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Does the CEO's entrenchment affect the financial communication quality? Empirical evidence from France

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Abstract

Research Question: What is the impact of the CEO's entrenchment on the financial communication quality in the French context?

otivation*:* In fact, it is important to study the different characteristics of the CEO, which can facilitate the entrenchment and their effect on the quality of financial communication in the French context.

Idea: The purpose of this paper is to investigate the impact of the CEO's entrenchment on the financial communication quality examined by the discretionary accruals.

Data: Our sample is made up of 335 companies listed on the CAC All Tradable index for the period from 2011 to 2020. However, we have excluded some financial companies due to their atypical behavior in financial reporting, firms with insufficient annual reports and firms with insufficient data about the CEO's entrenchment. Therefore, the final number of firms used in this study was 151 over ten years, producing a total of 1510 firm-year observations.

Tools*:* Our regressions will be estimated by the feasible generalized least squares (FGLS) method.

Findings: Using the discretionary accruals, as a proxy for the earnings management, we obtained results from the Kothari *et al.* (2005) model, which indicates that there is a significant positive relationship between the CEO's duality, ownership and the quality of financial communication, while there is no significant relationship between the CEO's turnover and the financial communication quality.

Contribution*:* This research is a contribution to the literature by demonstrating how the CEOs' entrenchment enables them to manipulate the accounting results to improve their financial situation.

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JEL codes: M41, M42, M48

1. Introduction

In fact, for several years, the issues related to the manipulation of accounts and the transparency of accounting information have been attracting the attention of researchers and accounting practitioners (Amara *et al.* 2013) since the reliability of the information is one of the qualitative characteristics of financial reporting (Salehi *et al.* 2017). In this vein, Ball and Brown (2014) emphasized the importance and usefulness of accounting information for investors. As a result, institutional and potential investors want to access information, which can help them with their decisions (Salehi *et al.* 2017). In fact, according to Financial Times (2013), the earnings management (EM) means "the generic term given to accounting decisions, which affect the results of financial reporting". For their part, Jensen and Meckling (1976) assert that managers are capable of engaging in the earnings management (EM) to maximize their well-being and improve their financial situation. Therefore, in this case, the question that can be raised is if the control of the chief executive officer (CEO) is an obligation. In fact, the answer to this question is linked to the conflict between the shareholders and the CEOs.

Consequently, in this paper, we seek to highlight the relationship between the CEO's entrenchment and the quality of financial communication in the French context. For this reason, this study was conducted on a sample of 151 French companies listed on Euronext Paris over a period of 10 years, which showed that the effect of the CEO's entrenchment on the quality of financial communication is significantly positive for both measures, such as the CEO's duality and ownership. In fact, a CEO with a double function is more powerful and more incited to manage his earnings, which indicates well that the CEO's duality raises the agency problems. Moreover, the same research proved the existence of a significant negative relationship between the CEO's age and the financial communication quality. This means that older CEOs are more likely to manipulate the accounting income. However, there is an insignificant negative relationship between the CEO's turnover and the quality of financial communication. Therefore, the results obtained from our current research process encouraged us to include the rules of good governance. Hence, by establishing these rules, we could deduce that the information asymmetry between the various stakeholders is reduced and then, the manager's opportunistic behavior is limited. Moreover, as stated by Learned (1961) and Andrews (1971), the design of the company's strategy is the responsibility of the CEO, On the other hand, a research study conducted by Malmendier and Tate (2005) and Adams *et al.* (2005)

concentrated on the leader's specificity, profile, and their various characteristics. The obtained results showed that the executives are now reaping the benefits of their position at the head of the company, which implies that their managerial latitude improves their salaries and enables them to stay in their current position. For his part, Paquerot (1997) argues that "the manager develops strategies enabling him to act on his environment and strengthen his power over the shareholders and, in a broader sense, on all the stakeholders".

On the other hand, according to Pigé (1998), entrenchment is the managers' aspiration to release themselves from the shareholders' control. In fact, the managers' success in freeing themselves from the shareholders enables them to maximize their profits and align their interests with those of the shareholders. However, there is no specific measurement model for the unobservable entrenchment variable.

In this vein, Alexandre and Paquerot (2000) argue that the strategies used in the CEOs' entrenchment are intended to expand their discretionary space using the means at their disposal, such as their human capital and the company's assets to neutralize the control systems and increase the dependence of all partners of the firm on the resources they control, namely, the specific human capital and the information asymmetry. For his part, Kontes (2010) stated that due to the company's central position and its primary role in maximizing the shareholders' value, the CEO's role in the analyses related to the contractual theories of organizations is too small. On the other hand, according to Charreaux (1996, 1997) and the studied theories, the CEOs' role is passive since when it is active, it enables them to neutralize, weaken, and remove the pressures imposed on them by multiple external actors, which is known as entrenchment. This power enables them to get involved in the management and control of the company. More precisely, the CEO's entrenchment is based mainly on several conditions: In fact, the manager seeks to be irreplaceable in his position, to prevent future changes, and control actions. For his part, Drucker (1967) contended that the CEOs within the company are diverse in their personalities, strengths, weaknesses, values, beliefs, and attributes.

Therefore, the remainder of this paper is organized as follows. Section 2 provides a literature review and the hypothesis development then, section 3 describes the research methodology after that, section 4 evaluates the regression results and discussion and finally, section 5 includes the discussion and the policy recommendations.

2. Literature review and hypothesis development

2.1 Related literature

In this context, according to the agency's theory, the company's executives have objectives that diverge from those of the shareholders as they are interested and risk-

averse, as for Serfling (2014). Based on Allouche and Amann's study (2002), he stated that "the general idea in the logic of the agency theory, is that in an opportunist approach, the manager will try to annihilate or weaken the control mechanisms put in place by the approach, the manager will try to annihilate or weaken the control mechanisms put in place by the shareholders or the stakeholders ".

