

Chapter 7

The Impact of Board Diversity on the Accounting Conservatism of Listed French Companies: Gender Diversity, Age, Education Level, Nationality Diversity, and Accounting Conservatism

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ABSTRACT

The main objective of this study is to explore the impact of board demographic diversity on the accounting conservatism of French companies pertaining to SBF 120 index during from the period 2015 to 2018. Four demographic characteristics of directors were studied: gender diversity, education level, average age, and nationality diversity. After measuring accounting conservatism by the accruals method, the results of the panel data regressions indicate that gender and nationality diversity have a positive

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and significant effect on accounting conservatism. The age of directors does not have a significant effect on accounting conservatism. The results also show that the level of education has a negative and significant effect on accounting conservatism. The results of this study affirm that it is necessary to take into account the diversity of the board when selecting board members, as it influences the behavior of directors towards different issues related to accounting practices.

1. INTRODUCTION

In recent decades, investor confidence in the credibility of financial reporting has been shaken by waves of corporate crises and scandals such as Enron in 2001 and WorldCom in 2002. To strengthen the credibility of financial information, academics, regulators and practitioners in the accounting profession have sought to develop more sophisticated accounting practices.

In this context, accounting conservatism has attracted the attention of a number of researchers, based on the adage of Bliss (1924): “expect no profit, but anticipate all losses”. Accounting conservatism means that losses will be identified before they occur, but recognition of the benefits will be deferred until the gains are realized. Accounting conservatism can generally be defined as an accounting method that tends to recognize overvalued (undervalued) losses and/or liabilities (assets) more quickly. As a result, the book value is understated relative to the market value of equity (Ruch and Taylor, 2015). The choice of this method is made by the manager under the supervision of the directors’ board.

The particular attention paid to the practice of accounting conservatism can be explained by the different perception and needs of the financial statements’ users regarding the informational role of accounting. On the one hand, conservatism is perceived accounting conservatism is seen as a reflection of the quality of financial reporting depending on the users of financial statements (Ruch and Taylor 2015). On the other hand, accounting conservatism has been considered as a substitute or a complement to corporate governance (Goergen 2012; Watts 2003). Accounting conservatism is a viable accounting feature that can be used to mitigate the agency problem by reducing information asymmetry in contracts (Watts, 2003; Ahmed and Duellman, 2007; LaFond and Watts, 2008).

There is a large body of research that argues that corporate governance is closely related to accounting conservatism. (Basu, 1997; Watts, 2003; Ahmed and Duellman, 2007) argue that accounting quality is enhanced by good governance, of which conservatism is one of its most important attributes. Boussaid et al. (2015) state that conservatism benefits boards, shareholders, creditors and other parties. As a

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