positively correlated with the CEO's base compensation. This result suggests that companies with a more conservative accounting policy tend to offer higher fixed salaries, potentially due to greater confidence in the quality of financial information communicated to shareholders and the board of directors. This result is theoretically supported by the agency theory, which states that a fixed salary reduces the incentives to adopt aggressive accounting choices that could harm the continuity of the CEOs' position (Jensen and Meckling, 1976), hence hypothesis 5a:

H5a: CEO's basic compensation is positively associated with the level of accounting conservatism.

Share-Based Compensation of the CEO and Accounting Conservatism

The literature on the link between CEO compensation and accounting policy choices provides strong evidence that a relationship exists between the two. Shalev et al. (2013) suggest a link between goodwill overvaluation and CEO bonuses. In the same context, Friedman (2014) demonstrates that CEOs pressure CFOs to inflate accounting estimates, a practice that can boost executive compensation and, in turn, affect accounting conservatism. This conservatism can mitigate agency problems resulting from CEO opportunistic behavior (Sun and Liu, 2011; Solichah and Fachrurrozie, 2019) and generate efficient contracting among the firm's various stakeholders (Chen et al., 2018).

These results corroborate those of Van Essen et al. (2015), Aguir et al. (2021), and Yu (2021), who highlight a negative association between executive compensation and accounting conservatism. On this basis, we expect a negative relationship between stock-based executive compensation and accounting conservatism, hence the following hypothesis:

H5b: CEO stock compensation is negatively associated with the level of accounting conservatism.

The Moderating Effect of National Culture on the Relationship between CEO Characteristics and Accounting Conservatism

- ✓ **The moderating effect of national culture on the relationship between the CEO's age and accounting conservatism**

Several previous studies have highlighted that accounting conservatism is influenced by both individual factors, such as the CEO's age, and institutional and regulatory factors, including national culture. For example, Bamber et al. (2010) noted that older CEOs tend to adopt more conservative accounting practices due to their increased risk aversion. However, others, such as Gray (1988) and Cziffra et al. (2023), point out that cultural differences between countries (e.g., between codified legal systems and principle-oriented systems) can affect how these CEOs apply conservatism. This research, therefore, highlights the interaction between CEOs' personal characteristics and the institutional environment in which they operate. Recent research shows that a country's national culture influences the age of CEOs. For example, in Asian countries (stricter culture), leaders are often older than in Western countries (more flexible culture) (Vaughan-Johnston et al., 2021).

Uz (2015) studied three indices of cultural rigidity and looseness based on data from 68 countries from the European Values Study Group and the World Values Survey Association (EWVS). She showed that traditional societies were more rigid and industrialized societies were more flexible. In the former, homogeneity of values, norms, and behaviors was high, institutional repression was higher, and individuals were less willing to live near dissimilar individuals. This assertion is consistent with the positive characteristics associated with older people in collectivist cultures.

H6: National culture positively moderates the relationship between CEO's age and accounting conservatism.

- ✓ **The moderating effect of national culture on the relationship between CEO tenure and accounting conservatism**

CEO tenure, i.e., the time an executive serves at the head of a company, can be influenced by a country's prevailing national culture. In accounting environments characterized by high regulation, low tolerance for accounting flexibility, and a demand for transparency, CEOs are often called upon to exercise prudence and stability (Cziffra et al., 2023). These expectations may promote longer tenure, which is seen as a factor of trust and continuity. Alauro et al. (2024) examined how a country's level of investor protection affects the likelihood that a CEO will be replaced forcibly rather than voluntarily in the event of company underperformance.

These studies show that in countries with strong investor protection (e.g., strong judicial independence and solid accounting standards), boards are less likely to replace an underperforming CEO, even one with a long tenure. However, in countries with weaker investor protection, boards are more inclined to replace the leader, even in the event of poor performance.

H7: National culture positively moderates the relationship between CEO seniority and accounting conservatism.

- ✓ **The moderating effect of national culture on the relationship between CEO training and accounting conservatism**

Several recent studies show that a CEO's education, particularly when it includes accounting or financial expertise, influences their propensity to adopt prudent accounting practices. For example, Haider et al. (2021) observe that more competent CEOs adopt more accounting conservatism. At the same time, Cziffra et al. (2023) highlight that national culture, characterized by institutional norms and the regulatory environment, significantly modulates the overall level of conservatism. However, this education is not identical everywhere. It varies across countries and is often aligned with local cultural and regulatory requirements. Combining these findings, it can be argued that the effect of CEO education on conservatism is more pronounced in countries where the national culture values prudence, i.e., in regulated and traditional environments, hence the following hypothesis:

H8: National culture positively moderates the relationship between CEO training and accounting conservatism.