In fact, the agency theory holds that the CEO's entrenchment has a negative impact on the operational performance and the company's value, as stated by Gompers *et al.* (2003) and Masulis *et al.* (2007). Confirming the agency theory and the wide dispersal position of the shareholders and that based on the agency theory, Jensen and Meckling (1976) stated that the leader has a deep entrenchment, while the problem of the earnings management (EM), as Muda *et al.* (2018) declared, it is minimized by monitoring good corporate governance. Therefore, in the context of the entrenchment theory, Shleifer and Vishny (1989), Paquerot (1996) stated that no internal or external control mechanisms are sufficient to manage the firm. In fact, in France, the entrenchment theory has been used by several authors, including Pichard-Stamford (1997), Alexandre and Paquerot (2000). According to Alexandre and Paquerot (2000), the entrenchment theory explains how the set of governance mechanisms can enhance the efficiency of organizations and be used to entrench other actors in their functions. In fact, the entrenchment theory means that the different internal parties of the company, such as the managers, and the employees, seek to improve their strategies in order to maintain their status in the organization of the company. However, as stated by Shleifer and Vishny (1989), the goal the most often unacknowledged by its stakeholders is the fact of making it expensive to substitute the management for the shareholders within the company and foreclose potential competitors.

2.2 Hypotheses development

We develop the hypotheses about the effects of the CEOs' entrenchment on the financial communication quality measured by the discretionary accruals.

2.1.1 CEO's age and financial communication quality

In this vein, Hambrick and Fukotomi (1991) emphasize the importance correlation between the CEO's age and his/her tenure since the oldest CEOs are harder to control. Therefore, age reflects their experience in the firm's management and the quality of their human capital, which, as declared by Ammari *et al.* (2016) shows their capacity of potential entrenchment.

Moreover, prior theoretical and empirical work argued that the CEO's age is an important source of entrenchment. For their part, using a sample of 3,413 compustat firms for the 2005 /2008 period, Huang *et al.* (2012) found a positive relationship

between the CEO's age and the financial reporting quality. However, using a 2012 sample of 30,476 French firms, some scholars, such as Belot and Serve (2018) disagree with this as they found a negative relationship between the CEO's age and the financial reporting quality. Furthermore, based on listed Vietnamese real estate companies over the 2007 /2016 period and selected firms listed on the Pakistani Stock Exchange, were used in the span of 8 years, from 2010 to 2018, for their part, Lee *et al.* (2020) and Rahman (2022) have respectively shown that the CEO's age has a negative effect on the earnings management (EM). In fact, this result indicated that firms with younger CEOs tend to have a highly intensified earnings management (EM). However, a study carried out by Bouaziz *et al.* (2020) on a sample of 1,510 firm-year observations representing 151 non-financial listed French firms during the 2006/2015 period, showed that no relationship was found between the CEO's age and the financial communication quality. On the other hand, based on 1,277 firm-year observations, over the 2010 /2018 period on non-financial firms listed on the Amman Stock Exchange, Qawasmeh and Azzam (2020) showed the same result which indicated that the CEOs get closer to entrenchment, with the incentive to invest in research and development, which were reduced because their favorable effect on the reported earnings is likely to show up only after the CEOs retire (Cheng, 2004). Based on the above arguments and using a sample of 151 French-listed firms for the period from 2011 to 2020, we propose the following: hypotheses:

Hypothesis (H1): CEO's age has a negative effect on the financial communication quality.

2.1.2 CEO's duality and financial communication quality

The CEO's power has the same meaning as the CEO's duality, where the CEO is also serving as the chairman of the board of directors. In this vein, Korkeamäki *et al.* (2017) argue that the CEOs with dual role are more capable of imprinting their personal preferences, more precisely, the CEO's duality is most likely to facilitate the CEO's entrenchment behavior, as affirmed by Krause *et al.* (2014). On the other hand, according to the Boyd (1995), the CEO's duality enhances the managerial discretion, while the relationship between the CEO's duality and the earnings management (EM) quite controversial.

In fact, the study of Davidson *et al.* (2005), which is based on a broad cross-sectional sample of 434 listed Australian firms, for the financial year ending in 2000, showed that there is no relationship between the CEO's duality and the earnings management (EM) activity. The same result was found by Abdul Rahman and Haneem Mohamed Ali (2006) using 97 firms listed on the Main Board of Malaysia's exchange market over the 2002/2003 period. Nonetheless, many studies have shown a positive relationship between the CEO's duality and the extent of the earnings manipulation. On the other hand, using the case of Jordanian listed firms, Al-Sraheen and Alkhatib (2016) argued that the CEO's duality is positively correlated with the earnings management (EM). The same result was found by Triki Damak (2018) based on a

sample of 85 companies listed in the SBF120 over the 2010/2014 period. For their part, Baker *et al.* (2019) confirmed the existence of a positive relationship from the Execu Comp database over the 1992/2010 period. However, Lanouar *et al.* (2013) and Zgarni *et al.* (2014) showed that the role of CEO and that of the chairman of the board of directors should be separated.

Moreover, based on ten years of data (from 2012 to 2021) from 57 firms listed on the Nigerian Exchange Group, Yahaya (2022) agreed with Lakhal (2005) who showed the existence of a negative relationship between the CEO's duality and the earnings management (EM). Moreover, this study stated that the separation of roles prevents the use of the accrual earnings management (EM). Accordingly, based on a sample of 151 French-listed firms concluded over the 2011/2020 period, we propose the following hypothesis:

Hypothesis (H2): CEO's duality has a positive effect on the financial communication quality.

