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## Article

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Cogent Economics & Finance

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*Suggested Citation:* M'rad, Mouna (2022) : Accounting conservatism and corporate cross- listing: The mediating effect of the corporate governance, Cogent Economics & Finance, ISSN 2332-2039, Taylor & Francis, Abingdon, Vol. 10, Iss. 1, pp. 1-24,  
<https://doi.org/10.1080/23322039.2022.2090662>

This Version is available at:

<https://hdl.handle.net/10419/303690>

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**To cite this article:** Mouna Mrad (2022) Accounting conservatism and corporate cross-listing: The mediating effect of the corporate governance, Cogent Economics & Finance, 10:1, 2090662, DOI: [10.1080/23322039.2022.2090662](https://doi.org/10.1080/23322039.2022.2090662)

**To link to this article:** <https://doi.org/10.1080/23322039.2022.2090662>



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Received: 19 March 2022  
Accepted: 11 June 2022

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Reviewing editor:  
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## FINANCIAL ECONOMICS | RESEARCH ARTICLE

# Accounting conservatism and corporate cross-listing: The mediating effect of the corporate governance

Mouna Mrad<sup>1\*</sup>

**Abstract:** The purpose of this paper is to investigate the relationship between accounting conservatism and companies' cross-listing decision and the mediating role of the corporate governance mechanisms: board of directors' characteristics and ownership structure, on this relationship. Using a sample of 60 French companies for the period 2014–2019, we find new evidence of a reverse causation relationship between accounting conservatism and cross-listing decision in the United States (US). Thus, cross-listed firms in the US are more likely to exhibit more conservative financial reports. In the reverse causality sense, more conservative firms are more likely to cross-list in the US since they can support a higher level of cross-listing costs and satisfy the higher disclosure and governance requirements which allow them to benefit from a better valuation. Our findings also support the new prediction that better governance leads to higher levels of accounting

### ABOUT THE AUTHORS

Mouna Mrad is currently an assistant professor at the Institute of Higher Commercial Studies (IHEC) of Sousse, Tunisia. She earned her PhD in Finance from the Higher Institute of Management (ISG) of Tunis. Mouna has published in many international reviews like: *The Quarterly Review of Economics and Finance*, *Public Organization Review*, *The Journal of Public Finance and Public Choice*, *Procedia-Social and Behavioral Journal*, *International Transactions on Electrical Energy systems*, *International Journal of Monetary Economics and Finance*, *International Journal of Economics and Finance*.

Her research interests include Corporate governance, behavioral accounting and finance.

### PUBLIC INTEREST STATEMENT

Companies are required to adhere to several accounting policies to keep their financial statements most accurate as provided by the Generally Accepted Accounting Principles (GAAP). Conservatism is one of such accounting standards that require accountants to report the lowest values of assets and revenues and the highest values of liabilities and expenses.

It has attracted special attention among many researchers. All recent studies reveal the presence of accounting conservatism to various degrees. At the same time, there was renewed interest in the topic of cross-listing. It presents a major scientific debate on the motivations and implications of such a decision. Our paper fits in this framework and tries to contribute to the existing literature on accounting conservatism and cross-listing. Thus, it supposes the existence of reverse causality between accounting conservatism and cross-listing decision. It also examines the mediating effect of corporate governance and ownership structure on this relationship. In order to validate our theoretical findings, we use a sample of French companies belonging to the SBF 120 index for the period 2014–2019. Our results show that the level of accounting conservatism is significantly driven by the decision to cross-list, which enriches earlier studies on accounting conservatism and cross-listing.

conservatism, implying a mediating impact on the relationship between accounting conservatism and cross-listing decision.

**Subjects:** Statistics for Business; Finance & Economics; Financial Accounting; Corporate Governance

**Keywords:** Accounting conservatism; cross-listing; board of directors; ownership structure

## 1. Introduction

The substantial body of literature does not provide a clear and unified definition of earnings quality. Neag and Maşca (2015) consider that accounting conservatism approaches are numerous, and their definitions sometimes complement each other. For R. L. Watts (2003a) Accounting conservatism is defined as “the differential verifiability required for recognition of profits versus losses”. Its extreme form is the traditional conservatism, saying: “anticipate no profits and provide for all probable losses” (Bliss, 1924). Conservatism in accounting considers bad news as a priority than good ones. It calls for stronger verification requirements to anticipate and record future losses rather than future gains and provides earnings that reflect bad news in a timelier fashion than good news. Therefore, unrealized losses are recognized earlier than unrealized gains (Basu, 1997).

Accounting Conservatism has been an area of interest and aroused a particular interest for many researchers. All recent research points out the presence of accounting conservatism in varying degrees. In parallel, the interest in the cross-listing subject dating from the nineteen eighties has seen a resurgence of interest. It presents an important scientific debate on the motivations and consequences of taking such a decision. A brief look at the recent studies (Esqueda, 2017; Esqueda & Jackson, 2015; Wang & Zhou, 2015) is sufficient to understand the importance and magnitude of such a subject. Besides, the number of multi-listed companies in the US stock markets has been increasing significantly for years. Last researchers related to cross-listing decision focuses on their reasons, and are mainly attached to market segmentation (Abdallah & Ioannidis, 2010; Miller, 1999; Sarkissian & Schill, 2009; You et al., 2013), information environment (Amira & Muzere, 2011; Bailey et al., 2006; M. H. Lang et al., 2003; Lee & Valero, 2010), market liquidity (Abdallah et al., 2011; Domowitz et al., 1998; Foerster & Karolyi, 1998; Silva & Chávez, 2008) legal environment (Doidge et al., 2007; You et al., 2013) and geographic proximity (Sarkissian and Schill, 2004). Several studies on cross-listing in the US have shown that cross-listed firms subject themselves to high information disclosure and accounting standards to raise capital at better conditions and enjoy higher valuation (Foerster & Karolyi, 1999; Lee & Valero, 2010).

Furthermore, the effect of cross-listing on accounting quality is still controversial as the proponent of the bonding hypothesis claims that cross-listed firms hire the host market's superior corporate governance system (Licht, 2003) but opponents assert that these firms confront few regulatory and disclosure requirements due to weak implementation (Frost and Pownall, 1994). Further, accounting quality is also influenced by a set of interrelated home country-level factors (Isidro et al., 2016). For example, the accounting quality varies for firms domiciled in different levels of investor protection (Houque et al., 2012). However, earlier literature has focused on firm-level characteristics to explain the issue of accounting conservatism. Our study fits into this framework and tries to contribute to the existing literature by addressing several issues. So, we can assume that cross-listing affects the level of accounting conservatism. In another hand, to maximize the cross-listing benefits, the firms may choose a higher level of conservatism as a signal of good prospects for investors allowing. Hence the existence of a reverse causality relationship between accounting conservatism and cross-listing decision.

Francis et al. (2004) focus on the relation between earnings quality and the cost of equity capital. They view firms with higher degrees of conservatism as higher earnings quality firms, likely to have lower costs of equity capital.

On the other side, Saudagaran and Biddle (1992) argue that stricter disclosure and accounting requirements in the US increase cross-listing costs which discourage companies from opting for such a strategy. Moreover, Saudagaran and Biddle (1995) show that firms with higher information environment quality are more likely to list abroad. In this context, we can assume that accounting conservatism as a device that is often used to enhance the quality of the firm's accounting statement and to improve the corporate information environment (Hu et al. 2014), is one among many factors that stimulate the firm's cross-listing decision.

