# IMPACTO DEL GOBIERNO CORPORATIVO EN LA INFORMACIÓN FINANCIERA

**TESIS PARA OPTAR AL GRADO DE DOCTORA EN ADMINISTRACIÓN DE NEGOCIOS**

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El siguiente trabajo está compuesto de tres capítulos. En el primero se analiza la base conceptual de los artículos empíricos presentados en los capítulos siguientes, enfocándose en la teoría de agencia y la teoría positiva de la contabilidad y cómo la calidad de las ganancias contribuye a mitigar los problemas de agencias que surgen en una organización y sus partes relacionadas. También se revisan, brevemente, las distintas métricas utilizadas para medir la calidad de las ganancias.

Una medida de la calidad de las ganancias es el conservadurismo contable, característica deseada de los estados financieros dado que ayuda a mitigar problemas de agencia al reconocer, de forma más oportuna, en la información contable las malas noticias vs. las buenas. Uno de sus determinantes es la composición del directorio de la empresa. En el estudio presentado en el capítulo 2 se muestra cómo la independencia del directorio, la diversidad de género, la nacionalidad, la educación y la experiencia contribuyen al conservadurismo contable en un país emergente como Chile.

En el tercer capítulo se analiza la interacción entre un shock normativo exógeno, como es la adopción obligatoria de las Normas Internacionales de Información Financiera (IFRS, por sus siglas en inglés), y la heterogeneidad de los inversionistas institucionales, así como su efecto sobre el reconocimiento asimétrico de las ganancias y la calidad de las mismas. Para lo anterior, se utiliza una muestra de empresas latinoamericanas.

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## INTRODUCCIÓN

La presente tesis tiene como finalidad analizar cómo los distintos mecanismos internos del gobierno corporativo influyen en los incentivos para que las empresas proporcionen información de calidad a través de los estados financieros.

Berle & Means (1932) pusieron de manifiesto la existencia de conflictos de interés entre accionistas y quienes controlan las empresas. Posteriormente, Jensen & Meckling (1976) proponen un modelo donde, en la medida que la propiedad de la empresa se va diluyendo, los problemas de agencia entre accionistas y administradores se intensifican, lo que puede conducir a políticas financieras orientadas más a la destrucción que la creación de valor empresarial.

De esta forma, surge la necesidad de entender los mecanismos utilizados para atenuar los problemas de agencia en las empresas. En las últimas décadas, ha existido una creciente preocupación en el mundo académico, profesional y de las entidades reguladoras, por fortalecer y mejorar los mecanismos por los cuales la información de los mercados de capitales impacta la eficiencia y seguridad de estos. En este ámbito, cada día se hace más importante mejorar las prácticas y la regulación que incentiva al mundo corporativo a tener una mejor relación con sus *stakeholders*.

El gobierno corporativo, entendido como "*Un conjunto de relaciones entre los administradores de la empresa, el directorio, accionistas y otros partícipes a través del cual se fijan los objetivos de la empresa, los medios para alcanzarlos y la evaluación del rendimiento*" (OECD, 2004), ha puesto de manifiesto la relevancia de la implementación de mecanismos de monitoreo que permitan proteger los intereses de inversionistas externos. Lo anterior, con el objetivo de asegurar un buen funcionamiento y credibilidad de los mercados de capitales (La Porta, Lopez-de-Silanes, Shleifer & Vishny, 2000).

Para Brown et al. (2011) los mecanismos de gobierno corporativo se pueden dividir en internos (directorio y sus comités, comité de auditoría, control interno y auditoría interna, y estructura de propiedad) y externos (monitoreo de *blockholders* y analistas, auditores externos, competencia y adquisiciones, regulaciones y *enforcement*).