2.1.3 CEO's turnover and financial communication quality

In France, there are a few studies on the CEO's turnover within the company (Wells, 2002). Many researchers have analyzed the relationship between the earnings management (EM) and the CEO's turnover (Pourciau, 1993; Murphy and Zimmerman, 1993; Kalyta, 2009). In this context, Choi *et al.* (2014) stated that the CEO's replacement is a rich context for the earnings management (EM). Jönsson *et al.* (2017) noted that newly recruited managers are more likely to reduce the earnings management (EM), particularly during the first year. For their part, Strong and Meyer, (1987), Godfrey *et al.* (2003) concluded that the CEOs are encouraged to further manage the results during the year of their replacement. They concluded that the year of the turnover does in general have a greater amount of negative earnings management (EM). On the other hand, during the two financial years preceding the year of their departure, Pourciau (1993), Mard and Marsat (2009) argue that outgoing managers are encouraged to manage the company's accounting results upwards. Moreover, during the years following the succession exercise, the incoming managers wish to display good performance in order to establish their position in the company. In fact, a manager who has reached the retirement age, or has already passed it, is more likely to be replaced by someone else younger or who has not yet reached that age. Therefore, as stated by Wells (2002), these changes have an implication on the accounting policy of companies, in particular, on the managers' incentive to manage the accounting results.

For their part, using a sample of 297 forced turnovers and 1,186 voluntary turnovers from 1992-2004, Hazarika *et al.* (2012) found that the likelihood and the speed of a CEO's forced turnover are positively related to the earnings management (EM). On other hand, according to Bessieux-Ollier *et al.* (2018), the replacement of managers is positively and significantly associated with the earnings management (EM). While

Murphy and Zimmerman (1993) argue that the replacement of the CEO and the discretionary accruals are negatively associated. Therefore, given the discussion above, which is based on a sample of 151 French-listed firms covering the 2011 / 2020 period, our hypothesis is stated as follows:

Hypothesis (H3): CEO's turnover has a negative effect on the financial communication quality.

2.1.4 CEO ownership and financial communication quality

In fact, the CEO's ownership occurs when a manager owns shares of the company. However, the effect of the CEO's ownership is complex because it can be associated with an entrenchment strategy. In this vein, Morck *et al*. (1988) suggested that beyond the governance mechanism, the CEOs' ownership contributes to their entrenchment by limiting their probability of replacement. Therefore, using a sample of 34 non-financial listed Portuguese firms over the 2002 / 2007 period, Alves (2012) found that discretionary accruals, which are seen as a proxy for earnings management (EM), had a significant and negative relationship with the CEO ownership. Based on the firms listed on the FTSE All Share Index of the London Stock Exchange and with financial years ending in 2004/2005, the result of Bos *et al.* (2013) is in line with that of Alves (2012). On the other hand, Bos *et al.* (2013) argue that a greater participation in the company's actions could give the CEO's deep-entrenchment a greater *leeway* for opportunistic behavior. However, based on 48 companies listed on the Nairobi Stock Exchange and Dar es Salaam Stock Exchange over the period 2005-2014, Waweru and Prot (2018) found a positive relationship between the shareholder's shareholding and the earnings management (EM).

Then, using a sample of non-financial firms listed on the Amman Stock Exchange from 2010 to 2018, Qawasmeh and Azzam (2020) confirmed the same relationship. For their part, Ali and Zhang (2015) proved the existence of an insignificant positive relationship between the shareholder's shareholding and the earnings management (EM). On the other hand, the studies of Chandra and Wimelda (2018) carried out on a sample including 60 manufacturing companies listed on the Indonesian Stock Exchange (IDX) between 2013-2015, showed that the directors' shareholding has no impact on the earnings management (EM). Therefore, our theoretical argument here is based on the interpretation of the CEO's ownership, as a measure of his entrenchment. Moreover, we maintain that a CEO's higher discretionary power gives more room to his personality and subsequently promotes his entrenchment in the company. In fact, using a sample of 151 French-listed firms over the period 2011 to 2020, we can put forward the following hypothesis:

Hypothesis (H4): CEO's ownership has a positive effect on the financial communication quality.

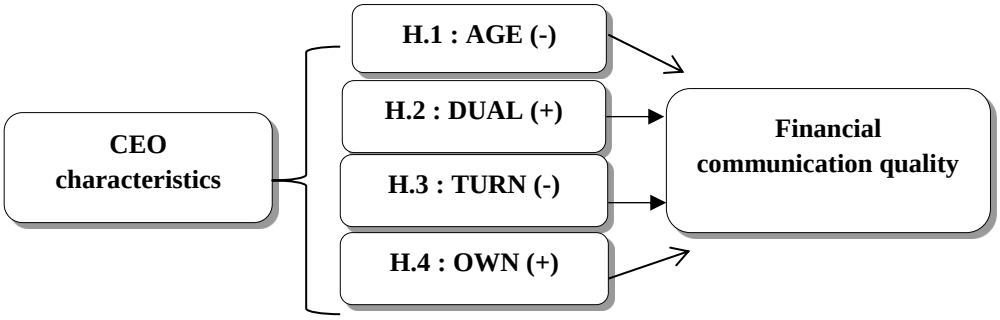

Figure1. The CEO's entrenchment and the financial communication quality

3. Research Methodology

In the first stage, we will introduce the variables measurement and in a second stage, we will present the model design as well as the data collection.

3.1 Variables measurement

3.1.1 Measuring the dependent variable: financial communication quality

In this paper, financial communication quality is evaluated by means of a proxy of the earnings management (EM). In fact, the present literature relies on the discretionary accruals to detect such a practice. Furthermore, the asymmetric information that arises between the manager and the shareholder and resulting from the moral hazard may encourage the opportunistic management behavior that affects the bad earnings management (EM). Which explains why the earnings management (EM) practices apply in the case of asymmetric information. However, the definition of the earnings management (EM) was criticized by several accounting specialists. In fact, the earnings management (EM) is not a technical term in accounting or finance, which encompasses ethical issues.

