


CEO mandate and age in the comparability of financial statements


Tempo de mandato e idade do CEO na comparabilidade das demonstrações contábeis

Tiempo de mandato y edad del CEO en la comparabilidad de los estados financieros


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Abstract

The present study analyses the influence of mandate time and *Chief Executive Officer* (CEO) age on comparability in Brazilian market publicly traded companies. In a yearly basis, 58 companies were analyzed from 2013 to 2019. Data were submitted to panel data regression which indicated mandate influences comparability in a positive way. It was also found that CEO age does not exert a direct influence on comparability although it is a personal characteristic acting indirectly as a moderator factor in the relation between mandate and comparability. Younger CEOs tend to decrease comparability of accounting information during their mandate. The study is important since it demonstrates that changes on accounting choices are more aggressive in the beginning and slow down as mandate increases. Another important aspect, in practical field, refers to the evidence that CEO age potentiates mandate influence on comparability.

Keywords: Comparability of accounting demonstrations; CEO mandate; CEO age

Resumo

Este trabalho analisa a influência do tempo de mandato e idade do *Chief Executive Officer* (CEO) na comparabilidade em empresas abertas do mercado brasileiro. Foram analisadas 58 empresas em períodos anuais de 2013 a 2019. Os dados foram submetidos a regressões de dados em painel, as quais indicaram que o mandato influencia positivamente a comparabilidade. Descobriu-se também que a idade do CEO não exerce efeito direto na comparabilidade, embora seja uma característica pessoal que atue indiretamente como fator moderador na relação entre mandato e comparabilidade. CEOs mais jovens tendem a diminuir a comparabilidade das informações contábil durante o seu mandato. O estudo é importante porque demonstra que as mudanças de escolhas contábeis são mais agressivas no início e atenuadas ao decorrer do aumento do mandato. Contribui-se, sobretudo no campo prático, ao demonstrar que a idade do CEO é um fator que potencializa a influência do mandato na comparabilidade.

Palavras-chave: Comparabilidade das demonstrações contábeis; Mandato do CEO; Idade do CEO

Resumen

Este trabajo analiza la influencia del tiempo de mandato y la edad del Chief Executive Officer (CEO) en la comparabilidad de las empresas de capital abierto que cotizan en bolsa en el mercado brasileño. Se analizaron 58 empresas en periodos anuales de 2013 a 2019. Los datos fueron sometidos a regresiones de datos en panel, lo que indicó que la duración del mandato influye positivamente en la comparabilidad. También se encontró que la edad del CEO no tiene un efecto directo sobre la comparabilidad, aunque es una característica personal que actúa indirectamente como un factor moderador en la relación entre mandato y comparabilidad. Los CEOs más jóvenes tienden a disminuir la comparabilidad de la información contable durante su mandato. El estudio es importante porque demuestra que los cambios en las opciones contables son más agresivos al principio y se atenúan durante el tiempo de mandato. Contribuye, especialmente en el ámbito práctico, al demostrar que la edad del CEO es un factor que potencia la influencia del mandato en la comparabilidad.

Palabras clave: Comparabilidad de los estados financieros; Mandato del CEO; Edad del CEO

1 Introduction

Division between property and owner opened up space for external agents to act as CEOs at corporations. Similar to stakeholders, those agents have self-interests stimulating them to maximize personal wealth, many times, in detriment of share-holders (Jensen & Meckling, 1976). Usually when starting the mandate, a CEO faces limitations to retain companies' executive command due to the distrust of stakeholders (Holmstrom, 1982; Pourciau, 1993; Ali & Zhang, 2015).

Stakeholder's distrust raises from their uncertainty as to CEO's capability to reach the expected performance (Zhang, 2009; Hermalin & Weisbach, 1998). It is up to CEOs to decrease uncertainty and improve their reputation with stakeholders as far as it causes their permanence in the position and confers future remuneration (Gibbons & Murphy, 1992; Ryan, Wang & Wiggins, 2009; Zhang, 2009) in case they obtain a performance similar or superior to stakeholders' expectations (Ali & Zhang, 2015). Nevertheless, CEOs may use utopian mechanisms to prove their ability for managing the company, such as assigning bad performances of the company to previous administrations. Such attitude tends to masking performance markers and, in a selfish way, increasing CEO's reputation even temporarily (Elliott & Shaw, 1988, Pourciau, 1993).

Studies from Ali and Zhang (2015), Dal Magro, Klann and Mondini (2018) evidenced that for guaranteeing a good performance and remain at company's front management CEO can make use of a practice of manipulating results in the first years of management. Such measure produces compatible results, or even better than the ones expected by investors and, consequently, implies on an increase of CEO's reputation. Such context allows manager to keep managing the company and, thus, feed his opportunistic desires since it creates new gains via remuneration.

By increasing reputation along mandate time, CEO tends to slowing down opportunistic practices (Ali & Zhang, 2015; Hu, Hao, Liu & Yao, 2015; Dal Magro et al., 2018). Corporate governance mechanisms have a potential to slow those practices down as far as they contemplate ways to understanding the style and practices used in the management and reducing opportunistic acts (Klein, 2002, Cornett, McNutt & Tehranian, 2008, Ali & Zhang, 2015). Due to this it is believed that along mandate CEO reduces his opportunistic strategies that can jeopardize the quality of accounting information.

Although there is a reduction on opportunistic acts along the mandate, each manager presents individual characteristics that, according to Hambrick and Mason (1984), influence the company's management aiming at reaching performance. One of such characteristics is CEO age (Serfling, 2014; Pacheco, Schmitt, Bortoluzzi & Lunkes, 2019). Sundaram and Yermack (2007) and Huang et al., (2012) defend that there is an inversely proportional ratio. That is, the older the CEO the lower the practices of manipulating accounting information.

It is assumed that CEO age turns him into a more conservative individual and, thus, more mindful of the effect of his aggressive acts that can jeopardize the quality of accounting information (Sundaram & Yermack 2007). Mindfulness on good ethic conduct must also be taken into account in such context (Vroom & Pahl, 1971; Terpstra, Rozell & Robinson, 1993), as far as young managers are prone to risk, narcissistic ones, and have excessive confidence (Bantel & Jackson, 1989; Hess, Osowski & Leclerc, 2005; Twenge & Campbell, 2008). That last characteristic, excessive confidence, fundamentally propels the increase of CEO's opportunistic acts (Schrand & Zechman, 2012; Li & Hung, 2013). As a consequence, opportunistic acts can imply on the comparability of accounting demonstrations and, in turn, have a consequence on investors capability of allocating capital efficiently.