- ✓ **The moderating effect of national culture on the relationship between CEO experience and accounting conservatism**

A CEO's experience, which encompasses skills, knowledge, and know-how accumulated over time, strongly influences a company's accounting practices. Indeed, experienced CEOs are more likely to adopt prudent accounting practices to minimize the risk of erroneous or fraudulent reporting (Bamber et al., 2010; Haider et al., 2021).

However, the institutional and cultural environment in which the company operates plays a determining role in how the CEO's experience influences accounting conservatism.

Several studies show that environmental context can moderate the relationship between executive experience and their accounting behaviors. For example, Liu et al. (2024) show that, in China, and in a rigid and politically unstable institutional context, executives who had traumatic youth experiences adopted more pronounced accounting conservatism. This approach underscores the importance of considering context as a key factor in the analysis of accounting conservatism. Similarly, national culture can influence this relationship by acting as a moderator. Therefore, we propose the hypothesis below:

H9: National culture positively moderates the relationship between CEO experience and accounting conservatism.

- ✓ **The moderating effect of national culture on the relationship between executive compensation and accounting conservatism**

In environments characterized by strong accounting and governance regulations, companies tend to grant higher fixed compensation for executives, which helps ensure salary stability, compliance with legal requirements, and limits the risks associated with compensation that is too dependent on performance. Cazavan-Jeny et al. (2008) confirm this relationship in the French context, showing that companies subject to significant regulatory constraints favor a compensation structure oriented toward fixed rather than variable compensation.

H 10 a: National culture positively moderates the relationship between CEO fixed remuneration and accounting conservatism.

Executive compensation plays a significant role in corporate governance, aligning the interests of CEOs with those of shareholders (Jensen and Murphy, 1990). However, financial incentives can sometimes push executives to manipulate accounting results to increase their compensation, which can mitigate the degree of accounting conservatism in financial reporting (Friedman, 2014; Aguir et al., 2021). Furthermore, the quality of corporate governance influences this relationship. For example, Elage and Dardour (2021), in their study of companies listed on the SBF 120 market, show that CEOs of family- and institutional-investor-controlled companies are less involved in earnings management when they receive a larger share of incentive compensation. Thus, French national culture has several control mechanisms, such as the AMF, Shareholder Voting Rights (Say on Pay), and the European regulation, which slow down or weaken opportunistic leadership behavior. Thus, a strongly prudential national culture can moderate the relationship between CEO salary and accounting conservatism by supporting rigor and transparency in accounting standards and practices.

H10 b: National culture positively moderates the relationship between CEO stock compensation and accounting conservatism.

RESEARCH METHODOLOGY

Sample

The initial sample consisted of companies from the French SBF 120 index between 2015 and 2022. Indeed, this period allows us to verify if there is a difference in the effect before and after the COVID-19 pandemic (see additional sensitivity and robustness tests). This index includes the largest and most dynamic French companies listed on Euronext Paris. As previously noted, our study period begins in 2015, following the implementation of new regulations, such as the Sapin II law and the transposition of the European directive on the publication of non-financial information, which have strengthened the quality of information disclosed in matters of corporate governance.

However, we excluded financial companies and public utilities from the initial sample due to their specific regulations (Bennouri et al., 2018) and companies with missing data, hence a final sample of 96 companies, i.e., 672 company-year observations. Accounting and financial information was collected from Thomson DataStream. Property data were obtained from Orbis (Bureau Van Dijk) and from annual reports. The data on RPTs were collected manually from special reports included in the annual reports.