However, it is a topic of discussion that does not have a specific definition or classification, but in its definition of ethics, it is always a question of whether the earnings management (EM) is legal or not", as declared by Krishnan and Parsons (2008). Moreover, some researchers prefer the term "accounting manipulations" instead of result management, and that this notion has a broader meaning despite being sometimes misinterpreted. Indeed, in the literature, the earnings management (EM) does not have a common definition, but it varies from one researcher to another while keeping the same significance (the same phenomenon, the different aspects). Schipper (1989) defined the strategic earnings management (EM) as a deliberate intervention in the process of presenting financial information in order to appropriate

personal gains. Theoretically, Dye (1998) defines the management of the result as the consequence of a situation where the managers benefit from an information asymmetry vis-à-vis the shareholders, while Blom (2009) defines the earnings management (EM) as an intervention determined by management in the process of financial reporting in order to obtain a benefit for the staff or an advantage for the entire organization. Generally, the managers manipulate the accounting income of the company since their remuneration (or their maintenance within the company) is indexed on the accounting income. In fact, according to Lo's research (2008), the earnings management (EM) is considered as a criminal and fraudulent behavior since it involves a suspicious potential, a dual conflict, and foolishness. This shows that the accounting manipulation outside the repository is a very dangerous charter. Generally, the accounting manipulation takes place in a legal context, and it has no synonym for fraud. In this context, the accounting literature has largely evidenced this practice by recording the discretionary accruals, as affirmed by Healy (1985), Cormier and Magnan (1995).

More specifically, we use a cross-sectional model of accruals proposed by Kothari *et al.* (2005) to estimate the discretionary accruals and therefore enhance the robustness of our results.

• Model of Kothari, Leone Andrew and Wasley Charles (2005) (Model. 1)

$TA_{it} / Ait_{-1} = \beta_0 (1/Ai_{t-1}) + \beta_1((\Delta REV_{it} - \Delta REC_{it})/Ai_{t-1}) + \beta_2 (PPE_{it}/Ai_{t-1}) + \beta_2 ROA_{it} + \varepsilon_{it}$. (M.1),

where, for fiscal year t and firm i, TA represents the total accruals defined as the difference between the earnings and operating cash flows, A_{it-1} represents the total assets in t–1, ΔREV_{it} is the change in the revenues from the preceding year ($REV_t - REV_{t-1}$), ΔREC_{it} is the change in net accounts receivable from the preceding year (REVt – REVt–1), PPE_{it} stands for the gross value of property, plant and equipment and ROA_{it} represents the return on assets of firm i in year t.

Moreover, it should be noted that non-discretionary accruals refer to adjusted values derived from the models above, while discretionary accruals are defined as residuals.

3.1.2 Measuring the independent variables: The CEO's characteristics

For the sake of exploring the impact of the CEO's entrenchment on the earnings management (EM), we intend to classify the CEO's characteristics into two groups, namely the dummy variables versus the continuous ones. Hence, the following measures have also been applied to our study case:

- CEO age (AGE): We measure the CEO's age with the logarithm of his age.
- CEO duality (DUAL): We measure the CEO's duality as a dummy variable, which takes value 1 if the two positions are combined (duality), and zero when the two positions are separated.

- CEO turnover (TURN): We measure the CEO's turnover as a dummy variable, which takes value1 if the CEO's identity changes during the fiscal year and 0 otherwise.
- CEO ownership (OWN): We measure the CEO's ownership as a dummy variable, which takes 1 if the CEO holds shares in the company and 0 otherwise.

3.1.3 Measuring the control variables

As the CEO's characteristics are not the only determinant of the earnings management (EM), we add the control variables in our regression models. In fact, in the extant literature, we also undertake an analysis of the following variables:

3.1.3.1 Firm size and financial communication quality

In fact, according to Othman and Zeghal (2006), the French companies are more likely to manage lower accounting income when their size is large. Moreover, prior studies, notably those of Alqatamin *et al.* (2017), Chandra and Wimelda (2018), Qawasmeh and Azzam (2020) indicated that the firm's size has a negative relationship with the earnings management (EM). However, Le and Nguyen (2023) prove a positive relationship between firm size and earnings management (EM).
The firm's (SIZE): The logarithm of the total assets.

3.1.3.2 Firm financial leverage and financial communication quality

For his part, Klein (2002) found that companies with a high level of leverage have a higher level of discretionary accruals. In this vein, Alzoubi (2018) and Yahaya (2022) documented the existence of a positive relationship between the discretionary accruals and the company's leverage. This implies that the greater the debt of the company, the greater the risk of engaging in accounting manipulation will be. On the other hand, the studies of Le and Nguyen (2023) showed a negative relationship. Whereas, Uwuigbe *et al.* (2015) and Lopes (2018) found an insignificant relationship between the company's debt and the earnings management (EM).
The firm's leverage (LEV): The ratio of liabilities to total assets.

3.1.3.3 ROA and financial communication quality

This is the ratio of the net income to total assets. In this context, Sadeghi and Zareie (2015), Sharma *et al.* (2016), El Guindy and Basuony (2018) have shown a negative relationship between the ROA and the earnings management (EM). In fact, their results indicate that firms with lower profits tend to have highly intensified earnings management (EM). This shows that successful firms are less likely to engage in the earnings management (EM) than companies that suffer losses. However, a positive

relationship between corporate performance and the discretionary accruals was confirmed by Lopes (2018) and Rahman (2022).

The firm's performance (ROA): The net income divided by total assets in year t.

3.1.3.4 MTB and financial communication quality

Companies with a high accounting market ratio are more likely to engage in the earnings management (EM). On the other hand, for Chung and Kallapur (2003), if a MTB variable is high, this indicates strong growth. Indeed, another study conducted by Martinez and Moraes (2017) affirmed the existence of a positive relationship between the MTB variable and the earnings management (EM), whereas Yahaya (2022) showed a negative one.

The Market to Book (MTB): The total of the market capitalization and the total debt to the book value of the total assets.

3.1.3.5 Firm age and financial communication quality

In fact, Alsaeed (2006) stated that older companies can improve their financial reporting practices over time and improve their reputation and image in the market. For their part, Akhtaruddin (2005) concluded that he stronger the company is, the less it tends to make earnings management (EM) practices. As for Muttakin *et al.* (2017) and Alzoubi (2018), they stated that discretionary accruals are negatively correlated with the firm's age. This implies that mature companies are less likely to manipulate the accounting income. On the other hand, Espahbodi *et al.* (2018), Qawasmeh and Azzam (2020) argue that older companies that use more leverage are more engaged in the earnings management (EM).