Comparability of accounting demonstrations helps investors by providing them the ability for distinguishing accounting information that is equal from those different ones between, at least, two individuals or one only individual along time (Hendriksen & VanBreda, 1999; *Financial Accounting Standards Board* - FASB, 2010; DeFranco, Kothari & Verdi, 2011). So, investor can discern which investment alternative will bring higher return. Even with such beneficial aspect to investors, comparability is susceptible to manager's opportunistic acts (DeFranco et al., 2011; Sohn, 2016), since comparability level decreases as

managers manipulate information aiming at addressing their private desires (Sohn, 2016; Chen & Gong, 2019; Sousa, Ribeiro, Vicente & Carmo, 2020a). so, aspects potentiating manipulation opportunistic acts also jeopardize investors capability in comparing information from different companies.

Considering mandate time and CEO age may be related to the practice of management for results, those have a negative implication on the quality of accounting information since it reduces its comparability. It is believed that age and mandate time has a mutual action, potentiating the loss of comparability. In face of this, the present investigation aims at **analyzing the influence of mandate time and CEO age on comparability of Brazilian market open market**.

It is an important study because it advances on discussing consequences of CEO's mandate time on the comparability of accounting information, which was lately discussed only by Ali and Zhang (2015), Hu et al. (2015), and Dal Magro et al. (2018) with regards to management of results. Thus, there are no evidences about the impact of mandate time and CEO age on comparability of accounting information in Brazil.

In addition to this, CEOs have personal characteristics that can interfere with the actions as company manager, such as age. Thus, the present study also contributes with evidence about personal characteristics on comparability of accounting information, one of its main qualitative characteristics (Sundaram & Yermack, 2007; Huang et al., 2012 e Sprenger et al., 2017). Since age is a personal characteristic it can interfere with the influence of CEO's mandate time on comparability, opening a gap for a new light on the issue which was not assessed by researches yet. That perspective does not only contribute with a new scenario on literature but also on practice, because investors will be able to understand the impact of age as a factor propelling implications of mandate time on comparability needed for analyzing the different investment alternatives.

2 Development and Presentation of Researches Hypothesis

Among qualitative characteristics, comparability allows users to identify and comprehend similarities and differences on information regarding, at least, two companies (Simmons, 1967). DeFranco et al. (2011) say that comparability occurs when companies have analogue accounting systems which, when performing given transactions, create similar accounting-financial information. So, a higher level of comparability allows users to have a better understanding of the company's environment as well as its accounting system.

When a company presents comparable accounting demonstrations, stakeholders can analyze the entity's real performance and compare it with their pairs to fundament a decision (Sohn 2016). To Chen and Gong (2019), as comparability increases the set of information of the company tends to show a substantial increase, since the quality of information about the company and its pairs improves as well. In this sense, comparable accounting demonstrations allow benchmarks among companies because they make easy to reach and process information (Chen & Gong 2019).

Due to these benefits, comparability was the core discussion about adopting IFRS because as this accounting standard is based on principles, managers can use a wider range of accounting choices to report a company's economical essence (Barth, Landsman, Lang & Williams, 2012; Ribeiro, Carmo, Fávero & Carvalho, 2016). Empirical investigations found that adopting IFRS propelled the increase of comparability (Yip & Young, 2012; Brochet, Jagolinzer & Riedl, 2013; Ribeiro et al., 2016).

That aspect helps not only in investors capability to distinguish equal from different things but also analyzing aspects that potentiate advantages to investors. As comparability increases, the reduction on information cost occurs, that is, investors lower the cost of acquisition and processing of accounting information (DeFranco et al., 2011; Brochet et al., 2013; Chen, Collins, Kravet & Mergenthaler, 2018), besides the reinforcement on transparency of accounting demonstrations (Sohn, 2016).

A CEO's behavior exerts significant influence on companies processes of decision taking and, in turn, on the quality of accounting information (Baatwah, Salleh & Ahmad, 2015; Haider et al., 2019). Such behaviors are linked to the inherent characteristic of managers inducing to a higher or lower trend to take manipulation actions for meet private benefits (Haider et al., 2019). Among the features that cause such manipulation practices to increase there is the time of relationship of the managers with the company (Baatwah et al., 2015; Ali & Zhang, 2015). Dal Magro et al., (2018) mention that manipulation of information can be cleared from the CEO's behavior along its mandate.

CEO's mandate time is being studied as a variable that can influence opportunistic behaviors (Ali and Zhang, 2015; Dal Magro et al., 2018, Dal Magro, Dani & Klann, 2019). Ali and Zhang (2015) study analyzed the relation between CEO's mandate time and results management and evidenced that, in the first years of mandate, CEOs are more prone to overrating their gains in order to show their ability to generate profit to the market. Besides, findings show that motivations for managing results changed over time, since in the past years the CEO, whose reputation is accredited, avoids opportunistic acts to preserve his reputation.

Dal Magro et al. (2018), when checking for the influence of monitoring mechanisms on the relation between CEO's mandate time and discretionary additions, found that CEOs use more opportunistic acts in the beginning of their mandates. However, such acts tend to be reduced over time due to the CEOs intention to retain its mandate, as well as the reputation achieved with stakeholders. The study also revealed that monitoring mechanisms such as institutional investors, independence of the board of directors, audit

company Big Four, and the audit council help mitigating opportunistic acts in the first years of the CEO's mandate. These results complement the findings from other investigations that elaborate on the matter, such as Ali and Zhang (2015), who restated the change in CEO's behavior at different periods of their mandate. In this sense the first hypothesis of the research is proposed.

H1: There is a positive, significant relation between CEO's mandate time and comparability of accounting information.