In parallel, the issue of corporate governance and information disclosure as a solution to the financial scandals had a renewed interest.

Indeed, the falls known by large companies such as Enron, Worldcom, France Telecom, Vivendi Universal, etc. all became a catalyst for the launching review of corporate governance. Thus, in recent years, attention has focused considerably on the evaluation of the necessary and decisive measures of the quality of governance. This is intended to open the way towards good and solid governance and to restore the trust of all stakeholders, particularly concerning accounting practices. As shown by Lara et al. (2007), A. Ahmed and Duellman (2007), and Jarboui (2013), effective sets of corporate governance mechanisms lead to higher levels of accounting conservatism. Therefore, it would be interesting to analyze the impact of corporate governance mechanisms on the relationship between the quality of the accounting information, measured by the level of accounting conservatism, and the cross-listing decision. For that purpose, the mediating effect of corporate governance mechanisms will be also investigated. Embedding this effect within our analysis helps improve the existing literature and complete the analyses dealing with this issue.

To the best of our knowledge, this is the first paper to systematically test the relationship between conservatism and the cross-listing decision in the French context. It also examines the mediating effect of corporate governance and ownership structure on this relationship.

It contributes to two strands of the extent accounting literature. The first strand of research, we contribute to is cross-listing. We add to this literature by considering how accounting conservatism is associated with the decision made by companies to list their shares abroad. The second is related to the role of corporate governance -mechanisms in corporate policies.

Therefore, our research sheds light on how the relationship between cross-listing and accounting quality depends not only on institutional factors of the host countries but also on the firm characteristics such as corporate governance mechanisms. In doing so, we incorporate the mediating effect of corporate governance in analyzing such a relationship. Thus, we extend prior works by Kamarudin et al (2020), M. Lang et al. (2006), and Ndirangu and Iraya (2016) by documenting that such association is not only influenced by the level of investor protection but also by corporate governance mechanisms. likewise, unlike prior studies which mostly focus only on legal bonding, the evidence documented in this study adds to the bonding, the signalling theories, and the agency theory in explaining the motivations underlying accounting conservatism.

Our choice for the French context is motivated by the fact that France presents the dominant Continental- European accounting model characterized by state control, uniformity, conservatism, and risk aversion unlike that of Anglo-Saxon countries which are marked by high professionalism, flexibility, and transparency. (Gray, 1988).

Second, France presents a distinctive case in the study of the relationship between corporate governance and accounting conservatism, because, while in the Anglo-Saxon countries the corporate ownership is highly diffused, the ownership in French listed firms is highly concentrated. This characteristic can influence the conservatism activity in French firms since highly concentrated ownership influences the type of corporate governance.

Third, French is relatively weak in law enforcement and investor protection. So, outside investors will not be protected adequately and they can't obtain some rights such as disclosure and accounting rules which provide them with the information they need, to exercise other rights. Therefore, it will be interesting to see how corporate governance will play a mediating role in the relationship between accounting conservatism and cross-listing, especially in environments with low legal investor protection and where the information asymmetry is likely to be high.

Therefore, the purpose of this paper is to investigate whether cross-listing is beneficial to firms in terms of improving accounting quality and if the strength of investor protection explains variations in the accounting quality of listed companies in the United States.

In addition, the period of the study which extends from 2014 to 2019 covers the period of post-mandatory adoption of IFRS standards in France. Such adoption has led to a decrease in accounting conservatism of French listed companies as has been proved by prior research.

So, it would be interesting to investigate this effect in the context of cross-listed companies i.e., if managers will opt for the conservative accounting mode in order to increase the benefits of cross-listing. Furthermore, the research on the determinants of accounting conservatism and cross-listing remains very little explored in the French context.

The remainder of the paper is structured as follows: In Section 2 we review the literature and present grounds for our testable hypothesis. Section 3 describes the data and the sample. Section 4 deals with our model and variables measures. In Section 5, we discuss the empirical results. Finally, Section 6 concludes this paper.

## 2. Conservatism and cross-listing decision: Literature review

Cross-listing consists of listing the company shares in several foreign stock exchanges and its home stock exchange simultaneously. This decision may have disadvantages. In this regard, Huijgen and Lubberink (2005) find that deciding to cross-list can increase the executives' pressure due to closer public scrutiny. It can also improve reporting and disclosure requirements, and additional listing fees. Indeed, there are many costs associated with listing on a foreign exchange related to meeting increased financial reporting obligations, payment of registration fees to regulators, and payment of admission fees (Karolyi, 1998).

In another perspective, Ammer et al. (2008) find that cross-listing does not increase the attractiveness of stock markets in countries offering less protection for the rights of minority shareholders. By Siegel (2005), listing in the United States cannot substitute for the legal protection of the country of origin.

Despite these drawbacks, cross-listing remains a decision that can have beneficial repercussions for the firms which adopt it. Yet several advantages are associated with such a decision. It promotes the firm liquidity (Amihud and Mendelson, 1986) by opening it to other markets providing better visibility, lower information costs, and better trading volume of its shares. Theoretically, Fuerst (1998) shows that corporate managers make a decision to cross-list in a country with better disclosure standards to disseminate more information about the firm's prospects and quality, and therefore increase their visibility.

From a capital point of view, the decision to cross-listing makes it possible to reduce the costs of capital (Merton, 1987; Foerster & Karolyi, 1999) by offering the company more potential for capital increases in markets with lower costs than those proposed in their domestic markets. Besides, Roosenboom and Van Dijk (2009) argue that cross-listing in the US subject the firm to higher disclosure and governance requirements, allowing cross-listed firms to commit themselves to greater transparency, thereby reducing the monitoring costs of its shareholders. The superiority

of benefits over costs depends on the potential increase in the total volume of transactions resulting from the foreign listing (Mittoo, 1992).

These advantages have raised a new field of analysis linked to a potential effect of the cross-listing decision on accounting quality. Besides, the relationship between cross-listing and accounting quality arouses the interest of researchers for the importance it presents in decision-making (Miller, 2003; de Jong, Mertens, and Poel, 2010).

Theoretically, several studies have previously analyzed accounting conservatism decisions. Regarding the relationship Conservatism-Cross-listing, M. Lang et al. (2006) have found, that listing companies from countries offering less protection to minority shareholders in the United States does not improve the quality of their accounting and financial data with what is required by US regulations. Moreover, Doidge et al. (2009) show that companies from a country that better protect the minority shareholders' interests cross-list their shares in the US. It's explained by the fact that US disclosure requirements, the obligations of the American stock exchange authority, and potential shareholder remedies make extracting the private benefits of control more costly and difficult to achieve. In this respect, listing in the United States may constitute a credible commitment by companies to limit the extraction of cash flows by controlling shareholders, facilitating de facto access to external financing and the exploitation of growth opportunities (Hail & Leuz, 2009).