The firm's age (AGE): The number of years of the company's existence since its creation.

Table 1. Summary of the variables definitions

Variable	Definition	Measure	Authors
Dependent variable			
DA	Discretionary accruals	Absolute value of residuals estimated using Kothari *et al.* (2005) model.	
Independent variables			
AGD	CEO's AGE	The logarithm of the CEO's age.	Lin *et al.* (2014); Belot and Serve (2018); Bouaziz *et al.* (2020).
DUAL	CEO's duality	Dummy variable is equal to 1 if the CEO is also the chairman of the board of directors, and 0 otherwise.	Wang *et al.* (2019); Yahaya (2022).
TURN	CEO's turnover	Dummy variable is equal to 1 if the identity of the general	Paquerot (1996); Agrawal and Cooper

Variable	Definition	Measure	Authors
		manager changes and 0 otherwise.	(2017); Bouaziz *et al.* (2020).
OWN	CEO's ownership	Dummy variable equal to 1 if the CEO holds shares in the company and 0 otherwise.	Haas and Speckbacher (2017).
Control variables			
SIZE	Firm's size	Log of the firm's total assets.	Lopes (2018) ; Yahaya (2022).
LEV	Firm's leverage	Ratio of total liabilities to total assets.	Triki Damak (2018); García-Sánchez *et al.* (2020).
ROA	Firm's performance	Net income divided by total assets in year t.	El Guindy and Basuony (2018); García-Sánchez *et al.* (2020).
MTB	Market to Book	Total of the market capitalization and the total debt to the book value of the total assets.	Yasar (2013); Alzoubi (2018); Qawasmeh and Azzam (2020).
AGE	Firm's age	The number of years of existence of the company since its creation.	Muttakin *et al.* (2017); Qawasmeh and Azzam (2020).

3.2 Data collection and sample selection

In fact, our sample includes French firms listed on the CAC ALL Shares index from 2011 to 2020. We excluded financial companies *since their atypical behavior in financial reporting*, firms with insufficient annual reports and firms with insufficient data about the CEO. Therefore, our final sample included 151 companies over 10 years. The data related to the CEO's characteristics are hand-collected from annual reports downloaded from the www.boursier.com /indices and the site Zone bourse website. Financial data were gathered from the Datastream. This index holds all stocks on the Euronext Paris market which is characterized by an annual Free Float Velocity over 20% (Ajina *et al.* 2019). The CAC All Tradable index is made up of the largest listed French companies whose managers engage in the earnings management (EM) to deceive the company's stakeholders (Salah & Jarboui, 2023).In addition, France is characterized by a participatory corporate governance model which takes into consideration the interests of all the company's partners (Salah and Jarboui, 2022).

Table 2. Sample selection procedure

Description	Number of companies
Initial sample listed on CAC ALL Shares index	335
Financial firms	(40)
Firms with insufficient annual report	(89)
Firms with insufficient data	(55)
Final sample	151
Duration study	10
Total observations	1510

We used a panel regression analysis for a sample of 151 firms listed on the French CACALL index for ten years (2011-2020). Our model, which consists in testing research hypotheses, is formulated as follows:

$$|DA|_{i,t} = \beta_0 + \beta_1 (AGD_{it}) + \beta_2 (DUAL_{it}) + \beta_3 (TURN_{it}) + \beta_4 (OWN_{it}) + \beta_5 (SIZE_{it}) + \beta_6 (LEV_{it}) + \beta_7 (ROA_{it}) + \beta_8 (MTB_{it}) + \beta_9 (AGE_{it}) + \varepsilon_{it}. \textbf{(Model. 2)}$$

DA: Discretionary accruals estimated using the model of Kothari *et al.* (2005).

Where the dependent variable takes the firm's of absolute value of discretionary accruals in year t |DA|; is our measurement of the EM in the current year, and the independent variables are, CEO age (AGD), CEO duality (DUAL), CEO turnover (TURN), CEO ownership (OWN), firm size (SIZE), firm leverage (LEV), Return on equity (ROA), Market To Book (MTB), firm age (AGE). These variables are defined in Table 1.

4. Empirical results and discussion

This study focuses on the discretionary accruals as the way to manage the earnings, using the model of Kothari *et al.* (2005). The analysis starts by the descriptive statistics and followed by the correlation analysis and then, the results of the regression analysis are shown and discussed to see whether the hypotheses are validated or not.

4.1 Descriptive Statistics

Table 3 presents a summary of the statistics for the variables test used in our regression. In fact, panel A presents the descriptive statistics of the continuous variables in the discretionary accruals models such as the mean value, the median, the standard error, the maximum and minimum value, while panel B presents the descriptive statistics of the dichotomous and continuous variables for the firms in our sample:

Reading table 3, Panel A: The descriptive statistics of the continuous variables show that the CEO's age, which is measured by means of the logarithm of the CEO' age with an average of 3.981, a minimum of 3.135 and a maximum of 4.407. From Panel A, the reached results demonstrate that the average firm's size for the sample is about 13.933, with a minimum of 8.189, a maximum of 19.437 and, which a standard deviation of 2.237. The second control variable, which is the firms' financial leverage averaged 27% of the total assets, which means that the average of the firms depends a little bit more on equity rather than on debt, while the third variable, which is the MTB, displays an average of 1.85%. The sample firms are profitable with a mean ROA of 3.47%. The average age for the sampled firms is 51.04 years, while the minimum firm's age of the sample is one year and the maximum is 187 years.