Las implicancias de las prácticas de gobierno corporativo dependen del contexto en el cual se encuentre una empresa (La Porta et al. 1998, La Porta et al. 2000; Brown et al. 2011). Esta tesis se

centra en economías emergentes, específicamente en Latino América, donde los países poseen el mismo origen legal, derecho civil francés, y se caracterizan por tener mayor concentración de propiedad y una menor protección legal a los inversionistas, a diferencia de lo que sucede en países con Ley Común (La Porta et al 1998). En este sentido, las prácticas de gobierno corporativo pasan a ser cruciales para resguardar a los accionistas minoritarios, ya que funcionan como un mecanismo sustituto de la legislación existente (Love & Klapper, 2002).

Por otra parte, la calidad de las ganancias se puede obtener cuando estas representan más fielmente las características del proceso fundamental de ganancias de la empresa que son relevantes para un tomador de decisiones específico (Dechow, Ge & Schrand, 2010). La calidad de los informes financieros es de gran interés para quienes utilizan esta información con fines de contratación, así como para la toma de decisiones de inversión y financiamiento, dado que es una de las formas en que obtienen información relevante de las operaciones pasadas de las empresas. En la literatura se han utilizado diversas métricas para medir la calidad de las ganancias. En este sentido, Schipper & Vincent (2003) realizan la distinción entre las basadas en acumulaciones anormales o discrecionales y, por otro lado, las que utilizan la persistencia, previsibilidad y variabilidad de las ganancias, por ejemplo: el conservadurismo contable.

Específicamente, el presente trabajo se enfoca en dos cuestiones fundamentales en las que se ha centrado la literatura financiera: los inversionistas institucionales y la composición del directorio de la empresa. Por un lado, analiza como el directorio, mecanismo cúspide de gobierno corporativo, influye en el conservadurismo contable, y por el otro cómo la presencia de inversionistas institucionales afecta al conservadurismo contable y la calidad de las ganancias de una empresa, esta última medida a través de un modelo de acumulación (devengo).

La estructura de propiedad y el directorio han sido ampliamente estudiados en la literatura, relacionando su impacto a una amplia variedad de áreas de estudios como finanzas, economía, contabilidad, auditoría, gestión y estrategia (Zheng & Kouwenberg, 2019; Velte, 2019; Filatotchev, Jackson & Nakajima, 2013; Durisin & Puzone, 2009).

El directorio es el mecanismo designado para controlar y supervisar a los administradores de las empresas y proteger los intereses de los accionistas, junto con ser el responsable final de las operaciones y de la salud financiera de las empresas, ha tenido gran relevancia en la literatura en los últimos años (Moghaddam et al., 2018; Velte, 2019; Garner et al., 2017). La evidencia existente sobre

el impacto de la diversidad del directorio indica que es necesario entender las particularidades, conocimientos y afiliaciones que poseen los directores, así como también las características propias de cada país (Ruigrok, Peck & Tacheva, 2007). En este sentido, en el capítulo 2 se aborda la siguiente pregunta de investigación **¿Cómo la diversidad de los directorios chilenos influye en el conservadurismo contable?** La gran mayoría de los estudios empíricos que analizan el impacto de la independencia de los directores en el conservadurismo contable encuentra una relación positiva (Beekes, Pope & Young, 2004; Dimitropoulos & Asteriou, 2010; Yunos, Ahmad & Sulaiman, 2014; Nasr & Ntim, 2018; El-habashy, 2019; Phapho, Pichetkun & Ngudgratoke, 2020), lo que permite aminorar los problemas de agencia y mejorar la información financiera. Respecto del impacto de mujeres en el directorio, solo existen 4 estudios que muestran un impacto positivo, dado que mejoran el monitoreo al ser más éticas y adversas al riesgo (Rustiarini, Gama & Werastuti, 2021; Makhlouf, Al-Sufy & Almubaideen, 2018; Garcia-Sanchez, Martínez-Ferrero & García-Meca, 2017; Boussaid, Hamza & Sougne, 2015). Solo se encontraron 2 estudios que analicen la nacionalidad de los directores, con resultados disimiles. La evidencia de la participación en múltiples directorios no es concluyente, pero se espera que tengan un impacto negativo porque al estar ocupados no son capaces de monitorear la gestión de la empresa de forma efectiva (Lipton & Lorsch, 1992; Fadzil & Ismail 2014). Sobre *business expertise*, debiese incrementar el conservadurismo, porque con este conocimiento los directores tendrán la capacidad de revisar de mejor manera los estados financieros (Lanfranconi & Robertson, 2002). Sobre el nivel educacional solo se encuentra un artículo que postula que potencia el conservadurismo dado que los directores obtienen suficientes habilidades en pensamiento estratégico y toma de decisiones (Makhlouf, Al-Sufy & Almubaideen, 2018).