Ndirangu and Iraya (2016) confirm that cross-listing is a determinant of accounting quality. They find that its effect differs depending on the studied country or area jurisdiction. In the same context, M. H. Lang et al. (2003) reveal that firms cross-listed in the US manifest better accounting quality relative to the firms that are not. In fact, the benefits of cross-listing are devoted to the enhancement of the information environment quality of the cross-listed firms. For example, the information environment of firms cross-listed in the US is supposed to improve through the attention given by financial analysts and monitoring, all of which are assisted by the financial statements to US GAAP (Lang and Lundholm, 1996; Healy et al., 1999). Whereas the cross-listed firms are called to comply with similar requirements as the US firms, they are also affected by the reporting incentives arising from the institutional measures and market forces in their home countries.

Lubberink and Huijgen (2005) find that firms that have the option to raise capital display a higher level of conservatism than the firms that do not have that option. Then, firms intending to issue equity capital to finance future growth possibilities will provide credible and verifiable earnings information to investors. They need a reassuring factor to agree to invest more in the company and will therefore tend to appreciate a more stringent assessment which may develop accounting conservatism.

Anuar Kamarudin et al. (2020) () reveal that Cross-listing in the US is associated with higher accounting quality. As rigorous regulations of the US strengthen their governance, cross-listed firms can be expected to have better accounting quality than non-cross-listed. As cross-listing involves a better information environment surrounding the firms, it would reveal valuable information about their accounting quality.

In the same vein, He et al. (2008) investigate the conservative accounting behavior of ADRs in the pre-and post-Sarbanes Oxley periods. They find that only Levels II and III ADRs from code law countries are positively and significantly associated to accounting conservatism, whereas Levels II and III ADRs from common law countries do not show a significant change in accounting conservatism.

Using 42,808 firm-year observations from 32 countries around the world, Khairul et al (2019) examine whether cross-listing in the US is related to better accounting quality. They noticed that firms that are cross-listed in the US show more timely reporting of losses, greater disposition to manage earnings downward, and more value relevance of accounting statements as compared to



their domestic counterparts. Cross-listed firms from countries offering high protection for investors, particularly in high anti-director rights and common law countries, show a greater disposition to acknowledge a timelier reporting of losses as compared to cross-listed firms domiciled in low anti-director rights and non-common law countries. They also conclude that the strength of investor protection in the home country plays an important role in determining the quality of accounting statements of cross-listed firms.

We can then assume, in the case of French companies, where there is a low level of investor protection and a high degree of information asymmetry, that corporate managers would make the decision to cross-list in a country with better disclosure standards to disseminate more information about the firm's prospects and quality, and therefore increase their visibility. And as cross-listing involves a better information environment surrounding the firms and would reveal valuable information about their accounting quality, it would encourage managers to improve the quality of accounting information within their companies, of which accounting conservatism is one of the mechanisms.

We can therefore state the alternative hypothesis:

***H1: The cross-listing decision has a positive effect on accounting conservatism.***

In another perspective, cross-listing improves the liquidity of a firm, its demand in the financial market and then is associated with a higher risk level. Listing in several markets simultaneously ameliorates the financial situation of the company by improving raising capital and liquidity but needs a high level of risk management proposed by conservatism.

Then investors in international financial markets will give more credibility to conservative firms which are more likely to be considered as better reputed and worthy trusted on foreign financial markets. Moreover, such investors see conservatism as a mechanism that induces management to make better investment decisions that align with shareholder interests. In parallel, some recent studies prove that there is a positive association between conservatism and the quality of financial statements. That is, conservatism enhances the relevancy of the provided information, and this leads to an efficient role for the investors and other users of the financial statements.

In parallel, empirical evidence shows that conservatism is associated with better investment decisions since losses from unprofitable projects are recognized in a timelier manner than gains from profitable ones. For instance, A. S. Ahmed and Duellman (2011) find that firms that use more conservative accounting have higher operating cash flows and gross profit margins. Francis and Martin (2010) find evidence that, in the presence of conservatism, managers are more likely to make profitable investments. Louis et al. (2012) find that conservatism is associated with the more efficient investment of cash holdings. Moreover, Kravet (2014) finds that conservatism may discourage management to make investment decisions on a risky project even if it is profitable.

Moreover, as shown by Coffee (1999, 2002), Doidge (2004), and Doidge et al. (2007), non-American firms are motivated by the commitment to higher foreign governance standards in terms of minority investor protection, and therefore decide to cross-list their shares in the US. This is known as the agency hypothesis. The hypothesis suggests that, given that the private benefit of control increases the risk to outsiders (i.e., minority investors) and subsequently the required return on the firm's equity, the insiders (the controlling shareholders/ managers) will be prevented from financing the company's future growth opportunities. Therefore, the insiders will decide to cross-list on a foreign stock exchange with higher investor protection to signal their wish to protect the investor's rights and therefore issue equity at a lower cost of capital (Abdallah &



Ioannidis, 2010). This would be the case for French firms especially since the French market is recognized by the weak protection of its investors.

According to the information disclosure theory, companies operate in foreign markets with the most stringent disclosure requirements (Dodd, 2013) because increased disclosure encourages trading, thus leading to higher market valuation of the cross-listed firm. Thereby, the higher the level of dissemination of information as well as the visibility of the company on the foreign market, the higher the profits of a cross-listing company (Abdallah, 2008). According to Eng and Ling (2012), increased investor recognition translates into increased company value as a result of increased company awareness and recognition in foreign markets.

We can then assume the possibility of reverse causality. For example, a firm may want to cross-list perhaps because managers think it will increase the value of the firm, maximize their compensation or wealth, etc. To maximize the benefits of cross-listing, the firm engages in a series of costly behaviors designed to signal their type (i.e. distance themselves from “bad” firms in their home country). One such behavior may be choosing a higher level of accounting conservatism.

Thus, in this sense a second hypothesis will be treated namely:

***H2: Firms with more conservative accounting are more likely to cross-list in the US.***

Then, the existence of a significant relationship between cross-listing and accounting conservatism is a subject long debated in previous research. A dependency relationship turns out to be the subject of validation in most studies. Nevertheless, an analysis of the implication of a cross-listing decision on accounting conservatism was an innovative avenue of analysis.

***2.1. The mediating effect of corporate governance***

Ball (2001) argues that timely loss recognition can play an important disciplining role as it may increase the incentives of managers to abandon losing investments and reduce the incentives of managers to adopt negative net present value projects.

The empirical studies on the relationship between the governance mechanisms and information dissemination attest that there are associations between some mechanisms of governance and voluntary information disclosure. Lara et al. (2007) conclude that stronger governance leads to more conservative accounting choices. A. Ahmed and Duellman (2007) find that a higher level of conservatism is associated with strong corporate governance. Sharma and Kaur (2021) studied the relationship between accounting conservatism and corporate governance in the case of firms in India. Their results indicate a significant impact of corporate governance variables, namely, characteristics of the board of directors and the audit committee, on the accounting conservatism policy of the firm.

Explanations for the existence of conservatism posit that it benefits the users of financial reports, as it increases firm value by constraining management’s opportunistic payments to themselves or other parties. Corporate governance plays an important role in the implementation of conservatism. More particularly, John and Senbet (1998) and Fama (1980) argue that the characteristics of the board can influence the quality of financial reporting. According to John and Senbet (1998), the size, composition, and the combination of functions are the characteristics of the board of directors which may impact the information quality. Likewise, according to Klein (2002), the board of directors’ structure has a significant effect on the publication of credible and

pertinent financial information. This implies that the more the boards of directors exercise effective control, the more they will require the elaborated financial information with more conservatism.