Variable Measurement

The Dependent Variable: Accounting Conservatism

Accounting conservatism, our dependent variable, was calculated using the accrual-based measure developed by Givoly and Hayn (2000) and Givoly et al. (2007). The accrual-based calculation of accounting conservatism is earnings before interest and taxes, plus depreciation and amortization expenses, less cash flows from operating activities; the sum of these two components is divided by total assets at the beginning of the accounting period. Thus, the value of accruals is distributed over an appropriate number of years, with the average calculated using year t selected at the midpoint of the specified period. The chosen period is 3 years. The most likely scenario is a reversal of accounting accruals within 1 to 2 years (Ahmed and Duellman, 2007). Thus, the equations below are used to calculate accounting conservatism:

$$Accruals_{it} = \beta_0 + \beta_1[(IBEI + DEP - \mathrm{CFO})]_{it} / \mathrm{TA}_{t-1} + \varepsilon_{it} \qquad (1)$$

$$AC_{it} = Accruals / (3years) - 1 \qquad (2)$$

IBEI = income before interest and taxes.

DEP = depreciation expense for the current period.

CFO = cash flow from operating activities.

TA_{t-1} = lag value of total assets.

Independent Variables: Ceo Characteristics

The CEO characteristics represent the main independent variables in this research. These characteristics included seniority, i.e., the number of years serving as a CEO in the company. Experience was calculated based on the total number of years the CEO held the position in their career, even in different companies. However, without prior experience in other companies, the duration corresponded to their current term. In addition, this research included the CEO's level of education: 1 for a bachelor's degree, 2 for a master's degree, 3 for a doctorate, and 4 for other degrees. The CEO's age and their annual compensation were also included in our model. Indeed, two elements represented the executive's compensation: the first was the salary calculated as the logarithm of total executive compensation, whereas the second was the executive's ownership, measured as a percentage of the shares they held at the end of the year. These variables were measured following previous studies (Degenhart et al., 2021).

Moderating Variable: National Culture

To assess the national culture index, a survey was conducted using an online questionnaire sent to 96 accounting professionals practicing in France. The collected data were analyzed using SPSS software.

Control Variables

Three control variables were included: firm size (FIRM_SIZE), measured as the natural logarithm of total assets; Market-to-Book (MKTB) ratio; and leverage (FIRM_LEV), calculated as total debt divided by total assets (Table 1).

A summary of these variables is included in Table 1.

Table 1. Summary of definitions and measurements of variables.

Variable Type	Variable Name	Code	Measurement / Definition
Dependent Variable	Accounting Conservatism	**ACC_CON**	Accounting conservatism was measured based on the accounting exercise.
Independent Variables	CEO Age	**CEO_AGE**	Age of the CEO at the beginning of the fiscal year.
	CEO Tenure	**CEO_TEN**	Number of years the CEO has served as CEO in the firm.
	CEO Education	**CEO_EDU**	Educational level: 1 = Bachelor's, 2 = Master's, 3 = Doctorate, 4 = Other.
	CEO Experience	**CEO_EXP**	Total number of years the CEO has held leadership positions, including across firms.
	CEO Salary	**CEO_SAL**	Natural logarithm of total CEO compensation.
	CEO Ownership	**CEO_OWN**	Percentage of shares owned by the CEO at year-end.
Moderating Variable	National culture	**ACC_CULT**	Index derived from factor analysis (SPSS output) representing national culture intensity.
Control Variables	Firm Size	**FIRM_SIZE**	Natural logarithm of total assets.
	Market-to-Book Ratio	**MKTB**	Book value / market value.
	Firm Leverage	**FIRM_LEV**	Total debt / total assets.

Source(s): Authors' own work

Regression Model

Two econometric models were proposed for this analysis.

Equation (1) summarizes the first model in panel data. In line with Yu (2021), this study adopted the following model to explore the relationship between CEO characteristics and accounting conservatism.

$$ACC\_CON_{it} = \alpha_0 + \alpha_1 CEO\_AGE_{it} + \alpha_2 CEO\_TEN_{it} + \alpha_3 CEO\_EDU_{it} + \alpha_4 CEO\_Exp_{it} + \alpha_5 CEO\_SAL_{it} + \alpha_6 CEO\_OWN_{it} + \alpha_7 FIRM\_SIZE_{it} + \alpha_8 MKTB_{it} + \alpha_9 FIRM\_LEV_{it} + \varepsilon_{it}$$