Table 3. Descriptive statistics

Panel A: Summary statistics for continuous variables

Variable	N	Mean	S.d	Min	Max	Median
Control variables						
AGD	1510	3.981	0.166	3.135	4.407	4.007
SIZE	1510	13.933	2.237	8.189	19.437	13.698
LEV	1510	0.267	0.646	0	21.750	0.215
MTB	1510	1.846	2.557	-16.66	49.38	1.465
ROA	1510	3.473	9.678	-160.680	46.650	4.258
AGE	1510	51.044	44.917	1	187	33

Where: AGD is CEO age, SIZE is firm size, LEV is firm leverage, MTB is Market To Book ratio, ROA is return on assets, AGE is firm size.

The descriptive statistics of dichotomous variables reported in Panel B of Table 3 highlight that 53.64% of the sample of French companies have their CEO's who also act as chairman, whereas only 46.36% of the firms have CEOs with separate roles, as only 8.08 % of our sample companies change their CEO between the time-period 2011-2020. In addition, a percentage of 69.81% of CEOs, who are shareholders and hold a percentage of the share capital, compared to 30.19% of CEO's who are not shareholders.

Panel B: Summary statistics for dichotomous variables

Variables	Modality	Frequences	Percentage
DUAL	0	700	46.36%
	1	810	53.64%
TURN	0	1389	91.99%
	1	121	8.01%
	0	456	30.19%
OWN			
	1	1054	69.81%

Where: CEO duality is DUAL, CEO turnover is TURN, CEO ownership is OWN.

4.2 Correlation analysis

The Spearman Correlation Matrix aims to check the relationship between the independent variables (CEO's characteristics) as well as the control variables among one another.

Our research found that the found coefficients vary from one variable to another. Then, Soliman *et al.* (2013), decided on a serious problem of multi-collinearity between the independent variables, where the Spearman's correlation between the independent variables were expected to exceed 0.8. As shown in table 4, the highest correlation is between the firm's age and size variables, with the amount of 0.4026. This table shows that there is no multi-collinearity problem between the independent variables used in this research model, as it does not exceed 0.8.

Table 4. Correlation matrix analysis

	AGD	DUAL	TURN	OWN	SIZE	LEV	ROA	MTB	AGE	VIF
AGD	1.0000									1.17
DUAL	0.2819***	1.0000								1.10
TURN	-0.0771***	-0.0732***	1.0000							1.04
OWN	0.0284	0.1036***	-0.0953***	1.0000						1.03
SIZE	0.2814***	0.0881***	0.0407	-0.0387	1.0000					1.28
LEV	0.0434	-0.0247	0.0581**	0.0381	0.2784***	1.0000				1.04
ROA	0.0382	-0.0681*	-0.0412	-0.0280	0.0947***	-0.1877***	1.0000			1.07
MTB	0.0173	0.0047	-0.0709***	0.0391	0.0865***	-0.1799***	0.3347***	1.0000		1.03
AGE	0.2658***	-0.0369	0.0598	-0.1145****	0.4026***	0.1833***	0.1705***	0.0096	1.0000	1.23

4.3 Regression-Analyses Results

Hausman test is carried out for the sample of 151 firms for the period from 2011 to 2020, using discretionary accruals as a dependent variable.

Then, the Hausman test seems essential to check the endogeneity of the model's variables. Indeed, in fact, the Hausman test indicates that our equation shows a chi-square, significant at 1% level (p = 0.000). We used the Breush Pagan test, which makes the difference between the fixed and the random effects. This implies that the exogeneity hypothesis of the model-variables is confirmed. Therefore, the random effect regression should be used instead of the fixed effect.

Table 5. Hausman test result

	Model. 2
Hausman test	2255.35 (0,0000)

Table 6. Multi-variate regressions of the CEO's entrenchment, financial communication quality (Kothari *et al.* 2005) and other control variables

	Panel: CEO's entrenchment Model. 2	
	Coefficients	**p-value**
	Independent variables	
AGD	-0.014	0.001***
DUAL	0.005	0.001***
TURN	0.001	0.519
OWN	0.004	0.008***
	Control variables	
SIZE	-0.014	0.000***
LEVR	0.013	0.000***
ROA	0.002	0.000***
MTB	0.005	0.000***
AGE FIRM	-0.000	0.132
R-square	0.2866	
Prob>F	0.0000	
Wald Chi2	1110.96	
Prob > chi2	0.0000	

Statistical significance: ***, **, and * denote a significance at 1%, 5%, and 10% levels, respectively. The dependent variable is represented by discretionary accruals (DA). This variable is estimated via the model of Kothari *et al.* (2005).The explanatory variables are defined as follows: AGD: The logarithm of the CEO's age; DUAL: Dummy variable is equal to 1 if the CEO is also the chairman of the board and 0 otherwise; TURN: Dummy variable equal to 1 if the identity of the general manager changes and 0 otherwise; OWN: Dummy variable is equal to 1 if the CEO holds shares in the company and 0 otherwise; Firm's size: The Log of firm's total assets; Firm's leverage: The ratio of total liabilities to total assets; Firm's performance: The net income divided by total assets in year t ; Market to Book : The total of the market capitalization and the total debt to the book value of the assets; Firm's age :The number of years of existence of the company since its creation.

Table 6 reports the results of the discretionary-accruals regression on the explanatory variables. The adjusted $R^2$for the Kothari *et al.* (2005) model is equal to only 28.66%.

From reading Table 6, we can see that the relationship between the CEO's age and earnings management (EM) is negative and significant at the level of 1%, respectively with (z = -0.014) and (p> z = 0.001). This result is similar to those found by Belot and Serve (2018), Lee *et al.* (2020), Rahman (2022), which agree about the existence of a negative relationship between the CEO's age and the earnings management (EM). This means that the older the manager is, the more earnings management (EM) decreases. The significant coefficient indicates that older CEOs are less likely to more incited to manipulate the accounting income.