Thus, Previous empirical research proves that there is a significant positive relationship between accounting conservatism and the independence of the board of directors (A. Ahmed & Duellman, 2007; Beekes et al., 2004; Jarboui, 2013). A. Ahmed and Duellman (2007) show that conservatism is positively related to the percentage of outside directors and therefore, more independence on the board of directors. They attest that conservatism is a potentially valuable tool for directors, especially outside directors in accomplishing their role of ratifying and monitoring main decisions. They propose that “because stronger boards are likely to be more proficient at efficient contracting and understand the benefits of conservatism, they are likely to demand more conservative accounting. On the other hand, boards dominated by insiders or boards with weak monitoring incentives are likely to provide managers with a greater opportunity to use aggressive accounting”.

According to R. Watts (2003b), accounting conservatism increases the verifiability of reported information, and the use of conservatively reported earnings may guard against the overcompensation of management. Just the same, one of the roles recognized by the board of directors is to ensure the quality of published financial information (AFEP and CNPF, Viénot, 1995).

Concerning the board of directors “size, Zahra and Pearce (1989) report that the biggest boards are the ablest to control managers effectively. The wider is the size of the board, the harder it would be for the CEO to dominate this board. Similarly, other authors, including Charreaux and Pitol-Belin (1985), have corroborated the fact that the size of the board of directors reflects the weight of control exercised by directors. The more important it is, the more consolidated the control of the directors will be. Alves (2021), therefore found a non-linear relationship between board size and the level of conservatism. More specifically, their results showed that as the size of boards increases up to 8 members, the firms in the sample are showing more conservatism, in line with the idea that smaller boards may be more effective than larger boards in monitoring managers” behavior. When board size exceeds 8, a negative relationship occurs between board size and accounting conservatism.

Regarding the structure of leadership, the combination of functions is considered by the majority of empirical studies (see, e.g., Jensen, 1993; Godard and Schatt, 2004) as an inappropriate way to create value at the firm level. This view asserts that the CEO, who is the Chairman of the Board, will, therefore, have a concentrated power base that will allow him to make decisions in his interest and at the expense of shareholders. So, it supports the use of a separate structure of the two functions. In this way, power is no longer concentrated in the hands of a single individual, which would enable the board to carry out its duties of control properly. According to Jensen and Meckling (1976) and Jensen (1993), function duality can mitigate the effectiveness of the governance mechanisms and can generate conflicts of interest between managers and shareholders. By examining the accounting measures, Rechner and Dalton (1991) found that firms with separate management structures outperform those with the combined management structure. Thus, if the separation between the functions, the independence, and the size, strengthen the efficiency of control of the board, we could expect to find a significant relationship between conservatism and the structure of the board.

Regarding the concentration of ownership, Watts (2003) stated that accounting conservatism restricts managers’ opportunistic behaviors and protects the interests of minority shareholders. In the presence of concentrated ownership, large shareholders may however use their power to manage information in the financial reports and then to expropriate the minority of shareholders. Dargenidou et al. (2007) attested that majority shareholders adopt less conservative accounting as they might want to hide their expropriation activities to the public. In light of these considerations, accounting conservatism might be lower in the presence of highly concentrated ownership. On the same Order, Song (2015) stipulates that ownership concentration

decreases accounting conservatism. Because in the case of an increase in ownership concentration, majority shareholders will be motivated to expropriate minority shareholders and be inclined to hide their behavior by manipulating income which decreases the need for quality information. Alves (2020) shows, nevertheless, that concentrated ownership is positively and significantly associated with accounting conservatism, which suggests that large shareholders may have strong incentives to apply conservative accounting in order to reduce potential litigation costs and agency costs.

Regarding State ownership, Wan Ismail et al. (2012) found that public companies are not conservative when preparing their financial reports. This result is consistent with claims that managers in state-owned companies practice aggressive financial reporting because of ineffective governance, great incentives to maximize compensation, and higher agency problems.

Considering the relation between accounting conservatism and managerial ownership, Ryan and Sugata (2008) show that the Separation between ownership and control generate agency problems between managers and shareholders in consistence with Jensen and Meckling (1976) who argue that as well as the participation of managers increases, their interests coincide more closely with those of the external shareholders and vice versa. Therefore, Conservatism Financial reporting is recognized to address these agency problems. So, as managerial ownership decreases, the severity of the agency problem raises, increasing the demand for conservatism, hence a negative relationship between managerial ownership and accounting conservatism. Alves (2020) shows, however, a significant positive relationship between managerial ownership and conservatism accounting, both at low and high levels of managerial ownership.

The foregoing discussion suggests, therefore that an effective set of corporate governance mechanisms, related to the board of directors and ownership structure, is positively related to a higher level of accounting conservatism.

We can, therefore, state the following hypothesis:

***H3: Corporate governance mechanisms have a mediating effect on the relationship between accounting conservatism and the cross-listing decision.***

### **3. Research conception**

In this section, we present the methodology used for the empirical part of this research. The first part will introduce the measure of accounting conservatism. Then the research model is explained. Finally, the data sample used for this research is presented.

#### **3.1. Measures of accounting conservatism**

The level of accounting conservatism constitutes one of the dependent variables in our system of simultaneous equations.

Khan and Watts (2009) proposes a measure (C\_Score) that can reflect the timing of conservatism changes and the variation of conservatism across firms within an industry. The authors empirically test and confirm the efficiency of C\_Score as a measure of accounting conservatism.

Khan and Watts (2009) suppose and finds that conservatism is a linear function of the Market-to-Book Ratio, size, and leverage. The specifications of C\_Score as the firm-year measure of conservatism are:

$$C\_Score_{i,t} = \Phi_0 + \Phi_1 (SIZE_{i,t}) + \Phi_2 ((M/B)_{i,t}) + \Phi_3 (LEV_{i,t})$$

SIZE: is the Firm size measured by the natural log of turnover

M/B: is the market-to-book ratio

LEV: is leverage, defined as long-term and short-term debt deflated by the market value of equity.

Empirical estimators of  $\Phi_i$ ,  $i = 0$  to 3, are constant across firms, but they vary over time since they are estimated from annual cross-sectional regressions.

They adopt and draw on the measure of asymmetric timeliness of Basu (1997) used to estimate a firm-year measure of conservatism. Therefore the model can be presented as:

$$X_{i,t} / P_{i,t-1} = \alpha_0 + \alpha_1 [D_{i,t}] + \alpha_2 [R_{i,t}] + \alpha_3 [R_{i,t} D_{i,t}] + \epsilon_{i,t}$$

Where:

$X_{i,t}$  is the earnings per share for firm  $i$  in fiscal year  $t$ ,

$P_{i,t-1}$  is the price per share at the beginning of the fiscal year,

$R_{i,t}$  is the return on the firm  $i$  over the period 9 months before fiscal year-end  $t$  to three months after fiscal year-end  $t$ ,

$D_{i,t}$  is a dummy variable equal to 1 when  $R_{i,t} < 0$  and equal to 0 otherwise, and  $\epsilon_{i,t}$  is the residual. The good news timeliness measure is  $\alpha_2$ . The measure of incremental timeliness for bad news over good news, or conservatism, is  $\alpha_3$  and the total bad news timeliness is  $\alpha_2 + \alpha_3$ .