In addition, literature points to a series of characteristics affecting CEO's behavior such as age, gender, education, experience, among others (Hang et al. 2012; Ali & Zhang, 2015; Sprenger et al., 2017). Hang et al. (2012) investigated the relation between CEO's age and the quality of accounting information and stated that older CEOs tend to present better quality accounting reports. They found that, effectively, older CEOs are associated to accounting reports with higher quality levels, given that those managers tend to be more conservative and ethical in managing the company. Sprenger et al., (2017), when analyzing the relation among CEO's characteristics, found that the older the CEO the lower the probability to have opportunistic acts. Ali and Zhag (2015), Hang et al. (2012), and Sprenger et al., (2017) findings converge and provide empirical evidence of how age affects CEO's decisions and behavior.

To Belenzon, Shamshur and Zarutskie (2019), CEO age is an important characteristic on company's performance and there are counterpoints in their results. They evidenced that younger CEOs are associated to a greater growth and performance of the company; however, they tend to take high risky decisions that can entail companies' lower survival. On the other hand, older CEOs predict higher chances for company's survival; however due to their conservative profile, they invest less and hardly take enterprising decisions, causing company's performance to show a decrease when compared to previous periods.

Haider et al., (2019) suggest that there is an "optimal point" when the issue is CEO age and a better quality of information because not either very young or much older CEOs deliver improvements to the quality of accounting information. In this sense, the difference on CEO ages can bring contrasts on the quality of yielding and the information regarding the company (Haider et al., 2019). In face of this, it is predicted that age may affect comparability of accounting information. With this, the second hypothesis of the research is proposed.

H2: There is a positive, significant relation between CEO age and the comparability of accounting information.

Even if there is a reduction of opportunistic acts along the CEO's mandate, personal characteristics such as his age can interfere with that relation. Once younger CEOs are more prone to risk and excess of self-confidence when taking decisions (Bantel & Jackson, 1989; Hess, Osowski & Leclerc, 2005; Twenge & Campbell, 2008), they tend to relate to a broader use of practices that distort accounting information than older CEOs, not only in the beginning but also across his mandate time. Such fact can also be explained from the logic that younger CEOs, since are less experienced, face more distrust from stakeholders, which turns into a stimulation to manipulating results as a means to achieve the goals established, in a more aggressive way than older managers who already built a reputation.

Based on that understanding, age may be a factor potentiating the impact of mandate on the practices of results management that jeopardize the quality of accounting information. In this sense, since comparability is attenuated when managers manipulate results (Sohn, 2016; Chen and Gong, 2019; Sousa et al., 2020a), it is understood that age has a moderating effect on CEOs mandate and, in turn, implies on comparability, when causing younger managers to be negatively related to such qualitative characteristic of improvement, not only in the beginning but across the mandate time. With this, the third hypothesis of the research is proposed.

H3: There is a positive, significant relation between CEO mandate time, moderated by age, on the comparability of accounting information.

3 Methodology

3.1 Data sampling and collection

The population in this study covered all non-financial companies that dealt shares at the Brasil Bolsa Balcão (B3) from 2010 to 2019 and had data needed for calculating comparability. For calculating comparability, it is necessary to compare only the companies from the same economical sector and each sector must count on a suitable sample size. To limit the sectors with a minimum number of companies prevents the excessive increase of freedom degrees, which can be prejudicial to comparability at the moment it is calculated (Ribeiro, 2014). Due to this, the 144 companies were distinguished according to the sector classification of the *North American Classification System – NAICS* as level 2. That classification was

used by essays such as DeFranco et al. (2011), Francis, Pinnuck and Watanabe (2014) and Sousa et al. (2020a).

At first, 11 sectors were identified, with at least four companies. Then the companies from business and enterprise administration were excluded because they manage other companies from distinct sectors. According to Francis et al. (2014), the sectors of economic activity of the managed companies differ and, thus, tin investors analyses. So, the comparability of companies from the remaining sectors was calculated, that is, 74 companies subdivided into 10 sectors.

After calculating comparability, data collection regarding CEOs mandate ages was performed, reaching 518 observations, but due to the missing information, the number of observations that could be analyzed was 482. Later, data were submitted to Hadi (1992) test aiming at identifying discrepant data. There were 153 data identified as outliers, which were removed from the sample. Thus, final sample had 329 observations regarding 58 companies from eight sectors.

The interval of analysis encompasses annual periods from 2013 to 2019. Comparability data were collected from 2010 to 2019 since economical-financial and market information was needed from the current trimester as well as the 15 previous ones to calculate that qualitative characteristic of improvement, such as proposed by DeFranco et al. (2011). About control variables, annual data were collected from 2013 to 2019. All the information collected from basis Refinitiv. Data regarding mandate and age were collected on the Reference Form from 2010 to 2019.

3.2 Model for study basis – comparability

The DeFranco, Kothari and Verdi (2011) metrics, so called Similarity of Accounting Function, since they are reasoned on the logic that the accounting system is a mechanism mapping economic events, were used. So, two companies can only be comparable when the mapping of their economic events via accounting system were similar (De Franco *et al.*, 2011).

DeFranco *et al.* (2011) based on Kothari (2001) study to set the proxy of the economic event subjacent to companies. Such proxy corresponds to the return of actions, since they are under the effect of phenomena occurring to the company, issues inherent to the sector where the company plays at, and the macroeconomic scope. As a proxy of the accounting system there is the item referring to the company's economic-financial performance, that is, the profit over market value in the period.

The first step to estimate a company's comparability among their pairs in the sector consists in measuring the function of each company when considering a temporal series composed by 16 trimesters. That is, the current and the past 15 trimesters by means of the following equation:

$$Earnings_{it} = \alpha_i + \beta_i Return_{it} + \varepsilon_{it} \quad (1)$$

Where: $Earnings_{it}$ = quarterly net profit in the end of the fiscal period over the market value in the end of the fiscal period of company i over time t non-consolidated, and; $Return_{it}$ = shareholder quarterly return of company i over period t , obtained by means of shares closing price, when considering the adjust for proceeds and stock splits that occurred during the period.

With the accounting function estimated for the company, the distance of functions among different companies from the same sector can be measured. By means of Equations 2 and 3, the accounting functions of each company are used for estimating individual and other companies' functions, respectively, when forecasting the Expected *Earnings* [E(Earnings)] on each of the 16 quarterly periods (the current period and the fifteen previous ones). The following equation was used for forecasting the individual [E(Earnings)] of each company:

$$E(Earnings)_{iit} = \hat{\alpha}_i + \hat{\beta}_i Return_{it} \quad (2)$$

Where: $E(Earnings)_{iit}$ = net profit over the expected market value of company i with the parameters of company i over time t , and; $Return_{it}$ = shareholder quarterly return of company i over period t , obtained by means of shares closing price, when considering the adjust for proceeds and stock splits that occurred during the period.