Model 1

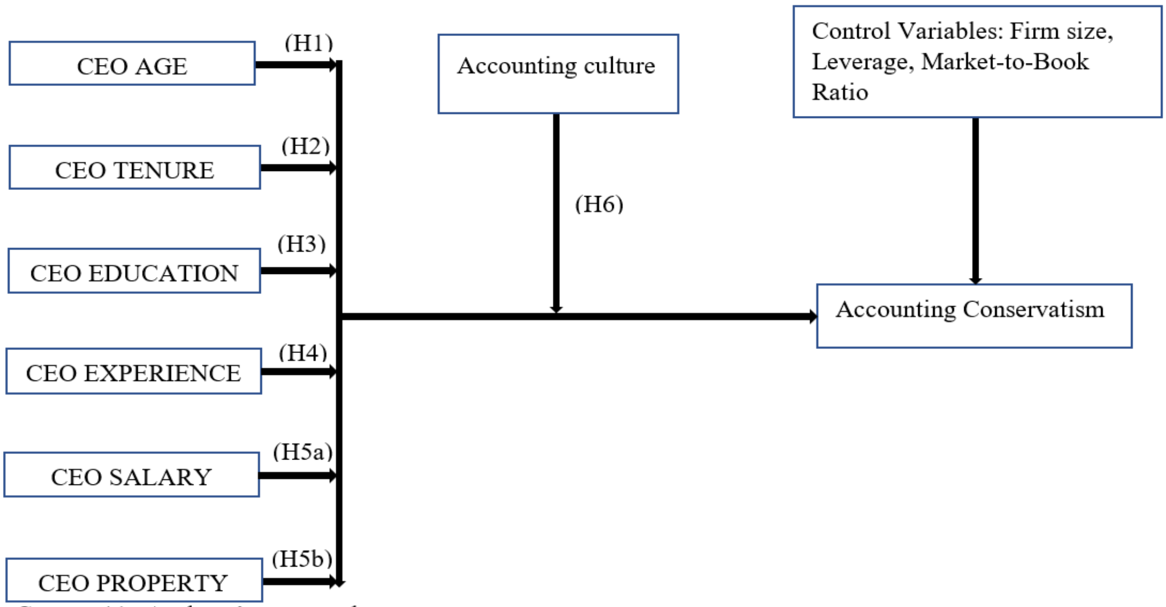
Equation (2) summarizes the second panel data model: The main objective of this model was to examine the moderating effect of national culture on the relationship between CEO characteristics and accounting conservatism, while taking into account the impact of some control variables.

$$ACC\_CON_{it} = \alpha_0 + \alpha_1 CEO\_AGE_{it} + \alpha_2 CEO\_TEN_{it} + \alpha_3 CEO\_EDU_{it} + \alpha_4 CEO\_EXP_{it} + \alpha_5 CEO\_SAL_{it} + \alpha_6 CEO\_OWN_{it} + \alpha_7 ACC\_CULT_{it} + \alpha_8 CEO\_AGE_{it} * ACC\_CULT_{it} + \alpha_9 CEO\_TEN_{it} * ACC\_CULT_{it} + \alpha_{10} CEO\_EDU_{it} * ACC\_CULT_{it} + \alpha_{11} CEO\_EXP_{it} * ACC\_CULT_{it} + \alpha_{12} CEO\_SAL_{it} * ACC\_CULT_{it} + \alpha_{13} CEO\_OWN_{it} * ACC\_CULT_{it} + \alpha_{14} FIRM\_SIZE_{it} + \alpha_{15} MKTB_{it} + \alpha_{16} FIRM\_LEV_{it} + \varepsilon_{it}$$

Model 2

Graphic Model

Figure 1 presents the effect of CEO characteristics on accounting conservatism (β_1), the influence of national culture on conservatism (β_2), as well as the combined effect of CEO characteristics and national culture on accounting conservatism (β_3).



Source(s): Authors' own work

Figure 1: Research model with national culture as a Moderator variable

RESULTS AND DISCUSSION

Inter-Variable Correlation Results and Testing Panel Data

The regression analysis was performed in a stepwise and sequential manner to ensure a better representation of the relationships between the dependent and independent variables. Table 3 summarizes the results of endogeneity, heteroscedasticity, cross-sectional dependence, and serial correlation tests to ensure that the most appropriate statistical model was used to test the hypotheses and obtain reliable and judicious estimates of the model parameters. The first step aimed to see whether there is causality between accounting conservatism and CEO characteristics and vice versa. Thus, the Durban-Wu-Hausman endogeneity test was used. The results of this test highlight that the possibility of exogeneity (the possibility of influence by unselected independent variables) must be accepted. Also, this research conducted the Fisher homogeneity test to select the Ordinary Least Squares

(OLS) or panel analysis. The results of the Fisher test show that it generates (statistical) values higher than the critical values, suggesting that there are specific effects and, therefore, panel analysis is more appropriate. Moreover, the Hausman test, being the best alternative to check the differences between random and non-random (fixed) effects, indicates that the fixed effects model is the most suitable.