The substitution of  $\alpha_3$  with C-Score in this equation leads us to the following equation:

$$X_{i,t} / P_{i,t-1} = \alpha_0 + \alpha_1 [D_{i,t}] + \alpha_2 [R_{i,t}] + D_{i,t} R_{i,t} [\Phi_0 + \Phi_1 (SIZE)_{i,t} + \Phi_2 (MB)_{i,t} + \Phi_3 (LEVI)_{i,t}] + \epsilon_{i,t}$$

To estimate the level of conservatism concerning each company, we thus adopt the approach of Gao (2013) and Jarbouli (2013).

We begin by estimating  $\Phi_i$ ,  $i = 0$  to 3 in the last equation, then we insert the estimated parameters in the equation of C\_Score.

### 3.2. Model and variables measures

Our purpose is to study the relationship between Accounting Conservatism and corporate Cross-listing. The issue of Cross-listing and Conservatism may be affected by ownership and corporate governance characteristics. This dual status of the "C\_Score" variable causes a bias in the coefficient estimates when we use the method of ordinary least squares (OLS) equation by equation. Therefore, it is interesting to test the endogeneity of the Cross-listing variable. Furthermore, the ownership and governance features can act directly on executives' attitudes of deciding to Cross-listing decisions (CROSSLIST) or indirectly through their impact on accounting conservatism (C\_Score).

A simultaneous equation model is then developed to address these endogeneity problems. We then perform the Hausman test to determine which the most appropriate estimation method between 2SLS and the 3SLS is. The Hausman test indicates that the 3SLS estimate is better specified. Unlike the method of two-stage least squares (2SLS), the 3SLS estimation method takes into account the dependence between the error terms and can estimate both equations simultaneously. It is a combination of multivariate regression (SUR estimation) and two-stage least squares. It gets instrumental variable estimates, taking into consideration the covariances across equation disturbances as well. The objective function for three-stage least squares is the sum of squared transformed fitted residuals.

This system contains two endogenous variables, namely CROSSLIST and C\_Score, and is as follows:

**Table 1. Summary of variables and selected measures**

Variable	Abbreviation	Definition
<b>Dependant Variable</b>		
Accounting conservatism	C_Score	C_Score is the firm-year measure of conservatism.
<b>Main explanatory variables</b>		
<b>Cross- listing</b>		
Cross- listing	CROSSLIST	Binary variable that takes 1 if the company is cross-listed and 0 otherwise
<b>Corporate governance variables</b>		
Institutional ownership	INST_Own	% of capital held by institutional investors
State ownership	STATE_Own	% of capital directly or indirectly held by the state
Managerial ownership	MNG_Own	% of capital held by managers
Ownership concentration	CONC_Own	% of capital held by the main shareholder
Board of Directors' size	BSIZE	Total number of directors
Outside directors	OUTDIR	The proportion of outside directors
The CEO Duality	CEO	Binary variable that takes 1 if the CEO is at the same time the chairman of the board and 0 otherwise.
Ownership concentration	CONC	% of capital held by the main shareholders
<b>Control variables</b>		
Return on Assets	ROA	Operating Income/Total assets
Strength of investor protection	IP	0–10 (best)
Firm size	SIZE	Log of turnover Log transformation of size has been used to correct skewness in firm size.
LEVERAGE	LEV	Debt ratio = Total liabilities/Total assets
Audit	Audit	Dummy variable taking the value 1 when the company in question is audited by at least one Big Four firms, and 0 otherwise
Litigation	LITIG	Dummy variable which is equal to 1 if the company is a high-technology company and 0 otherwise to measure the risk of litigation.
Market to book Ratio (Growth opportunities)	MTB	the market value /the book Value

$$\begin{aligned}
 C\_Score_i, t = & \beta_0 + \beta_1 CROSSLIST_i, t + \beta_2 OUTDIR_i, t + \beta_3 CEO_i, t + \beta_4 BSIZE_i, t + \\
 & \beta_5 INST\_Own_i, t + \beta_6 MNG\_Own_i, t + \\
 & \beta_7 STATE\_Own_i, t + \beta_8 CONC\_Own_i, t + \beta_9 Audit_i, t + \\
 & \beta_{10} LITIG_i, t + \beta_{11} Size_i, t + \beta_{12} MTB_i, t + \beta_{13} LEV_i, t + \beta_{14} ROA_i, t + \varepsilon_i, t
 \end{aligned} \quad (1)$$

$$\begin{aligned} \text{CROSSLIST}_{i,t} = & \alpha_0 + \alpha_1 \text{C\_Score}_{i,t} + \alpha_2 \text{OUTDIR}_{i,t} + \alpha_3 \text{CEO}_{i,t} + \alpha_4 \text{BSIZE}_{i,t} + \\ & \alpha_5 \text{INST\_Own}_{i,t} + \alpha_6 \text{MNG\_Own}_{i,t} + \alpha_7 \text{STATE\_Own}_{i,t} + \alpha_8 \text{CONC\_Own}_{i,t} + \alpha_9 \text{ROA}_{i,t} + \\ & \alpha_{10} \text{Size}_{i,t} + \alpha_{11} \text{LEVI}_{i,t} + \alpha_{11} \text{IPI}_{i,t} + \epsilon_{i,t} \end{aligned} \quad (2)$$

The subscripts  $i$  and  $t$  correspond, respectively to the company and the year (2012–2017).

The enterprise's performance is measured by Returns On Assets (ROA). "C\_Score" is the accounting conservatism measure.

In this section, we present our model to test our hypotheses set in section 2 (H1 and H2). In addition to the analysis of the effect of the decision to cross-list on accounting conservatism, we investigate the effect of corporate governance.

Table 1 below describes our dependent and explanatory variables.

### 3.3. Data and Sample Description

Our study focuses on 60 French companies belonging to the SBF 120 index for the period 2014–2019. Our choice of the study period is explained by the evolution of accounting conservatism level following the adoption of IFRS standards in 2005, particularly in the French context.

The bases "Thomson Financial", "Diane", "Worldscope" and "Dafsalien" are the sources of our accounting data. Governance data were manually extracted from French companies' annual reports. We have excluded the companies for which data were missing, those belonging to sectors presenting a particular functioning such as banks and insurances, and those with accounting practices requiring a specific treatment. Our final sample consists of 360 firm-years' observations.

Information about cross-listed firms comes from Datastream, Bank of New York, and J.P Morgan ADRs databases. All related listings for each stock are identified by ISIN available in Datastream. Underlying ISINs for depository receipts are from the pre-mentioned ADRs databases. Both active and dead stocks are included in the sample to avoid survivorship bias and provide a complete chronology of cross-listing. To be included in the sample, a company must have an identifiable cross-listing date from Datastream.

## 4. Empirical results

### 4.1. Descriptive analysis

Table 2 presents the results of the descriptive analysis regarding the dependent and independent variables used in this study.

Descriptive statistics are presented in Table 2 indicating the mean, median, quartiles, and standard deviation of the variables.