Por otro lado, a la luz de los argumentos que guardan relación a la alta concentración de propiedad, presencia de grupos empresariales (Khanna & Palepu, 2000), propiedad familiar (Santiago-Castro & Brown, 2007) y de inversionistas institucionales (De-la-Hoz & Pombo, 2016; Blume & Alonso, 2007), es importante conocer el rol de accionistas claves, como es el caso de los inversionistas institucionales, en la colocación de recursos y sus incentivos para proveer mejor información al mercado con la finalidad de que los activos se encuentren bien valorados. En este sentido, es que en el capítulo 3 intentamos contestar la siguiente pregunta de investigación: **¿cómo afecta la existencia de inversionistas institucionales en la propiedad de las empresas en la divulgación y calidad de la información financiera?** Considerando que la literatura indica que uno de los roles de este tipo de inversionistas es entregar mayor confianza a los mercados de capitales, dado que estimula transacciones eficientes, evaluaciones de riesgo y mejora las prácticas de gobierno corporativo y la transferencia de la información reportada por las empresas en las que invierten

(Alvarez et al. 2018; Gompers & Metrick 2001; Elyasiani & Jia, 2010; Elyasiani et al. 2010b; Gillan & Starks 2003; Chung et al. 2002; Amihud & Li 2006), se espera que su presencia genere incentivos a mejorar la calidad de la divulgación de la información financiera.

En esta misma línea, los constantes cambios regulatorios en los mercados financieros han apuntado al mejoramiento de la información que permite a los inversionistas una mejor toma de decisiones de inversión. En este sentido, en el artículo presentado en el capítulo 3 también se aborda siguiente pregunta de investigación **¿cómo un cambio regulatorio, como lo es la adopción de Normas Internacionales de Información Financiera (IFRS, por su sigla en inglés), influye en la calidad y conservadurismo de la información financiera que es divulgada por las empresas y cómo los inversionistas institucionales moderan esta relación?** Si bien la relación entre IFRS y conservadurismo contable ha sido estudiado en la literatura, no existe una postura única respecto de su efecto, ya que de acuerdo a diversos autores depende de las características del entorno en el cual se desenvuelven las empresas (García Lara et al., 2008; Barth et al. 2008; Rodríguez García et al. 2017). Se espera, dado que en Latino América hay una débil protección a los inversionistas y menor *enforcement* que en los países desarrollados, que la adopción de IFRS impacte positivamente al conservadurismo contable y a la calidad de las ganancias. Por otra parte, de acuerdo a la revisión literaria realizada, es el primer artículo que relaciona IFRS, conservadurismo y presencia de inversionistas institucionales.

El presente trabajo extiende la literatura en este ámbito a través del estudio de mecanismos de gobierno corporativo en economías emergentes, analizando el impacto de los inversionistas institucionales en el contexto latinoamericano y los directorios en Chile. El entendimiento de estos mecanismos se hace necesario en este tipo de economías dado el alto nivel de opacidad que existe en las estructuras que permiten el control corporativo caracterizado por la existencia de estructuras de control piramidal, en donde el control efectivo de las empresas no es fácil de medir. Es más, de acuerdo a reunión del año 2016 de *Latin American Corporate Governance Roundtable,* donde se discutió la opacidad de los grupos empresariales con respecto a la estructura de propiedad en general y el controlador último en particular, se evidencia que esto es un gran desafío para poder entender los incentivos de las empresas en la toma de decisiones. Por lo que, se intenta dar respuesta a este tipo de problemáticas, tan inherentes a Latinoamérica.