Table 3. Results of panel data tests

Test	stat.	Prob.
Homogeneity Fisher test	5.679	0.0000
Specification Hausman test	23.29	0.0056
Heteroscedasticity Breusch-Pagan test	26.92	0.0000
Cross-sectional dependence Pesaran test	99.79	0.0000
Serial correlation Wooldridge test	0.095	0.0200
Endogeneity Durbin-Wu-Hausman test	1.692	0.1563

In addition, the Breusch-Pagan test was conducted, and it confirmed the presence of heteroscedasticity. This test guarantees the validity of the regression analysis results by ensuring that the variance of the errors is constant. Indeed, this test is used to show, based on the regression results, whether the errors in the variance are due to the dependence of the dependent variables on the independent ones. The results of this test indicated that heteroscedasticity is significant at 1% level.

This result is also confirmed and reinforced by the chi-square statistics due to the existence of heteroscedasticity in the residuals. Therefore, the OLS model was not used. The Pesaran test demonstrated a significant cross-sectional dependence of the chosen models. The Wooldridge test was used to ensure the existence of heteroscedasticity and serial correlation. Under this scenario, the feasible generalized least squares (FGLS) technique would be used. FGLS adjusts the estimates to highlight autocorrelation and heteroscedasticity, thus providing more relevant results. It uses information on the variances and covariances of the errors, which is likely to improve the quality of the estimates.

Table 4 presents the coefficients of the correlation matrix using Pearson correlation to test the existence of multicollinearity. Multicollinearity exists when independent variables are correlated with each other, which can affect the statistical significance of the estimated coefficients. Therefore, the correlation should not exceed 0.8 to prove that there is no multicollinearity problem among the independent variables (Gujarati, 2004).

Table 4. Pearson Correlation Matrix

Variables	1	2	3	4	5	6	7	8	9
CEO_AGE (1)	1.000								
CEO_TEN (2)	0.237	1.000							
CEO_EDU (3)	0.005	-0.117	1.000						
CEO_EXP (4)	0.107	0.276	-0.461	1.000					
CEO_SAL (5)	0.035	0.198	0.073	0.163	1.000				
CEO_OWN (6)	0.054	0.322	-0.0008	0.052	0.036	1.000			
FIRM_SIZE (7)	0.062	0.091	-0.076	0.050	0.002	0.053	1.000		
MKTB (8)	0.130	0.198	-0.116	0.253	0.08	0.035	-0.008	1.000	
FIRM_LEV (9)	-0.060	0.171	-0.037	0.179	0.098	0.045	0.059	0.181	1.000

Note(s): This table presents the Pearson correlation matrix between the variables used in the present study.
Variables are defined in Table 1.
Source(s): Authors' own work

Unit Root Test

Table 5 presents the stationarity of time series tested using the Levin et al. (2002) test (LLC), where the null hypothesis assumes that the panel data have unit roots.

Before establishing the main analysis, the sustainability of the variables must be analyzed to ensure that all variables are stationary, that is, the mean, variance, and covariance of the variable are fixed over time.

Table 5. Results of the Stationarity Test

Variables	LLC-Statistic	p-Value	Result
ACC_CON	-2.5759	0.0050	Stationary at level
CEO_AGE	-4.3020	0.0000	Stationary at level
CEO _TEN	-47.3055	0.0000	Stationary at level
CEO_ EDU	-2.5727	0.0050	Stationary at level
CEO_EXP	-81.1621	0.0000	Stationary at level

CEO_ SAL	-4.1967	0.0000	Stationary at level
CEO_OWN	-88.8695	0.0000	Stationary at level
FIRM_ SIZE	-12.1810	0.0000	Stationary at level
MKTB	-2.8785	0.0020	Stationary at level
FIRM_LEV	-79.0404	0.0000	Stationary at level

The results of this test (Table 5) confirm that all the variables included in the analysis are stationary and statistically significant, based on the p-values in the table below. As a result, the alternative hypothesis is accepted.