Therefore, in accordance with H2, the multivariate-analysis results relevant to the Kothari *et al.* (2005) model showed a significant positive relationship between the

discretionary accruals and the CEO's duality. On the other hand, the regression coefficients of the Kothari *et al.* model (2005) are significant at the level of 1%, respectively with (z = 0.005) and (p> z = 0.001). This result is similar to those found By Al-Sraheen and Alkhatib (2016), Triki Damak (2018), Baker *et al.* (2018) which agree that the CEO's duality is positively correlated with the extent of the earnings manipulation. In fact, a CEO with a double function, who is also the chairman of the firm is not able to monitor the director of the business and enhance afterwards the earnings management (EM).

Testing H3, table 6 shows that the relationship between the CEO's turnover and the earnings management (EM) is not significant, with (z = 0.001) and (p> z = 0.519). This result is in fact not in conformity with those of Hazarika *et al.* (2012), which found that newly recruited CEOs are more likely to increase, especially the earnings management (EM).

Table 6 shows that there is a positive relationship between the CEO's ownership and the earnings management (EM) using the Model of Kothari *et al.* (2005) to estimate discretionary accruals. The regression coefficient is significant at the level of 1%, respectively with (z = 0.004) and (p> z = 0.008). This finding suggests that the CEOs who hold shares in the French firm are more likely to manipulate the earnings.

On the other hand, among the control variables, we noticed that the firm's size, its leverage, its performance and MTB are significant for the model regression. In fact, Table 6 shows that the firm's size is the only control variable which is negatively and significantly related to the discretionary accruals, as it is at the level of 1% for the model of Kothari *et al.* (2005). This result confirms prior findings, notably those of Alqatamin *et al.* (2017), Chandra and Wimelda (2018), Qawasmehand and Azzam (2020) which indicated the existence of a negative relationship between the firm's and the earnings management (EM). Generally, larger firms are less incentivized to manage the accounting income. Moreover, looking at table 6, we find that the leverage of the firm has a significant positive coefficient in the regression of the model of Kothari *et al.* (2005). In fact, these results are in line with those of Alzoubi (2018) and Yahaya (2022) which state that the higher the debt of the companies, the higher the management of the results. Then, the firm's performance variable is positively associated with the discretionary accruals for the model of Kothari *et al.* (2005). Therefore, this relationship is consistent with the results of Lopes (2018) and Rahman (2022). In fact, companies with higher profits tend to have higher earnings management (EM) intensity. For the MTB control variable, it is positively and significantly related to the discretionary accruals for the Kothari *et al.* (2005) model. This result is also in line with of that of Martinez and Moraes (2017), which indicates that companies with a high accounting market ratio are more likely to engage in the earnings management (EM) (Chung and Kallapur, 2003). Finally, we found that the firm's size has a negative but a non significant coefficient in the regression. This result is also in line with that of Muttakin *et al.* (2017) and Alzoubi (2018), which

stated that the discretionary accruals are negatively but insignificantly correlated with the firm's age. This result proves that there is no relationship between the firm's size and the earnings management (EM) whatever the age of the company is.

4.4 Robustness checks

An additional analysis serves to ascertain the robustness of the main results. Indeed, we re-ran the regression analyses with alternative measures for the earnings management (EM) (Jones modified, 1995; Raman & Shahrur, 2008).

- **Modified Jones model: Dechow, Sloan and Sweeney (1995) (Model. 3)**

$TA_{it} / Ai_{t-1} = \boldsymbol{\beta_0}\ (1/Ai_{t-1}) + \boldsymbol{\beta_1}\ ((\boldsymbol{\Delta}REV_{it} - \boldsymbol{\Delta}REC_{it})/Ai_{t-1}) + \boldsymbol{\beta_2}\ (PPE_{it}/Ai_{t-1}) + \boldsymbol{\varepsilon_{it}}.$

Where, in fiscal year t for firm i,, TA represents the total accruals defined as the difference between the earnings and the operating cash flows, A_{it-1} represents the total assets in t–1, $\Delta\ REV_{it}$ is the change in revenues from the preceding year (REV_t – REV_{t-1}), $\Delta\ REC_{it}$ is the change in net accounts receivables from the preceding year (REV_t – REV_{t-1}), and PPE_{it} stands for the gross value of the property, plant and equipment.

- **Model of Raman and Shahrur (2008) (Model. 4)**

$TA_{it} / Ai_{t-1} = \boldsymbol{\beta_0}\ (1/Ai_{t-1}) + \boldsymbol{\beta_1}((\Delta REV_{it} - \Delta REC_{it})/Ai_{t-1}) + \boldsymbol{\beta_2}(PPE_{it}/Ai_{t-1}) + \boldsymbol{\beta_3}\ ROA_{it} + \boldsymbol{\beta_4}\ MTB_{it} + \varepsilon_{it}.$

Where, MTB represents the book-to-market ratio of firm i in year t. In fact, we examined the impact of the CEO's entrenchment on the financial communication quality using Jones's modified (1995) on the one hand, Raman and Shahrur (2008) model on the other.

$$\boldsymbol{|DA|_{i,t} = \beta_0 + \beta_1\ (AGD_{it}) + \beta_2\ (DUAL_{it}) + \beta_3\ (TURN_{it}) + \beta_4\ (OWN_{it}) + \beta_5\ (SIZE_{it}) + \beta_6\ (LEVER_{it}) + \beta_7\ (ROA_{it}) + \beta_8\ (MTB_{it}) + \beta_9\ (AGE_{it}) + \varepsilon_{it}.}\ \textbf{(Model. 5)}$$

While, DA: Discretionary accruals estimated using the model of Jones modified (1995).

$$\boldsymbol{|DA|_{i,t} = \beta_0 + \beta_1\ (AGD_{it}) + \beta_2\ (DUAL_{it}) + \beta_3\ (TURN_{it}) + \beta_4\ (OWN_{it}) + \beta_5\ (SIZE_{it}) + \beta_6\ (LEVER_{it}) + \beta_7\ (ROA_{it}) + \beta_8\ (MTB_{it}) + \beta_9\ (AGE_{it}) + \varepsilon_{it}.}\ \textbf{(Model. 6)}$$

While, DA: Discretionary accruals estimated using the model of Raman and Shahrur (2008).