Como se mencionó anteriormente, la presente tesis contribuye a la literatura en tres dimensiones, primero presenta nueva evidencia para entender cómo la composición del directorio

afecta al reconocimiento asimétrico de los resultados contables, en este punto es importante precisar que, si bien existe literatura a nivel internacional, existe poca evidencia aplicada a mercados emergentes, y no se abordan de forma integral las características de los directorios. Segundo, analiza la importancia de los inversionistas institucionales en mercados emergentes y como su influencia permite mejorar la divulgación de información financiera de las empresas. Finalmente, contribuye a entender la influencia de los inversionistas institucionales en la relación entre adopción de IFRS, conservadurismo contable y calidad de las ganancias en mercados emergentes.

En el primer capítulo se realiza una revisión de la teoría que sustenta los artículos empíricos presentados en los capítulos 2 y 3 de la presente tesis. Posteriormente, se presentan los principales resultados y conclusiones obtenidas y en el anexo 1 se revisa la normativa chilena relacionada con los directorios.

# CAPÍTULO 1

# BASES CONCEPTUALES DE LA CALIDAD DE LAS GANANCIAS


***Resumen***

Las relaciones de agencia en finanzas y contabilidad surgen desde la premisa de que los agentes deben tener sistemas de incentivos adecuados para alinear sus objetivos con un grupo amplio de partes interesadas.

Al mirar una empresa como un nexo de contratos, permite observar relaciones de agencia que necesitan sistemas de incentivos y control, dada la existencia de contratos incompletos. De esta manera surge la teoría positiva de la contabilidad, la cual busca encontrar respuestas relacionadas a las consecuencias contractuales que dependen de la información financiera reportada por las compañías.

En este sentido, la calidad de las ganancias y, en términos generales, la calidad de los informes financieros es de interés para quienes utilizan estos informes con fines de contratación y para la toma de decisiones de inversión y financiamiento.

## 1. Teoría de Agencia y Teoría Positiva de la Contabilidad

Jensen & Meckling (2019) definen una relación de agencia como un contrato en virtud del cual una o más personas (el(los) principal(es)) contratan a otra persona (el(los) agente(s)) para realizar algún servicio en su nombre, lo que implica delegar cierta autoridad para tomar decisiones en el agente. Si ambas partes de la relación maximizan la utilidad, hay buenas razones para creer que el agente no siempre actuará en el mejor interés del principal.

Los orígenes de la teoría de agencia se asocian a Alchian & Demsetz (1972) y Jensen & Meckling (1976). Por su parte, Eisenhardt (1989) reconoce la influencia de la literatura de evaluación del riesgo compartido entre individuos o grupos (Arrow, 1971; Wilson, 1968; entre otros) en el nacimiento de esta teoría, ya que amplió la literatura sobre el riesgo compartido para incluir el llamado problema de agencia que ocurre cuando las partes que cooperan tienen diferentes objetivos y división del trabajo

En la teoría de agencia, se encuentra la suposición de que las personas actúan sin reservas en su propio interés estrictamente definido, con astucia y engaño, si es necesario. El otro ingrediente necesario en esta teoría es el reconocimiento de que ambas partes de un contrato a menudo no tienen la misma información (Noreen, 1988).

Al analizar una organización desde la teoría de agencia, citando a Watts & Zimmerman (1983), podemos indicar que las empresas son conjuntos de contratos entre los factores de producción, y diferentes conjuntos de arreglos contractuales (por ejemplo, estructuras alternativas de derechos de propiedad) brindan diferentes incentivos para el comportamiento oportunista de las partes contratantes. Este comportamiento oportunista reduce el producto total de la empresa y, por tanto, su valor.