Table 6 presents the main results of our approach using the FGLS analysis. As shown in Table 6, the coefficient of the CEO's age is positive but not significant, suggesting that accounting conservatism in French firms is not affected by the CEO's age, which is consistent with the work of Yin et al. (2020). However, this finding is inconsistent with senior executive theory and the idea that older executives are more conservative.

Table 6. Estimation results of the FGLS panel model.

Accounting Conservatism	Expected signs	coef.	P
CEO_AGE	(+)	0.0001	0.142
CEO_TEN	(+)	0.0032***	0.000
CEO_EDU	(+)	0.0009	0.381
CEO_EXP	(+)	0.0006***	0.001
CEO_SAL	(+)	0.0004	0.771
CEO_OWN	(+)	0.0054	0.314
FIRM_SIZE	(+)	0.0006	0.476
MKTB	(+)	0.007***	0.001
FIRM_LEV	(-)	0.0001***	0.003
ACC_CULT	(-)	-0.013**	0.036
CEO_AGE* ACC_CULT	(+)	0.00008	0.189
CEO_TEN* ACC_CULT	(+)	0.0009**	0.012
CEO_EDU *ACC_CULT	(+)	0.002	0.322
CEO_EXP* ACC_CULT	(+)	0.0004**	0.049
CEO_SAL* ACC_CULT	(+)	-0.0002	0.781
CEO_OWN* ACC_CULT	(-)	-0.004	0.584
Observations	672		
Wald chi2(16) =	172.33 (p-value =0.000)		
Annual fixed effects		Yes	
Country fixed effects		yes	
Sector fixed effects		yes	

Note(s): This table presents results from linear regressions in our model. Variable measurements are summarized in Table 1. The t-statistics are based on firm-level clustered standard errors. Year, industry, and country indicators are included in our models, but their coefficients are not shown in this table. *, **, and *** significance at $p < 0.01$; $p < 0.05$; and $p < 0.10$, respectively.

Source(s): Authors' own work

This result means that the relationship between risk-taking and age is context-dependent. Therefore, risk-taking behavior changes across different types of decisions, rather than across age groups; for example, as Mata et al. (2011) argued, risk-taking depends on prior knowledge of the risks associated with the decision. In the same vein, Eberhardt et al. (2019) found that age is not related to the ability or motivation to think about and manipulate numerical information. Thus, according to our results, the CEO's age is not a determinant of the quality of financial information. The first hypothesis, which posited a significant positive association between CEO's age and the level of accounting conservatism, is rejected.

As shown in Table 6, CEO seniority is positively and significantly related to accounting conservatism. This result indicates that long-serving CEOs are more conservative, consistent with the findings of Dong and Gai (2017), who report a positive association between CFO tenure and the percentage of asset impairment provisions. Several explanations have been advanced to explain this result. *First,* CEOs who fear losing their reputation and want to keep their jobs tend to play it safe and avoid aggressive accounting practices. *Second,* and consistent with the principles of the upper echelons theory, the longer a CEO stays in a firm, the more limited their perspective and know-how become, and the less innovative their options and strategies become (Hambrick and Mason, 1984). *Third,* long-serving CEOs are under less pressure to strengthen their market skills than newly appointed CEOs. Therefore, the second hypothesis, which states that the length of the CEO's mandate is significantly and positively associated with the level of accounting conservatism, is accepted.

CEO education does not seem to affect accounting conservatism; its coefficient is positive but not significant. Our results are consistent with Pfeffer (1981), who argues that management training serves only as a screening device for recruiting and registering individuals for jobs; therefore, such education will not have a significant effect on the individual or the firm. This finding is contrary to the positive relationship between administrators' education and conservatism in France Degenhart et al., (2021). Our results suggest that specialized knowledge and technical skills acquired through education do not affect CEOs' attitudes toward conservatism; However, skills acquired through real-life, concrete experiences do. Thus, the third hypothesis, which states that CEO education is significantly and positively associated with the level of accounting conservatism, is rejected.