The variable C\_Score indicates an average of value 0.13. The positive value indicates that French firms practice a higher level of conservatism (–0.06) as compared to those found by Mohamed Yunos et al. (2010) for Malaysian firms and those of A. Ahmed and Duellman (2007) for US firms (0.010).

The mean value of LEVERAGE found in this study is 0,46 which shows a high level for the debt ratio for French firms in our sample.

On average, the boards of directors of the companies of our sample consisted of 12.53889 members. The analysis of ownership structure shows that institutional investors own on average 50 % of the capital of French firms whereas State owns only 4%. The average participation of the

Table 2. Descriptive statistics of all variables (N = 360)

Variables	Mean	Quartile 1	Median	Quartile 3	Std. dev.
C_Score	0.13325	0.1004759	0.126	0.209	0.1004759
ROA	3.239367	0.9999079	3.041508	5.61015	4.335167
Size Ln (Total Assets)	4.11855	3.652565	4.189339	4.529422	0.6563904
BSize	12.53889	10	12	15	3.593346
INST_Own	49.96795	28.585	49.905	72	25.7339
CONC_Own	27.18927	9.6	20.9	38.895	21.50326
LEV	0.4676421	0.1429522	0.234638	0.382099	2.089801
OUTDIR	6.369444	4	6.5	8	2.766626
STATE_Own	4.374528	0	0	0	14.31965
MNG_Own	3.245833	.5	1.57	3.4	5.125777
Dichotomous variables (N = 360)					
Variables	variable which takes value 1		variable which takes value 0		
	Frequency	Percentage (%)	Frequency	Percentage (%)	
CROSSLIST	172	48%	188	52%	
CEO	200	55%	160	45%	
Audit	180	50%	180	50%	
Litig	36	10%	324	90%	



managers in the capital is 3.24 %, and concentrated ownership is 27%. At 55% of the companies studied, the CEO is also the chairman of the board.

#### 4.2. Estimation of the simultaneous equations

Firstly, we justify our choice of the three-stage instrumental method. Second, we present the results of various estimations.

#### 4.3. Model identification

To be estimated, our model must satisfy the order and rank conditions. The order condition:

The CROSSLIST equation contains three restrictions, while the equation of accounting conservatism contains two restrictions; hence we have:

The C\_Score equation:  $3 > 2-1$

The CROSSLIST equation:  $2 > 2-1$

Our model, therefore, fulfills the order condition. Thus, we can certify that our model is over-identified. Nevertheless, the order condition is necessary, but not a sufficient one, hence our resort to check the rank condition.

##### 4.3.1. The rank condition

This condition stipulates that at least one of the variables missing from the first equation and present in the second one has a nonzero coefficient. In our model, one of both equations is dichotomous which makes the rank condition difficult to set up. Therefore, we are going to comply with Mrad and Hellara (2011) and Arin and Ulubasoglu (2009) and proceed to the identification only through the order condition.

##### 4.3.2. Multicollinearity test

From the results of the VIF test, shown in Table 3, we can see that there is no explanatory variable that has exceeded the critical threshold of 10 (Gujarati, 2003). So, we can definitively confirm the absence of a problem of collinearity between the variables.

#### 5. Endogeneity test

The most famous and simplest implementation of this test is that of Rivers and Vuong (1988).

Thus, we are left with the following equation:

$$\begin{aligned} C\_Score_{i,t} = & \beta_0 + \beta_1 CROSSLIST_{i,t} + \beta_2 OUTDIR_{i,t} + \beta_3 CEO_{i,t} + \beta_4 BSIZE_{i,t} + \\ & \beta_5 INST\_Own_{i,t} + \beta_6 MNG\_Own_{i,t} + \beta_7 STATE\_Own_{i,t} + \beta_8 CONC\_Own_{i,t} + \beta_9 Audit_{i,t} + \\ & \beta_{10} LITIG_{i,t} + \beta_{11} Size_{i,t} + \beta_{12} MTB_{i,t} + \beta_{13} LEV_{i,t} + \beta_{14} ROA_{i,t} + \beta_{15} RES\_CROSSLIST_{i,t} + \epsilon_{i,t} \end{aligned} \quad (3)$$

RES\_ CROSSLIST: Being the residue recovered from the CROSSLIST equation estimation.

The results obtained following this method allow us to confirm the endogeneity of CROSSLIST decision since the coefficient of RES\_CROSSLIST is highly significant (Results are shown in Table 4...). Consequently, the choice of using the instrumental variables method, such as that of the 3SLS method is justified.

#### 6. Results analysis

Table 5 shows the results of the simultaneous equation model estimated by the 3SLS method,

**Table 3. Multicollinearity test**

Variable	VIF	1/VIF	Variable	VIF	1/VIF
SIZE	3,23	0,309,812	OUTDIR	6,47	0,021518
AUDIT	3	0,333,142	C_SCORE	5,01	0,028564
ROA	2,88	0,347,497	BSIZE	3,91	0,071882
OUTDIR	2,69	0,371,237	ROA	2,63	0,379,646
CONC	2,34	0,427,503	SIZE	2,08	0,479,672
BSIZE	2,23	0,448,992	CONC	2,02	0,494,003
STATE_Own	1,84	0,543,915	STATE_Own	1,75	0,571,635
INST_Own	1,5	0,664,916	CEO	1,67	0,598,001
CROSSLIST	1,39	0,721,065	INST_Own	1,43	0,700,313
MB	1,36	0,732,983	MNG_Own	1,26	0,791,271
MNG_Own	1,34	0,745,172	DEBTRATIO	1,05	0,950,306
LITIG	1,34	0,746,775	IP	1,01	0,989,288
CEO	1,21	0,828,725			
DEBTRATIO	1,09	0,91,377			
Mean VIF	2,01		Mean VIF	2,52	

on the effect of the decision to cross-list and corporate governance on accounting conservatism.

We test our simultaneous equations. Equation (1) shows the effect of cross-listing decisions and corporate governance mechanisms on the accounting conservatism level. Equation (2) shows the effect of accounting conservatism and corporate governance mechanisms on cross-listing decisions.

To confirm or reject our assumptions about the impact of cross-listing decision as well as the characteristics of governance and ownership structure on accounting conservatism (H1), (H2), and (H3), we discuss off the first equation of our model; the results of the second equation are presented to evaluate the C\_Score situation endogenously.

Our results show that the decision to cross-list affects positively and significantly, at the 1% level, the level of accounting conservatism. So, our first hypothesis (H1) that the cross-listing decision has a positive effect on accounting conservatism is confirmed. Such a result is in line with that of M. H. Lang et al. (2003) and Khairul et al (2019) who find that firms cross-listed in the US present better accounting quality compared to foreign firms that are not.

In the equation of cross-listing, accounting conservatism is also significantly (at the 10% level) and positively associated with the decision to cross-list abroad. Such result is in line with the claims that to maximize the cross-listing benefits, the firms may choose a higher level of conservatism as a signal of good prospects for investors allowing, hence, they can raise capital at better conditions and enjoy higher valuation (Foerster & Karolyi, 1999; Lee & Valero, 2010).