Aplicando esta teoría, el principal es el directorio y el agente es la administración, representada por el gerente general. Los roles del principal son suministrar capital, asumir riesgos y construir incentivos, mientras que los roles del agente son tomar decisiones en nombre del principal y en cierto sentido también asumir riesgos (Lambert, 2001). Es necesario destacar que el conflicto de intereses y el costo de agencia surgen en la empresa debido a la separación de la propiedad del control, las diferentes preferencias de riesgo, la asimetría de información y los riesgos morales (Panda & Leepsa, 2017). El nivel de los costos de agencia dependerá, entre otras cosas, del derecho estatutario y consuetudinario y del ingenio humano en la elaboración de contratos (Jensen & Meckling, 2019).

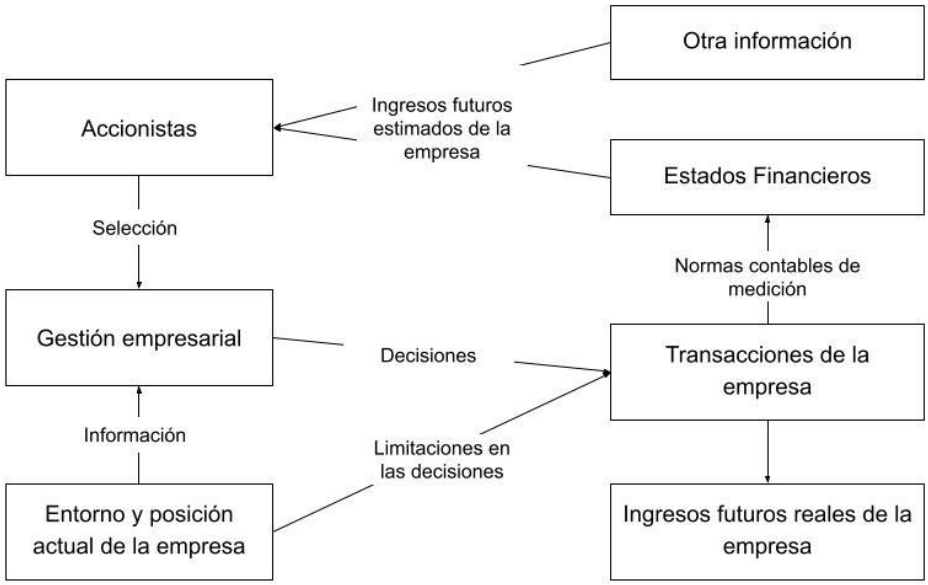
Lambert (2001) reconoce que la teoría de agencia ha sido uno de los paradigmas teóricos más importantes en contabilidad durante los últimos 25 años, afirmando que esta teoría permite analizar problemas de incentivos que tratan de ser cubiertos por la contabilidad y la auditoría. A la luz de esta teoría también se pueden analizar o tratar de comprender las motivaciones o detonadores de los fraudes contables. A modo de ejemplo Arnold & De Lange (2004) analizan en su artículo cómo la asimetría de la información y el comportamiento oportunista de los agentes (ejecutivos, auditores y firmas legales) y la incapacidad de los principales (dueños) para controlarlo, hicieron que el colapso de Enron fuera más catastrófico.

En la literatura se han propuesto muchas soluciones a los problemas de agencia al interior de las organizaciones, por ejemplo: un fuerte control de propiedad, propiedad gerencial, directores independientes y diferentes comités que pueden ser útiles para controlar el conflicto de agencia y su costo (Panda & Leepsa, 2017). Lambert (2001) entrega como ejemplo el requerimiento de que los estados financieros sean certificados por auditores independientes, pues no se confía en que los gerentes emitan informes veraces por su cuenta. También indica que la motivación de enfocarse en información objetiva y verificable y en el conservadurismo en la información financiera radica en problemas de incentivos.

Los estados financieros revelan información sobre las transacciones realizadas por las empresas en un determinado periodo. Son una de las fuentes primarias de información de los *stakeholders*, especialmente cuando existe separación de la propiedad y control operativo, ya que cumplirán una función análoga para accionistas, acreedores y otras personas que tienen interés e influencia en las decisiones de la administración (Gordon, 1964). En la figura Nº 1 se puede ver el rol de los estados financieros propuesto por Gordon (1964) vigente hasta el día de hoy.