Next, the [E(Earnings)] of other companies will be estimated by means of the following equation:

$$E(Earnings)_{ijt} = \hat{\alpha}_i + \hat{\beta}_i Return_{it} \quad (3)$$

Where, $E(Earnings)_{ijt}$ = net profit over the expected market value of company i with the parameters of company i over time t , and; $Return_{it}$ = shareholder quarterly return of company i over period t , obtained by means of shares closing price, when considering the adjust for proceeds and stock splits that occurred during the period.

Estimating the company's economic event from another company's estimators comes from the logic of keeping the economic event constant, causing two companies to be compared. Comparability distance between values resulting from Equation 2 and Equation 3, when considering the 16 quarterly periods, that is, $[E(\text{Earnings}_{iit}) - E(\text{Earnings}_{ijt})]$. Such procedure to measure the comparability level between two companies is expressed on Equation 4.

$$\text{Comp}_{ijt} = -\frac{1}{16} \sum_{t=15}^t |E(\text{Earnings}_{iit}) - E(\text{Earnings}_{ijt})| \quad (4)$$

Where: Comp_{ijt} = Measurement of relative individual comparability of company i based on company j over time t ; $E(\text{Earnings}_{iit})$ = net profit over the expected market value of company i with the parameters of company i over time t , and; $E(\text{Earnings}_{ijt})$ = net profit over the expected market value of company i with the parameters of company j over time t .

Substantiating the understanding that a company's comparability is a measure of distance between functions, that is, the closer to zero (result obtained by means of Equation 4), the higher the level of comparability between the pairs of companies belonging to the same sector (DeFranco *et al.*, 2011). Comparability measurements between company pairs are multiplied by -1, which helps the graphic visualization and, in turn, reader's interpretation that the higher the metric value of comparability, the more comparable the pair of companies is.

Since Equation 4 results only the average distance among the functions of two companies, that is, the average distance between the company and each other one in the same sector, it is necessary to combine these results to be able to measure global level, in an agglutinated way, the average distances obtained, thus resulting in the comparability level of the company in relation to all its company pairs in the same sector.

Due to this, DeFranco *et al.* (2011) suggest it is necessary to calculate the average result of the distances of a company in relation to its pairs in a sector. However, average is a measurement which is responsive to extreme results and, thus, it can cause comparability to be distorted. Sousa, Feltes, Meurer, and Ribeiro (2020b) say such distortion occurs when there are sectors in a company presenting a comparability level significantly lower when compared to other companies of the same sector. The authors mention that this problem is more prejudicial to comparability measurement when sectors have few companies, a common situation in countries with emerging capital markets, because they have less companies when compared to markets considered as developed ones.

Aiming to solving that limitation, instead of using the average of comparability level of a company in relation to their pairs in the sector as suggested by DeFranco *et al.* (2011), comparability measurement was taken by means of the median of comparability level of a company in relation to its pairs in that sector, such as proposed by Sousa *et al.* (2020b). That variable was so called Median Comparability (COMP) and it was used as a dependent variable in multivariate models. About the result of this measurement, the closer to zero, the higher the comparability level of company i over period t when compared to their pairs in that sector. Similarly, companies with the lowest COMP levels, farthest from zero, are less comparable in relation to their pairs in the sector.

3.3 Variables, econometrical model, and statistic treatment

Dependent variable refers to comparability of accounting information. Independent interest variables are CEO mandate and age, along with mandate moderated by CEO age. Control variables correspond to general indebtedness, level of operational leverage, market to book, income increase, and time. Such additional controls are necessary so that operational activities can be controlled, which are different among sectors, besides that each period presents a different context that can change over time.

The first step consisted in submitting data to descriptive analysis. As a complimentary procedure to that analysis, information regarding comparability, CEO mandate and age, the core variables in this study, were analyzed under the light of annual behavior over the time lapse analyzed (2013-2019). For that, those variables were subdivided into 7 subvariables according to each year period. Then those subvariables being comparability, CEO mandate and age, were submitted to Kruskal-Wallis test, at 5% level, aiming at checking for changes in the levels of these three variables over time. This test was chosen because the three variables chosen do not present normal distribution by means of the Skewness-Kurtosis test, at 5% level.

When the Kruskal-Wallis test indicated that there was a significant difference in at least one of the subvariables at 5% level, which occurred to comparability, comparability subvariables were submitted to Wilcoxon test at 5% level. That test was performed when the variable was considered in the current year in

comparison to the previous one aiming at checking for changes on comparability level. Previously variables were analyzed by means of different multivariate models aiming at understanding the impact of CEO mandate and age on comparability of accounting information

$$COMP_{it} = \beta_0 + \beta_1 MAND_{it} + \beta_2 IND_{it} + \beta_3 OPER_{it} + \beta_4 MB_{it} + \beta_5 GREV_{it} + \beta_6 SIZE_{it} + \sum_{i=2}^8 Y SECTOR_{it} + \sum_{t=2}^7 \varphi YEAR_{it} + \varepsilon_{it} \quad (5)$$

$$COMP_{it} = \beta_0 + \beta_1 AGE_{it} + \beta_2 IND_{it} + \beta_3 OPER_{it} + \beta_4 MB_{it} + \beta_5 GREV_{it} + \beta_6 SIZE_{it} + \sum_{i=2}^8 Y SECTOR_{it} + \sum_{t=2}^7 \varphi YEAR_{it} + \varepsilon_{it} \quad (6)$$

$$COMP_{it} = \beta_0 + \beta_1 MAND_{it} + \beta_2 AGE_{it} + \beta_3 IND_{it} + \beta_4 OPER_{it} + \beta_5 MB_{it} + \beta_6 GREV_{it} + \beta_7 SIZE_{it} + \sum_{i=2}^8 Y SECTOR_{it} + \sum_{t=2}^7 \varphi YEAR_{it} + \varepsilon_{it} \quad (7)$$

$$COMP_{it} = \beta_0 + \beta_1 MAND * AGE_{it} + \beta_2 IND_{it} + \beta_3 OPER_{it} + \beta_4 MB_{it} + \beta_5 GREV_{it} + \beta_6 SIZE_{it} + \sum_{i=2}^8 Y SECTOR_{it} + \sum_{t=2}^7 \varphi YEAR_{it} + \varepsilon_{it} \quad (8)$$