Among the characteristics of the board, our results show that the size of the board (BSIZE) negatively and significantly affects the level of accounting conservatism at the 1% level which confirms our predictions. This is consistent with the fact that a relatively large-sized board is less effective and may negatively affect the production of financial statements in conformity with accounting principles. Such a result is consistent with the agency theory which argues that large boards are less effective than small boards due to the difficulties of coordinating and engaging a large group (Jensen, 1993). So, they are less effective and are not strong enough to require a higher level of conservatism in financial statements produced, which negatively affects the decision to cross-list.

**Table 4. Results of the Endogeneity test**

<b>Variables</b>	<b>Dep. variable: C_Score</b>
CROSSLIST	0,0019041 (0,88)
OUTDIR	0,0398061*** (51,39)
CEO	-0,0261072*** (-13,14)
BSIZE	-0,0165793*** (-38,66)
INST_Own	0,0000352 (0,0841)
MNG_Own	-0,0007051** (-2,53)
STATE_Own	-0,0002475*** (- 2,58)
CONC_Own	-0,0001468** (-2,27)
SIZE	0,0030404*** (2,73)
MB	-0,0002366 (-0,46)
AUDIT	0,0091716*** (2,93)
LITIG	0,0008375 (0,24)
LEV	0,0006026 (0,95)
ROA	0,0002014** (2,25)
RES_CROSSLIST	0,0264508** (2,24)
constant	0,0419087*** (3,99)
<b>R-SQ</b>	<b>0,9726</b>
<b>Observations</b>	<b>360</b>

Standard errors in parentheses

\*\*\* p < 0.01, \*\* p < 0.05, \* p < 0.1

In the cross-list equation, BSIZE is however positively and significantly related to cross-listing decision. Such a result can be explained by the fact that large boards improve advisory capacity and have more expertise knowledge hence can affect strong strategic decisions such as cross-listing decision (H. Ahmed & Gábor, 2011; Kiel & Nicholson, 2003). Such a result is also consistent with the resource dependency theory, which attests that larger boards help to reduce uncertainty and improve firm performance as they have more access to the external environment (Muttakin et al., 2012). Such a positive effect is then considered to be indirect on accounting conservatism. We can therefore conclude that the size of the board of directors, by encouraging the decision to cross-list abroad, will indirectly boost the level of accounting conservatism according to our results.

Concerning the independence of the board (OUTDIR) it affects positively and significantly at the 1% level the accounting conservatism. This means that as the ratio of outside directors is high, the financial statements are prepared with more conservatism. Our results support the finding of Ahmed and Duellman (2013) and are consistent with several previous studies. The same variable

**Table 5. Estimation of the simultaneous equation system of accounting conservatism and Cross listing decision**

	Dep. variable: C_Score	Dep. variable: CROSSLIST
CROSSLIST	0.0026298*** (3,04)	
C_Score		0,3,756,264* (2,26)
OUTDIR	0,0408274*** (76,23)	0,0243278 (0,41)
CEO	-0,0263287*** (-13,2)	-0,0064416 (-0,1)
BSIZE	-0,0161964*** (-43,24)	0,0212878** (2,85)
INST_Own	0,0000175 (0,41)	0,0006259 (0,56)
MNG_Own	-0,0003502* (-1,72)	0,0144645** (2,72)
STATE_Own	-0,0001666* (- 1,95)	-0,0030812* (-1,98)
CONC_Own	-0,0001651*** (-2,57)	-0,0004997 (-0,31)
SIZE	0,0036511*** (3,4)	0,0201772 (0,87)
MB	-0,0002276 (-0,42)	
AUDIT	0,0098074*** (3,14)	
LITIG	0,0008826 (0,25)	
LEV	0,0002207 (0,49)	0,0327813** (2,76)
ROA	0,0003994** (2,13)	0,0318628*** (3,51)
IP		0,0269095** (2,27)
constant	0,0337294*** (3,48)	-0,4,759,135* (-1,86)
<b>R-SQ</b>	<b>0,9723</b>	<b>0,1885</b>
<b>F-Stat</b>	<b>803,62</b>	<b>6,16</b>
<b>P</b>	<b>0,000</b>	<b>0,000</b>
<b>VIF</b>	<b>2,01</b>	<b>2,52</b>
<b>Observations</b>	<b>360</b>	<b>360</b>

T values are in parentheses. The other numbers represent the correlation coefficients.

Regressions of the accounting conservatism variable (C\_Score) on the cross-listing variable (CROSS-LIST), binary variable equal to 1 if the firm is cross-listed in the USA and 0 otherwise, and the following corporate governance variables: Outside directors (OUTDIR) measured by the proportion of outside directors; The CEO Duality variable (CEO), binary variable that takes 1 if the CEO is at the same time the chairman of the board and 0 otherwise; Board of Directors 'size (BSIZE) measured by the Total number of directors; ownership structure variables: State ownership (STATE\_OWN), Managerial ownership (MNG\_Own), Ownership concentration (CONC\_Own) and Institutional ownership (INST\_Own); and the following variables: Return on Equity (ROA); Firm size (SIZE), measured by the Log of turnover; LEVERAGE (LEV) measured by the debt ratio; Audit (AUDIT), a dummy variable taking the value 1 when the company in question is audited by at least one Big Four firms, and 0 otherwise; Litigation (LITIG), a dummy variable which is equal to 1 if the company is a high-technology company and 0 otherwise to measure the risk of litigation; Market to book Ratio (MTB), measured by the market value /the book Value; and regressions of the cross listing variable on the following variables: accounting conservatism variable (C-SCORE); Corporate governance variables; and the following variables: LEVERAGE (LEV); Return on Equity(ROA); and Strength of investor protection (IP).

is however found not significant in the equation of cross-listing decision. It can therefore be concluded, that only the direct effect of this mechanism on accounting conservatism exists.

Regarding ownership characteristics, our results show that the coefficient on management ownership “MNG\_Own” is negative and significant at the 10% level in the equation of accounting conservatism, in the French context. Our result is in line with that of Ryan and Sugata (2008) who find that accounting conservatism decreases with managerial ownership and is consistent with equity stakeholders requiring greater conservatism as a means of addressing agency problems resulting from the greater separation between ownership and control.

This variable is found, however, positively and significantly associated at a 5% level in the equation of cross-listing decision. Therefore, such a positive relationship between managerial ownership and the cross-listing decision is expected to corroborate the teachings of signal theory, in particular, the work of Leland and Pyle (1977), according to which the participation held by the entrepreneur in the capital of the company indicates the quality of the investment projects carried out. It is also consistent with Agency theory which proposes that managerial ownership motivates managers to rise firm value because this increases the value of their own shares (Jensen & Meckling, 1976). Therefore, as it was proved by previous research, the main consequence of cross-listing on foreign markets is the increase in the firm value. Thus, besides the direct effect of managerial ownership on accounting conservatism being negative, its indirect impact, through cross-listing decision, is nevertheless positive.

Institutional ownership has neither effects on the accounting conservatism nor the decision to cross-list.

The concentration ownership is however negatively and significantly (at the 1% level) to the accounting conservatism. This result is consistent with the finding of Watts (2003) and Dargenidou et al. (2007), according to which large shareholders adopt less conservative accounting as they want to conceal their expropriation of the minority shareholders from the public. The same variable, however, has no indirect effect on the level of accounting conservatism, as its coefficient is insignificant in the equation of cross-listing decision.