Table 6 also indicates that experienced leaders are associated with accounting conservatism as expected; indeed, according to previous studies (Baik et al., 2011; Mishra, 2014; Haider et al., 2021), CEOs with more experience and skills are expected to be more conservative, thus signaling their competence to the market. Moreover, more experienced CEOs place greater importance on their reputation and have more to lose if the business fails; Therefore, they tend to adopt higher levels of conservatism (Baik et al., 2011). This finding is consistent with that of Haider et al. (2021), who stipulate that more experienced CEOs tend to adopt a more conservative approach in their reporting. However, this result contradicts the expectations of the upper echelons theory, which states that external experience outside the firm increases CEO's tendency to take risks. Thus, our fourth hypothesis, which states that the leader's experience is significantly and positively associated with the level of conservatism, is accepted. A CEO's compensation, consisting of their salary and any shares or bonuses received, can sometimes be linked to the company's performance. This variable compensation, such as bonuses or shares, can theoretically encourage a CEO to make more optimistic accounting decisions, such as early recognition of profits. However, in France, companies are subject to strict and rigorous regulations, and external auditors are responsible for verifying the compliance of accounts, implying that even if a CEO tries to make their accounts more optimistic to improve their bonuses, auditors and regulations will prevent such practices.

Thus, it is observed that the CEO's remuneration is positively, but insignificantly, linked to accounting conservatism in French companies, indicating that increasing CEOs' salaries or granting more shares does not significantly affect their accounting reporting behavior.

Thus, both hypotheses related to executive compensation are rejected. This result suggests that compensation, regardless of its type, does not affect conservative accounting practices of French executives.

Regarding the moderating variable, namely national culture, and its effect on the relationship between CEO's seniority and experience and accounting conservatism, the tests indicate a significant relationship. The statistical data show that the coefficient of the variable CEO_TEN*ACC_CULT is positive ($p = 0.012$**), thus indicating a significant influence on the relationship between the CEO's seniority and accounting conservatism at the 5% threshold. In addition, the statistical data show that the coefficient of the variable CEO_EXP*ACC_CULT is positive ($p = 0.049$**), indicating a significant effect on the relationship between the CEO's experience and accounting conservatism at the 5% threshold.

The statistical tests reveal a significant relationship between national culture, as a moderating variable, and the relationship between the CEO's seniority and experience and accounting conservatism.

Furthermore, these statistical tests indicate a significant relationship between national culture and the relationship between the CEO characteristics (seniority and experience) and accounting conservatism. Thus, the interaction coefficients "CEO_TEN × ACC_ CULT" and "CEO_EXP × ACC_ CULT" are positive ($p = 0.012$** and $p = 0.049$**, respectively), suggesting a statistically significant influence of national culture on the relationship between CEO's seniority and experience and accounting conservatism at the 5% threshold. Indeed, Kouaib et al. (2018) argue that the mandatory adoption of International Financial Reporting Standards (IFRS) considerably weakens the impact of the CEO's accounting experience and skills on earnings management practices.

The results indicate the absence of a significant relationship between national culture and the relationship between CEO characteristics (age, level of education, salary, and share-based compensation) and accounting conservatism.

Regarding the control variables, firm size does not affect conservatism; however, the market-to-book ratio and debt positively and significantly affect accounting conservatism. These results are consistent with the prudence principle, which states that firms, faced with uncertainties and external pressures, choose less aggressive recognition of gains and more immediate recognition of losses to protect their long-term financial position. Firms with a high market-to-book ratio and a high level of debt tend to adopt more conservative accounting practices to protect their assets and maintain investor confidence, and also minimize the financial risks associated with high debt.

Additional Sensitivity and Robustness Checks

To ensure the reliability and stability of the empirical results, two robustness tests were conducted. The first examines the consistency of the relationship between CEO characteristics and accounting conservatism before and after the COVID-19 crisis; however, the second assesses the impact of the legal and cultural framework on these relationships. These tests confirm that the conclusions obtained depend neither on the temporal context nor on the model specification.

The results in Table 7 indicate that the relationship between CEO characteristics (seniority and experience) and accounting conservatism remains positive and significant before and after the pandemic. However, the post-COVID-19 coefficients are slightly higher, reflecting a strengthening of prudent behavior by firms in times of uncertainty. These findings corroborate the work of Watts (2003), Bushman and Piotroski (2006), and Balakrishnan et al. (2016), who argue that economic instability encourages CEOs to adopt more conservative accounting practices to protect their reputation and the credibility of financial information.

Finally, the cultural and ethical dimension proved decisive. In countries with a strong national culture, such as France, prudence is perceived as a value of transparency and social responsibility. This framework limited CEO excesses, even under economic pressure, confirming the idea of Ball et al. (2000) that conservatism acts as a mechanism for reducing risk and information asymmetry.