Where $COMP_{it}$ = median comparability in relation to company i pairs of the sector over period t ; $MAND_{it}$ = mandate, in annual periods, of company i CEO over period t ; AGE_{it} = age, in annual periods, of company i CEO over period t ; IND_{it} = general indebtedness of company i over period t ; $OPER_{it}$ = level of operational leverage of company i over period t ; MB_{it} = *market to book* of company i over period t ; $GREV_{it}$ = revenue growth of company i over period t ; $SIZE_{it}$ = size (natural logarithm of total asset) of company i over period t ; $SECTOR_{it}$ = sector of economic activity, when considering NAICS (*North American Industry Classification System*) classification at level 2, of company i over period t ; $YEAR_{it}$ = annual period referent information from company i .

Multivariate models were analyzed by means of data panel analysis. With regards to the choice for estimation model of the panel analysis, the random effect estimation analysis was discarded since panel is not balanced. The fixed effect model was also discarded because multivariate models have variables controlling the sector and, thus, makes impossible to use that estimation. It is observation worthy that the control of economic activity sectors in comparability models is necessary to prevent distortions on the research results (Ribeiro, 2014). Because of this, all multivariate models were estimated by means of the pooled estimation technique.

As premises of the panel data regression analysis, data referent to independent variables were submitted to the Variance Inflation Factor (VIF) test aiming at identifying multicollinearity. Complementarily, independent variables were submitted to Spearman correlation test. These two tests suggested variables $MAND$ and $MAND*AGE$ are multicollinear due to their correlation coefficient of -98. It makes impossible to use those two variables in the same regression model since, according to Fávero and Belfiore (2017), correlation coefficients over 0.70 indicate the presence of multicollinearity. Besides, when estimating the multivariate models with these two variables together, VIF test resulted over 5, reinforcing the suggestion that variables $MAND*AGE$ and $mandate$ are multicollinear.

With that restriction and in order to reach the goal of the present study, variable $MAND*AGE$ was estimated with a multivariate model in separate, which is shown in Equation 8. The other three multivariate models are presented by means of Equations 5, 6, and 7. Data from these four multivariate models were also submitted to Breusch-Pagan heteroscedasticity test at 5% significance level. Besides, quantitative variables of each model were submitted to Woodridge test in order to checking for the presence of serial autocorrelation.

4 Results

4.1 Descriptive analysis

Table 1 presents results corresponding to the descriptive statistics of quantitative variables.

Table 1
Descriptive statistics

Variables	Mean	Standard Deviation			Minimum	Maximum	Norm.	Obs.
		O	B	W				
COMP	-2.846	2.830	2.314	1.903	-15.998	-0.305	0.000	329
MAND	6.458	6.677	5.674	3.363	1.000	38.000	0.000	329
AGE	54.984	10.352	8.696	5.982	33.000	84.000	0.002	329
IND	54.857	18.105	18.314	4.839	9.173	95.965	0.034	329
OPER	1.698	1.107	0.969	0.725	-3.281	5.954	0.000	329
MB	1.512	1.042	0.968	0.519	0.117	5.925	0.000	329
GREV	4.475	20.727	10.354	18.350	-81.977	71.317	0.000	329
SIZE	15.990	1.331	1.403	0.209	12.140	18.654	0.001	329

Note: O = Overall; B = Between; W = Within; Norm = P-value of Skewness/Kurtosis univariate normality test, and; Obs = observations.

Source: research data (2021).

Results presented evidenced that comparability averaged 2.84. That result is similar to the one found by DeFranco et al. (2011), where comparability presented an average value of -2.7. Other investigations that were based on comparability measurement as well, such as Sohn (2016) and Chen and Gong (2019), found results of -1.9 and -0.48, respectively. A reason for such difference, in comparison to more recent investigations, such as Sohn (2016) and Chen and Gong (2019), correspond to the institutional environment analyzed, which in that case were US companies. That is because US capital market has lower level of information asymmetry than Brazil's (Soschinski, Schlup, Bogoni & Cunha, 2020), besides having a common law system that provides a higher level of information quality (Almadi & Lazic, 2016).

Investigations regarding comparability in Brazilian market companies, such as Ribeiro et al. (2016) and Reina et al. (2019), reported an average result of comparability of -2.63 and -1.03, respectively. The finding of the first study was similar to that presented in Table 1, the second has a significant difference. Such distinction can be explained under the light of the sectors analyzed, because Reina et al. (2019) company sample composition basis on industry or highly regulated sectors, such as telecommunication. By disregarding service companies, comparability levels tend to be higher since highly regulated companies and sectors have operational processes with a high similarity level.

Although average comparability was -2.84, Kruskal-Wallis test suggests there was a significant variation at 5% level (Chi-square = 45.147; p value = 0.0001) in comparability level along time. That variation was significant during the time lapse analyzed. In 2013 average comparability was -1.63, the next year, 2014, the average registered was -2.05. that decrease was significant at 10% level ($Z = -1.86$; p value = 0.06), according to Wilcoxon test. In 2015 the average registered was -3.04, significantly lower, to 10% level ($Z = -1.66$; p value = 0.09), when compared to the average comparability measured in 2014. The reduction in the level of this qualitative characteristic followed in 2016 because it registered a -3.57 average, a significant decrease to 5% level ($Z = -1.98$; p value = 0.04) compared to the previous year.

The behavior of comparability significant reductions had a curtailment in 2016 because in 2017 and 2018 that measurement had averages of -3.39 and -3.75, respectively. These averages, according to Wilcoxon test, were not significant at 10% level when compared to the previous year, resulting in $Z = 0.71$, p value = 0.47 (for 2017) and $Z = -0.80$; p value = 0.41 (for 2018). The decreasing behavior of comparability level in 2014, 2015, and 2016 can be linked to the economic recession moment Brazil lived at that time. Those moments most quarterlies slow down economic activities and bring serious concern to market. Besides, economic recession is a stimulation for managers to manipulate results in a more aggressive way (Silva, Weffort, Flores & Silva, 2014), implying in the shortening of items inherent to quality of accounting information, such as comparability.