La información financiera de las empresas debe ser confeccionada siguiendo las normas contables exigidas por los reguladores del país en que se encuentren. Una de las normas de mayor aceptación mundial son las Normas Internacionales de Información Financiera emitidas por el International Accounting Standards Board (IASB). Esta normativa indica, en su Marco Conceptual para la Información Financiera, que para que la información sea útil para la toma de decisiones debe ser una representación fiel de las transacciones y ser presentada de forma relevante (IASB, Marco Conceptual).

Figura Nº1: Representación del rol de los estados financieros en la operación de una empresa.




Fuente: *Figure 1. A system representation of the role of financial statements in the operation of a corporation* (Gordon, 1964).

En línea con los requerimientos del IASB, Imhoff (2003) concuerda que la información financiera proporcionada a los mercados de capitales debe ser relevante, confiable y oportuna. También reconoce que la contabilidad, auditoría y la estructura de gobierno corporativo de las empresas son componentes esenciales en el flujo de información a los participantes del mercado de capitales.

Las normas contables, por lo general, entregan diversas opciones para registrar y valorizar un mismo hecho económico. Por ello, las compañías deben definir su elección a través de políticas contables. Esta discrecionalidad al seleccionar diversas alternativas de valorización puede ser utilizada por los administradores para adecuar la información a presentar (Gordon, 1964).

En línea con lo propuesto por Gordon (1964) y la introducción de métodos financieros empíricos por autores como Ball & Brown (1968) y Beaver (1968), Watts & Zimmerman (1986) proporcionan los comienzos de una teoría positiva de la contabilidad mediante la exploración de los factores que influyen en las actitudes de la gerencia sobre las normas contables. Estos factores son:

*Compensación de los ejecutivos*: Adicional al sueldo recibido por la administración, por lo general se entregan bonos basados en rendimientos financieros y/o *stock options*. Por lo tanto, en la medida en que la gerencia pueda aumentar el nivel de compensación de incentivos o el precio de las acciones de la empresa a través de su elección de estándares contables, se beneficiarán (Watts & Zimmerman, 1986).

*Impuestos*: Si bien los autores reconocen que existe distintas bases contables y tributarias, hacen alusión a una relación indirecta documentada por Zeff (1972) y Moonitz (1974), en la cual, las empresas podrían esperar que en el futuro las normas tributarias tomen como base algunas políticas contables financieras (Watts & Zimmerman, 1986).

*Regulación*: En este punto los autores hacen referencia a las empresas de servicios públicos que tienen sus tarifas reguladas en bases a criterios técnicos-contables (por ejemplo: eléctricas). Indican que estarán más propensas a apoyar políticas contables que permitan reconocer un mayor ingreso, dado que esto permitirá incrementar sus flujos de caja futuros (Watts & Zimmerman, 1986).

*Costos políticos*: Considerando que el sector político tiene la potestad de realizar transferencias de riquezas entre los grupos de un país, las empresas podrían intentar no reportar altos ingresos, ni mostrarse como monopolios para evitar intervenciones. También hacen referencia que esto podría ser un detonante para disminuir las demandas que podrían generar los sindicatos de las compañías (Watts & Zimmerman, 1986).

*Costos de producción de información*: Los cambios en las normas contables que aumentan la divulgación o requieren que las corporaciones cambien los métodos contables aumentan los costos de contabilidad de las empresas (Watts & Zimmerman, 1986).

Watts & Zimmerman (1979) atribuyen el término "positivo" porque indican que es una teoría capaz de explicar los factores que determinan la literatura contable existente, predecir cómo cambiará la investigación a medida que cambien los factores subyacentes y explicar el papel de las teorías en la determinación de las normas contables.