Table 7. Multivariate regressions of CEO entrenchment, financial communication quality (Jones modified 1995 model; Raman and Shahrur 2008 model) and other control variables

	Panel : CEO's entrenchment			
	Model. 5		**Model. 6**	
	Coefficients	**p-value**	**Coefficients**	**p-value**
	Independent variables			
AGD	-0.011	0.197	-0.012	0.144
DUAL	0.010	0.000***	0.007	0.007***
TURN	-0.000	0.968	-0.001	0.808
OWN	0.008	0.004***	0.008	0.005***
	Control variables			
SIZE	-0.011	0.000***	-0.012	0.000***
LEVR	0.010	0.188	0.011	0.149
ROA	-0.001	0.013**	-0.000	0.378
MTB	0.004	0.001***	0.003	0.022*
AGE FIRM	-0.000	0.013**	-0.000	0.000***
R-square	0.0809		0.0895	
Prob>F	0.0000		0.0000	
Wald Chi2	211.01		273.29	
Prob > chi2	0.0000		0.0000	

Statistical significance: ***, **, and * denote a significance at 1%, 5%, and 10% levels, respectively. The dependent variable is represented by discretionary accruals (DA). This variable is estimated via the model of Jones modified (1995) and the model of Raman and Shahrur (2008).The explanatory variables are defined as follows: AGD: The logarithm of the CEO's age; DUAL: Dummy variable is equal to 1 if the CEO is also the chairman of the board and 0 otherwise; TURN: Dummy variable equal to 1 if the identity of the general manager changes and 0 otherwise; OWN: Dummy variable is equal to 1 if the CEO holds shares in the company and 0 otherwise; Firm's size: The Log of firm's total assets; Firm's leverage: The ratio of total liabilities to total assets; Firm's performance: The net income divided by total assets in year t ; Market to Book : The total of the market capitalization and the total debt to the book value of the assets; Firm's age :The number of years of existence of the company since its creation.

Table 7 shows the results after redoing all the empirical tests. Models (5) and (6) showed that the CEO's duality positively affects the earnings management (EM) measured by Jones's modified (1995) model and Raman and Shahrur (2008) model ($\alpha = 0.010$, $p < 1\%$), ($\alpha = 0.007$, $p < 1\%$) respectively. It ensures that a CEO with a double function increases the earnings management (EM). Likewise, the CEO's ownership affects positively and significantly the earnings management (EM) measured by Jones modified (1995) model, Raman and Shahrur (2008) model ($\alpha = 0.008$, $p<1\%$; $\alpha = 0.008$, $p<1\%$) respectively. We found that this finding is noticeably the same. While the effect of the CEO's age on financial communication quality measured by Jones's modified (1995) model, Raman and Shahrur (2008) model is insignificant ($\alpha = -0.011$, $p > 10\%$; $\alpha = -0.012$, $p > 10\%$) respectively. Concerning the control variables, the firm's size and firm's age are negatively related

to the financial communication quality; however, the MTB positively acts on the financial communication quality. Ultimately, we can state that models 5 and 6 reached results that do not confirm the empirical findings of model 2.

5. Discussion and policy recommendations

This study has been designed to theoretically and empirically examine the relationship between the CEO's entrenchment and the quality of financial communication measured by the earnings management (EM) of the French-listed firms. Moreover, the objectives of this paper are twofold: testing the impact of the CEO's entrenchment, (duality and ownership) on the quality of financial communication. On the other hand, based on the variables having a significant effect, we used a cross-sectional model of accruals proposed by Dechow *et al.* (1995), Raman and Shahrur (2008) to estimate the discretionary accruals and enhance the robustness of our results. We used three models to evaluate the earnings management (EM) and compared them with one another to find out which model gives the most important result on the French context. Moreover, using a sample of 151 French-listed firms concluded over the period 2011-2020, we found empirical results which showed that the CEO's characteristics, such as duality and ownership, facilitate the CEO's entrenchment and enables him/her to manipulate the accounting income to improve his financial situation.

Being consistent with our prediction, the findings of the study indicate that there is a significant relationship between the CEO's age, duality, ownership and earnings management (EM). Moreover, the findings showed that the CEO's age negatively acts on the financial communication quality. As for the CEO's duality variable, our results indicated a positive relationship with the earnings management (EM). Therefore, the results reported in this paper are consistent with previous results reported by Al-Sraheen and Alkhatib (2016) and Triki Damak (2018). Regarding the CEO's ownership, our results revealed a significant positive relationship with the earnings management (EM). This result is in conformity with those of Waweru *et al.* (2018), which confirmed the existence of the same relationship. Our findings have therefore practical implications that may be of interest for academic researchers and practitioners interested in entrenched leaders' practices grounded in the earnings management (EM). Moreover, the findings on the CEO's entrenchment will be useful for policy makers as well as for regulators in designing rules and regulations seeking to protect the interests of all minority shareholders. In the same area, In fact, this study has some social implications because it is empirically proven that managers with a higher age are those who have a lower level of earnings management (EM). However, some limits are allocated to our paper. Of course, it should be noted that research constraints do not mean the research failure. The first limit is bound to the reduced size of our sample due to the non-availability of all necessary data for the period from 2011 to 2020. As for the second constraint, our

study could be reproduced in other institutional countries or contexts. In the third case, it has to do with the measures relevant to CEO entrenchment.This literature has highlighted not only the CEO's age (his dual functions and his replacement) but also his ownership of shares in the company, which is likely to affect the quality of financial information.

Hence, we asked CEOs whether they had ownership rights or not. However, we did not measure the extent to which the CEO has ownership rights, which again constitutes a limitation of our study. Therefore, future studies can be enriched if researchers could investigate the effect of other managerial entrenchment characteristics on the earnings management (EM). Further investigation should be conducted on all the companies listed in the CAC ALL shares index in all the sectors as well as on financial companies. Furthermore, this research has thrown up many questions in need for further investigation as further work needs to be done to validate the effect of the CEO's entrenchment.

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