In 2017 and 2018 comparability level registered one of its lowest averages. A reason for that encloses the increase on an increase of uncertainty on Brazilian economic policies. Jin, Kanagaretnam, Liu and Lobo (2019), and Cui, Yao, Fang and Wang (2020) brought evidence that managers change, as a routine, accounting choices in moments of economic policies uncertainty, which according to Dhole, Liu, Lobo and Mishra (2020) triggers negative impacts on comparability. Results also demonstrated that comparability measurement presented an average -2.75 in 2019, featuring a significant increase, at 5% level ($Z = -1.97$; p value = 0.04), when compared to the previous year.

With regards to mandate time, results demonstrate that CEOs remain consecutively, in average, 6 years and 4 months in their position in Brazilian companies. That result differs from the findings of Dal Magro et al. (2018). The study, performed in Brazil, showed CEO mandate time is in average 4 years and 3 months. In Brazil, according to Dal Magro et al. (2019), the average stay of a CEO in a company is only 4 years, down the global average set at 5 years and 3 months. There are also differences not only in domestic researches but also coming from other countries, a data Hu et al. (2015) and Ali and Zang (2015) evidenced that, in average, a CEO mandate is 4.9 and 8 years, respectively. Those divergences can relate to the composition of the sample analyzed which, in the present study, may be concentrated in family companies, which tend to have a lower CEO rotativity since, many times, the president of the company is a family member with a significant share of the company.

Although in this study general average of CEO mandate time was higher than expected for Brazilian companies, data revealed there were oscillations in time. In 2013 the average CEO stay was around 7 years while in 2019 the average mandate was 5 years and 3 months. Even with such apparent decrease, Kruskal-Wallis test indicates there was no significant difference at 5% level (Chi-square = 6.95, P value = 0.32) on the average CEO mandate over the annual period analyzed. Although there is no significant difference, a trend to decrease CEO mandate along periods is noticed, since results found that there was an average reduction of 2 months and 21 days when advancing over annual periods from 2013 to 2019.

About age, findings indicate CEOs are, in average, 54 years 11 months old. This result is similar to Sprenger et al. (2017) findings performed on Brazilian CEOs, because it showed CEOs average age is 54 years and 7 months. Another study approaching CEOs ages was Huang et al. (2012), who presented CEOs average age at 55 years and 4 months. Other studies also investigated the company president age and found close results. Belenzon et al. (2019), when studying companies in France, Italy, and United Kingdom, found that CEOs average age was 50 years and 6 months. In addition, Haider et al. (2019) study performed with Australian companies' CEOs revealed an average age of 59 years. So it is seen that most studies evidence that, even in different economic and cultural contexts, CEOs tend to be between 50 and 60 years old.

When submitting CEOs ages data in annual groups to the Kruskal-Wallis test, no significant difference was found at 5% level (Chi-square = 4.07; P value = 0.66). somehow it evidences there is no significant difference in CEOs average age along time. Although there is not such difference, it is noticeable that results indicate diversity on CEOs ages, since the youngest president was 33 years old and the oldest, 84 years old. Data also indicated that the sector with younger CEOs is telecommunication, with average 48 years old, and the oldest are in the sector of activities of transport support, in average being 60 years old.

4.2 Inferential analysis

The independent variables of each multivariate model it is seen that they all showed a correlation coefficient of Spearman test (not presented) lower than 0.70. Complementarily, those variables do not present a value higher than 5 in VIF test. With these results it is understood from the discussion presented by Fávero and Belfiore (2015), that the four regression models are not subject to variables multicollinearity.

Breusch-Pagan and Wooldridg test results, at 5% significance level, detected that the four multivariate models present residual heteroscedasticity and first order serial autocorrelation, respectively. Because of this, the four multivariate models were estimated with individual's clusterization. So, it was possible to estimate the four multivariate models aiming at checking for the impact of CEO age and mandate on comparability, expressed on Table 2.

Results from Model 1 and Model 3 suggest that the increase on CEO mandate exerts positive, significant influence on the level of comparability of accounting information. This result confirms H1 and, so, it can be a source for complementing Ali and Zang (2015) and DalMagro et al. (2018) investigations. It is because as long as manager elongates his stay in that occupation as a CEO, there is less need for managing results in order to elucidate to investors his capability to reach goals established for the period. As result managing is a noxious practice to comparability, as found by Sohn (2016) and Sousa et al. (2020a), such qualitative improvement feature could provide a higher ability in taking decisions from investors as long as CEO mandate lasts longer.

In face of such result, it is clear that in the beginning of the mandate the CEOs tend to distort accounting information from changing accounting choices, which implies in decreasing company's comparability when compared to its pairs in the sector. This, somehow, evidences a possible need from the CEO for reaching performance goals over the period and, thus, fight investors distrust while promoting an increase of his reputation, assuring his stay in the occupation over the next periods, as discussed by Hu et al. (2015), Ali and Zang (2015), and Dal Magro et al. (2018).

Regarding the age of the CEO, findings exposed in Model 2 and Model 3 suggest there is no significant relation between this personal characteristic and the comparability of accounting information. Such result does not prove H2 and disagrees with Sundaram and Yermack (2007), Huang et al., (2012), and Ali and Zang (2015) discussions. So, the increase on age does not imply changes on accounting practices by managers that could jeopardize the comparability of accounting information.