Table 7. Robustness check results

Accounting conservatism	**Before COVID-19**		**Post COVID-19**	
	Coef.	**P > Z**	**Coef.**	**P > Z**
CEO_AGE	0.0001	0.365	0.0002	0.504
CEO_TEN	0.0008**	0.028	0.0052***	0.001
CEO_EDU	-0.0009	0.839	0.0015	0.533
CEO_EXP	0.0022***	0.000	0.0032***	0.001
CEO_SAL	-0.0003	0.887	0.0030	0.712
CEO_OWN	0.0026	0.481	0.0041	0.694
FIRM_SIZE	0.001	0.343	-0.0002	0.864
MKTB	0.04***	0.000	0.00003	0.965
FIRM_LEV	0.0002***	0.004	0.0001	0.209
ACC_CULT	-0.011*	0.096	-0.0008***	0.000
CEO_AGE*ACC_CULT	-0.00002	0.591	0.0001	0.546
CEO_TEN *ACC_CULT	0.0001***	0.002	0.0025***	0.006
CEO_EDU*ACC_CULT	0.00013	0.962	0.0006	0.679
CEO_EXP*ACC_CULT	0.0014***	0.000	0.00003***	0.007
CEO_SAL*ACC_CULT	0.0004	0.693	-0.0043	0.119
CEO_OWN*ACC_CULT	0.0006	0.916	0.0042	0.731
Intercept	-0.06***	0.000	-0.07*	0.055
Annual fixed effects		Yes		
Country fixed effects		yes		
Sector fixed effects		yes		
Hausman test	35.86 (p-value = 0.0030)		32.03 (p-value=0.0099)	
Homogeneity Fisher test	3.81 (p-value = 0.0000)		6.02 (p-value = 0.0000)	
Breusch-pagan test for heteroscedasticity	44.92 (p-value = 0.0000)		77.71 (p-value = 0.0000)	
Wooldridge test	0.25 (p-value = 0.0000)		0.7 (p-value = 0.0000)	
Wald chi2	389.39 (p-value = 0.000)		205.00 (p-value = 0.000)	
Endogeneity Durbin-Wu-Hausman test	1.697 (p-value =0.1653)		1.769 (p-value =0.1356)	
Observations	480		192	

Note(s): This table presents the results of robustness tests. Year-and firm-level indicators are included in the model, but their coefficients are not presented in this table. Variable measures are summarized in Table 1. T-statistics are based on standard errors clustered at the firm level. *, **, and *** indicate statistical significance at the levels of $p < 0.01$, $p < 0.05$, and $p < 0.10$, respectively.
Source(s): Authors' own work

CONCLUSION

This study aimed to examine the moderating role of national culture in the relationship between CEO characteristics and accounting conservatism in French companies listed on the SBF 120 between 2015 and 2022.

Drawing on the contributions of the agency and upper echelons theories, we sought to develop the theoretical foundations of the relationship between CEO characteristics and accounting conservatism, while taking into account the moderating effect of national culture.

To explain the moderating effect of national culture on the relationship between executive characteristics and accounting conservatism, we used the feasible generalized least squares (FGLS) method estimated on panel data.

The results show that the CEO's seniority and experience contribute positively and significantly to accounting conservatism. Besides, taking into account the moderating effect of national culture, they exert a positive and significant impact on accounting conservatism. The market-to-book ratio and debt are positively and significantly associated with the level of conservatism. However, no significant relationship was noted between the CEO's education, age, and compensation and accounting conservatism.

Consistent with the upper echelons theory, the results show that a good number of years of experience and seniority of the CEO contributes to preventing aggressive accounting practices and improving the quality of financial reports by increasing conservative accounting practices.

This study enriches the literature by providing elements that demonstrate the importance of recognizing the effects of CEO characteristics on accounting conservatism. Its implications are as follows: First, based on these results, it is recommended that young researchers consider the characteristics of CEOs when analyzing the determinants of accounting conservatism, as these affect the quality and practice of financial reporting. Second, French policymakers are strongly advised to consider the attributes of CEOs when revising governance codes, as they focus only on the attributes of the board of directors. Furthermore, the current research provides evidence of social involvement of investors facing information asymmetry; therefore, investors are recommended to analyze the attributes of CEOs before making an investment decision, as these attributes affect the quality of financial reports. Third, future research should explore the link between accounting conservatism and different CEO characteristics.

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