State ownership, however, affects negatively and significantly at the 5% level the decision to cross-list and the level of accounting conservatism. This finding is in line with assertions (Wan Ismail et al., 2012); that due to weak corporate governance, hence higher agency problems

and great incentives to maximize compensation, managers practice aggressive financial reporting in state-owned companies. Therefore, financial reports will be not conservative in the state-owned companies.

The effect of the combination of functions of the Chief Executive Officer and the Chairman of the Board of Directors (CEO) shows that this impact is negative and strongly significant at a level of 1%. Such a result is also supported by the previous literature review (Cheng, 2008; Jarboui, 2013; Mrad & Hellara, 2014) who showed that the management board is compromised when the CEO also serves as chairman of the board. A CEO who is also the chairman of the board has more authority and therefore higher managerial discretion in the appliance of accounting principles including the principle of accounting conservatism. So, the separation of these functions will affect negatively the level of accounting conservatism. The coefficient of this variable is nevertheless found not significant in the equation of cross-listing so we can conclude that only the direct effect of this variable on accounting conservatism prevails.

The Size of the firm is positively and significantly associated with accounting conservatism but is not associated with cross-listing decision. This can be explained using the agency theory, according to which, incentives for the establishment of additional control mechanisms are higher in large

companies given that large firms find it more difficult to control the behavior of leaders. Therefore, such companies are likely to use a variety of control mechanisms to control the behavior of leaders such as accounting conservatism (O'Sullivan, 2000).

Regarding the quality of audit, it affects positively and significantly at the 1% level, the level of accounting conservatism. This result is consistent with those of Jarboui (2013) and Kim et al. (2003) who showed that the "Big Four" are differentiated from other firms by their conservative attitudes vis-a-vis accounting choices. All the pre-mentioned results allow us to accept hypothesis H3.

The control variable litigation (LITIG) and market to book value (MB) are, however, not found as important determinants of accounting conservatism.

Leverage has no direct effect on accounting conservatism; however, it has a significant positive effect in the equation of cross-list, hence, an indirect positive and significant effect on the accounting conservatism.

This result is consistent with the assertions of several previous works according to which the firm is cross-listed, to benefit through lower cost of (or greater access to) capital (Stulz, 1999).

Similarly, several studies (Foerster & Karolyi, 1999; Lee & Valero, 2010) on cross-listing in the US have shown that cross-listed firms subject themselves to high information disclosure and accounting standards to raise capital at better conditions and enjoy higher valuation, hence the indirect effect of leverage on accounting conservatism through cross-listing decision.

The level of investor protection in the French context is positively and significantly associated (at the 5% level) with cross-listing decision in the equation of cross-listing. So, we can conclude that as well as the level of investor protection increases, the level of cross-listed firms in the USA increases hence affects indirectly the level of accounting conservatism. Such a result, by analogy, conforms to that of Khairul, A.k. (2019), who stipulate that Cross-listed firms domiciled in high investor protection countries present a greater tendency to recognize a more timely reporting of losses and to manage earnings downward as compared to cross-listed firms domiciled in low investor protection countries, and that of Houque et al. (2012) for which, the accounting quality varies for firms domiciled in different levels of investor protection.

The level of Performance measured by the ROA is positively and significantly related to the decision to cross-list (1% level) and the level of accounting conservatism. Such a result means that the best-performing companies are those that are most likely to be multi-listed in the United States and are those that exhibit a higher level of accounting conservatism.

The cross-listing decision has a positive effect on accounting conservatism. Therefore, companies with a high level of accounting conservatism are more likely to cross-list in the USA.

This can be interpreted by the fact that when a firm follows conservative accounting procedures, investors are likely to consider the firm as being conservative not only in preparing financial reports but also in providing voluntary disclosures. Investors will give more credibility to those firms' voluntary disclosures, as compared to firms that are not considered conservative. Thereby, they are more likely to be trustworthy and better reputed in financial markets. This confidence from investors and the market enhances the probability of these firms being listed at more than one stock market such as the American financial market. This result is in line with some research studies such as that of Saudagaran and Biddle (1995) which show that firms from higher information environment quality are more likely to list abroad. Such a result is also consistent with that of Khairul, A.k. (2019) who shows that cross-listed firms profited not only from hiring the superior corporate governance system of the US but also through the improvement in their information

environment occurring from cross-listing. This result fits with the empirical results of de Jong et al. (2010) who show that cross-listed firms disclose less specific forecasts; the average forecast error of firms with a cross-listing is lower than that of non-cross-listed firms; and that cross-listed firms are more conservative (i.e., less optimistic) in their forecasts than are non-cross-listed firms.

## 7. Conclusion

This paper tries to contribute to the existing literature on accounting conservatism by investigating its relationship with cross-listing decision and the possible mediating role of corporate governance mechanisms.

The empirical analysis, carried out on a sample of 60 French companies, has shown a reverse causal relationship between accounting conservatism and cross-listing decision. Our regression analysis shows that the level of accounting conservatism is significantly driven by the decision to cross-list, which enriches earlier studies on accounting conservatism and cross-listing. Such a result is in line with claims that cross-listed firms benefited not only from renting the superior corporate governance system of the US but also through the improvement in their information environment arising from cross-listing. Our findings are also consistent with the information disclosure theory that claims that companies operate in foreign markets with the most stringent disclosure requirements because increased disclosure encourages trading, thus leading to higher market valuation of the cross-listed firm. Hence, the positive relationship between the decision to cross-list and the level of accounting conservatism. The results imply that the decision to cross-list would significantly improve the quality of accounting information in a context of weak investor protection.

In the reverse sense, more conservative firms are more likely to cross-list in the US. Such more conservative firms disseminate in turn better information that will be able to support US cross-listing costs and therefore become more likely to list their shares in American markets. Given that foreign investors are likely to give more credibility to conservative firms which are considered to make voluntary disclosures. Thereby, they are more likely to be trustworthy and better reputed in financial markets. This finding is consistent with the assertions that the positive effect of cross-listing on firm value is a result of greater market visibility, information disclosure by firms, increased investor protection, and investor confidence (Cetorelli & Peristiani, 2010).

The evidence documented in this study adds also the agency theory in explaining the motivations underlying accounting conservatism. We extend Lara et al. (2007) and A. Ahmed and Duellman (2007), who assert that stronger governance leads to more conservative accounting choices, by showing that corporate governance mediates also the relationship between accounting conservatism and cross-listing. Effective corporate governance mechanisms, measured by the board of directors' size, outside directors, CEO duality, and ownership structure (institutional, concentration, state, and managerial ownership) play a significant mediating effect on the relationship between accounting conservatism and cross-listing. In other words, better corporate governance mechanisms favor a higher accounting conservatism level which better encourages firms to cross-list their shares. Moreover, some mechanisms of corporate governance such as managerial ownership and board of directors' size, indirectly affect the level of accounting conservatism through the cross-listing decision. By spurring the decision to cross-list abroad, they will stimulate indirectly the level of accounting conservatism. Therefore, the mediating direct effect prevails over the indirect effect.

### Funding

The author received no direct funding for this research.

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### Disclosure statement

No potential conflict of interest was reported by the author(s).

### Citation information

Cite this article as: Accounting conservatism and corporate cross-listing: The mediating effect of the corporate governance, Mouna Mrad, *Cogent Economics & Finance* (2022), 10: 2090662.



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