Table 2

Comparability multivariate models

Variables	Model 1	Model 2	Model 3	Model 4
	Coef. (T Test)	Coef. (T Test)	Coef. (T Test)	Coef. (T Test)
MAND	0.0478 (2.18**)		0.0442 (1.95*)	
AGE		0.0175 (1.10)	0,0047 (0.29)	
MAND*AGE				0.001 (2.00*)
IND	-0.0298 (-2.62**)	-0,0242 (-2.14**)	-0,0289 (-2.47**)	-0.029 (-2.57**)
OPER	0.4473 (2.55**)	0,4337 (2.49**)	0.4462 (2.57**)	0,4455 (2.55**)
MB	0.2128 (1.84*)	0,2550 (2.25**)	0.2122 (1.83*)	0,2181 (1.88*)
GREV	0.0053 (1.00)	0,0067 (1.20)	0.0056 (1.01)	0.0056 (1.03)
SIZE	0.6169 (3.59***)	0.5590 (3.33***)	0.6078 (3.59***)	0.6165 (3.57***)
Constant	-12.7172 (-4.74***)	-12.6971 (-4.44***)	-12.8652 (-4.58***)	-12,6601 (-4.72***)
Sector Control	Yes	Yes	Yes	Yes
Period Control	Yes	Yes	Yes	Yes
F Test	26.42***	21.66***	24.87***	25.97***
R ²	0.5346	0.528	0.5348	0.5334
Observations	329	329	329	329
VIF	2.21	2.21	2,22	2.21
Breusch-Pagan	144.49***	141.66***	144.16***	143.66***
Wooldridge	16.45***	16.33***	16.65***	16.56***

Note: *significance at 10% level; **significance at 5% level; and ***significance at 1% level when considering two-tailed estimation. Multivariate regressions of Model 1, Model 2, Model 3 and Model 4 were estimated by means of OLS method, with clusterization of individuals.

Source: research data (2021).

A reason for this corresponds to the individuality of events experienced by each CEO along his professional career. An example according to this logic brings the CEO mandate being that, as seen in Model 1 and Model 3 and discussed by Ali and Zang (2015) and DalMagro et al. (2018), is an event inducing the manager to manipulate results in a more intense way due to the need for reaching goals and getting investors trust. The beginning of a CEO mandate does not take place at specific moments in time but at any moment since it can occur when he is younger as well as when he grows older.

It causes the manager, who usually occupies a CEO position, to face distinct moments in his career, from the beginning of his mandate (time with lower level of accounting information), consolidation as a CEO with increase and maintenance of reputation (lower use of manipulation practices that jeopardize the quality of accounting information, as exposed by Ali and Zang (2015) and DalMagro et al. (2018)) and the time previous to when he steps out his CEO position (DalMagro et al. (2019) mentions that it is linked to the use of more aggressive management practices that distort the quality of accounting information in favor of CEO remuneration gains). That is, as long as CEO grows older here are different, repetition cycles of adopting practices for increasing or decreasing the quality of accounting information.

Another point that can happen, independent from CEO age, concerns to external events that can influence on managers decisions for increasing/decreasing the adoption of practices involving comparability level, such as level of economic uncertainty, presented by Dhole et al. (2020) in his investigation. Moments of economic uncertainty affect CEOs of different ages, from the youngest to the eldest, with different levels of professional experience. Such uncertainty moments provoke movements in managers towards adopting more accounting changes causing a decrease to comparability (Dhole et al., 2020).

Although age is not a factor implicating directly on comparability it can have an indirect effect on comparability. It is because, as age increases, the manager changes his behavior in the position, as a lower level of optimism (Haider et al., 2019), besides a larger experience at the highest board of company's management. So, it can have an indirect effect on factors affecting comparability, such as mandate.

Results of Model 4 confirm such indirect influence since CEO age has a positive, moderating influence on the effect of mandate on comparability. That influence agrees with H3, and complements

discussions approached in the researches performed by Bantel and Jackson (1989), and Hess et al. (2005) and Twenge and Campbell (2008), as far as younger CEOs, featured as the ones who are prone to risk and self-confidence excesses, bring more distortion to accounting information along the mandate than older CEOs. Somehow that result brings a new look on the discussions brought by Sundaram and Yermack (2007) and Hang et al. (2012), because the conservatism of older CEOs, due to their worry on reputation, implies a lower number of alterations in accounting practices impacting the decrease of comparability.

H3 statement also shows that, although older CEOs are more experienced in commanding companies, with procedures used by different mechanisms for corporate governance (administration board, audit committee, and external audit) that could give them more knowledge of how changing accounting practices in a discreet way, they prefer not to decrease the quality of accounting information since a CEO reputation implies not only on the company he works for but also all over the market. It is because the manager acting on company's direction can be fired and, in the future, be another company's CEO, even a competitor to the current company he is working for. Due to this, keeping a good image to the market it is essential to stay at the high company management board and, in turn, bring financial gains both in the present and the future.

4.3 Additional analyses

From the results on Table 2 it is seen that the quality of accounting information increases as long as CEO mandate time is long, as well as found by Ali and Zang (2015) and Dal Magro et al. (2018). Such behavior, nevertheless, may occur in a non-linear way. At specific moments managers tend to apply heavier manipulation on results once there are more incentives to address private desires (Ali & Zhang, 2015; Hu et al., 2015).

Among these periods the first mandate year is highlighted. At that moment, CEOs feel more pressure to reach the goals preestablished by stakeholders so that they stay in their position (Ali & Zhang, 2015; Dal Margo et al., 2018). As most of those goals are based on economic-financial results (Fernandes & Mazzioni, 2015), changing their accounting choices becomes a path for managers to reach or overcome the goals of that period (Ibrahim & Lloyd, 2011). So, by applying aggressive changes in the first period, managers stay in the company, resulting in keeping getting a fix and variable remuneration for the next periods.

The first year of mandate is not the only one which is vulnerable to opportunistic practices. Managers are stimulated to increase results manipulation significantly also in their final mandate year (Ali & Zhang, 2015; Hu et al., 2015). When they realize they will not stay in that position they understand the increase of economic-financial performance will reflect on variable financial earnings in his last period.

Such discussion brings light to the fact that the management of results is sharpened at specific moments of a CEO mandate. That is, on the first and the last year of his mandate. Since results manipulation is noxious to comparability (DeFranco et al., 2011; Sohn, 2016), it is understood that, specifically at these periods of a CEO mandate, there is a significant decrease of this improvement qualitative characteristic when compared to other periods.

In this way, the data of this research were submitted to check for a significant decrease on comparability levels over periods in-between the first and the last CEO mandate years. That checking was performed by means of a panel data analysis by clustered fixed effects on individuals, presented on Table 3. It is highlighted that sectors were not controlled by means of dummy variables because of lack of variability of one of two variables, first mandate year (FIRST) and last mandate year (LAST), in some sample sectors, preventing the estimation of multivariate analyses.

Results of Model 5 indicate that in the first year of a CEO mandate there is a significant decrease on the level of comparability of accounting demonstrations. This finding can contribute to Ali and Zang (2015) and DalMagro et al. (2018) findings since in his first mandate year a CEO changes accounting choices in order to reach directly the items of quality of accounting information, such as comparability.

That result implies on investors. Since with the decrease on the capability of comparing demonstrations in relation to their pair companies of the same sector, investors can take a wrong decision as to allocating financial resources. To reduce the risk of such type of decision investors are forced to use additional information linked to costs that turn the decision process more expensive.

With regards to Model 6 it is noticeable that the last period of CEO mandate is not related to comparability, which is dissonant from the discussions proposed by Ali and Zang (2015) and Hu et al. (2015). That is, in Brazilian market, it seems CEOs do not present a non-linear management behavior in the beginning of the mandate, to get investors trust and stay in the position, and in the last mandate year, aiming at maximizing private gains by means of ulterior motives. With this it is understood that in Brazilian market publicly traded companies there is a linear, positive relation between mandate and comparability, as evidenced in Table 2.

Table 3
Multivariate models of comparability, turnover, and last mandate year

Variables	Model 5		Model 6	
	First year of mandate time		Last year of mandate time	
	Coefficient	T test	Coefficient	T test
FIRST	-0.8642	-2.11**		
LAST			-0.3064	-1.11
IND	-0.0393	-1.13	-0.0439	-1.21
OPER	0.5884	3.14***	0.5489	2.94***
MB	0.4653	2.37**	0.4650	2.43**
GREV	-0.0016	-0.27	-0.0010	-0.16
SIZE	-0.0304	-0.04	0.0729	0.08
Constant	-1.6865	-0.13	-3.1616	-0.24
Observations	329		329	
F Test	4.45***		3.99***	
R ²	0.1009		0.0748	
Chow	6.37***		6.13***	
L. M. Breusch-Pagan	119.49***		114.42***	
Hausman	30.87***		21.58***	
Breusch-Pagan	24.27***		15.49***	
VIF	1.23		1.24	
Wooldridge	15.786***		15.786***	

Note: *significance at 10% level; **significance at 5% level; and ***significance at 1% level when considering two-tailed estimation. Multivariate regressions of Model 5 and Model 6 were estimated by means of OLS method, with clusterization of individuals.

Source: research data (2021).

Such specific context of Brazilian market publicly traded companies can be accounted for as beneficial to investors. It is because they can understand comparability tends to decrease only in the beginning of a CEO mandate. So, they can understand what are the critical periods in which demonstrations are less able to be compared to their pairs of the same sector. Besides that, even if there is news about discontinuing the current CEO in charge for the next period, investors will know that they probably will have no losses when comparing demonstrations from different companies for decision taking.

5 Conclusions

5.1 Conclusions and research implications

Results indicated that increasing the mandate contributes with companies' accounting demonstrations to become more comparable as to other companies of the same sector. That is, as long as the CEO stays in the company accounting information will get improved quality. That is because in the beginning of the mandate managers who are also presidents manage accounting information with more focus on their private desires.

Some reflections raise from such result. The first is that it gets clear that CEO, due to his need for increasing trust and reputation with investors, distorts accounting information aiming at reaching goals set and feeding that need, as discussed by Hu et al. (2015), Ali and Zang (2015), and Dal Magro et al. (2018), even when comparability is decreased. The second one is based on minor investors, who are more affected in the beginning of a CEO mandate since they have more difficulty in comparing accounting information, jeopardizing investors' decision taking. As an example, taking the wrong decision on investment choice for allocating resources, which can bring to a decrease on gain maximization, or even losses.

About CEO age evidences suggest that this personal characteristic has no implication on comparability. Such result disagrees with the logic of Sundaram and Yermack (2007), Huang et al., (2012), and Ali and Zang (2015), but it can be explained by the individual particularities and career cycles. In this sense, managers do not have a "standard age" to become a CEO, and it can lead to the use of more aggressive accounting choices in the beginning of the mandate. Besides that, a manager can become a CEO and, thus, start a new mandate, more than once along his career, which can imply in cycles of adopting more aggressive practices of result manipulation, jeopardizing comparability from the beginning, through consolidation until the period before the end of the mandate.

Despite the many cycles CEOs lives during his professional career, causing age not to influence comparability in a direct way. That personal characteristic showed to be a factor impacting quality information indirectly since it potentiates the effect of mandate on this improvement qualitative characteristic. This effect takes place because younger CEOs, who are more excessively self-confident and risky-prone, make more use of changes on accounting choices during their mandate than the older ones, which cause a decrease on

comparability level of the company. With this, it is evidenced that CEO age acts as a moderating factor regarding his mandate and comparability of accounting information, which can complement Ali and Zang (2015) and DalMagro et al. (2018) discussions. This occurs because they only deal with the direct influence of mandate on the quality of accounting information, disregarding possible moderating factors related to the individuality of each manager.

In professional practice results generate contributions to corporate governance mechanisms that can prevent manager from using management practices using manipulation of accounting choices that can be prejudicial to the company. One of these mechanisms refers to the board of directors, since they can put more attention on a CEO in the beginning of his mandate. Another mechanism that can also dedicate more attention corresponds to the audit committee, since they can question the use of certain accounting choices by a CEO who is in the beginning of his mandate. That is a crucial behavior especially when the company is in its first year of permanence and, according to Causholli (2016) and Chi and Huang (2005), and is under a training period, that can be used by younger CEOs as an opportunity to distort accounting information and reach goals established to that period, even if it causes losses to comparability.

5.2 Research limitations and suggestions for future studies

As to limitations it is noticeable that the study did not segment mandate under subgroups, for example (i) short mandate, (ii) medium mandate, and (iii) long mandate. Such limitation impulses suggestions for future investigations since it will contribute with evidences of the consequences of CEO mandate time on comparability. Other interesting point that remains as a suggestion consists in analyzing other personal features molding each individual manager that can be a factor potentiating that relation (mandate and comparability). It is also indicated the study in other countries since cultural features may affect age moderating effect in the relation between mandate and comparability.

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