Kaya (2017) muestra que se ha publicado una cantidad considerable de literatura sobre la teoría positiva de la contabilidad. La cual se enfoca en los motivos de la administración para las opciones de información financiera, usando modelos económicos y procesamiento estadístico, cuando hay

costos de agencia y asimetría de información. Intenta explicar y predecir las elecciones contables de la empresa como parte de la necesidad general de minimizar su costo de capital y otros costos de contratación, aplicando métodos y técnicas de la economía. Las actitudes y comportamientos oportunistas de los gerentes y sus impactos en las elecciones de políticas contables han sido ampliamente investigados en investigaciones positivas lo cual ha generado un abundante número de estudios empíricos sobre la gestión y calidad de ganancias.

La medición de la calidad de las ganancias se ha abordado desde múltiples dimensiones, a continuación, se presentan algunas de ellas.

## 2. Calidad de las ganancias

Dechow, Ge & Schrand (2010), definen como calidad de las ganancias, cuando estas representan más fielmente las características del proceso fundamental de ganancias de la empresa que son relevantes para un tomador de decisiones específico.

La calidad de las ganancias y, en términos generales, la calidad de los informes financieros es de interés para quienes utilizan estos informes con fines de contratación y para la toma de decisiones de inversión y financiamiento. En este sentido, Ball & Shivakumar (2005) interpretan la calidad de los informes financieros como la utilidad de los estados financieros para los inversores, acreedores, administradores y todas las demás partes que contratan con la empresa.

Desde una perspectiva de inversión, el reconocimiento de ganancias con baja calidad no es deseable porque proporcionan una señal de asignación de recursos defectuosa. Resultando ser ineficiente porque reducen el crecimiento económico al provocar una mala asignación del capital. En última instancia, los ingresos de tan baja calidad como para ser fraudulentos son objetables porque desvían recursos de proyectos sustantivos con pagos esperados reales a proyectos quiméricos con pagos esperados imaginarios (Schipper, & Vincent, 2003).

En la literatura se han utilizado diversas métricas para medir la calidad de las ganancias, en este sentido, Schipper & Vincent (2003) realizan la distinción entre las basadas en acumulaciones anormales o discrecionales y por otra parte las que utilizan la persistencia, previsibilidad y variabilidad de las ganancias. Siguiendo esta línea, Dechow, Ge & Schrand (2010), realizan una revisión literaria donde estudian las diversas métricas utilizadas para medir la calidad de las

ganancias, las cuales se analizan en la Tabla Nº 1. Los autores indican que ninguna métrica es mejor que otra, ya que la "calidad" depende del contexto de la decisión; Schipper, & Vincent (2003) reconocen que estas diversas construcciones no se corresponden entre sí y tampoco tienen la intención de hacerlo, solo miden de forma diferente la dimensión de calidad.

**Tabla 1: Indicadores de calidad de las ganancias**

| ***Métrica*** | ***Proxy empirico*** | ***Teoría*** |
|---|---|---|
| **Persistence** | $Earningst+1=\alpha+\beta Earningst+\varepsilon t$<br>β mide la persistencia. | Las empresas con ganancias más persistentes generan valoraciones de acciones basadas en DCF más precisas. |
| **Smoothness** | $\sigma(Earnings)/\sigma(Cash\ flows)$<br><br>Una relación más baja indica una mayor suavización del flujo de ganancias en relación con los flujos de efectivo. | Los gerentes suavizan las ganancias de manera oportunista. Por lo tanto, una mayor suavidad es artificial en relación con el proceso fundamental; o bien, la suavidad reduce la ruidosa variación en los flujos de efectivo como medida del proceso. |
| **Timely loss recognition (TLR)** | $Earningst+1=\alpha0+\alpha1Dt+\beta0Ret_t+\beta1DtRet_t+\varepsilon_t$<br><br>donde $D = 1$ es $Ret < 0$. A mayor $\beta1$ más alto es TLR. | Existe una demanda de TLR para combatir el optimismo natural de la gerencia. TLR representa ganancias de alta calidad. |
| **Benchmarks** | ∗ Problemas en la distribución de ganancias<br>∗ Cambios en la distribución de utilidades<br>∗ Problemas en la distribución del error de pronóstico<br>∗Cadena de aumentos positivos de ganancias | Una agrupación inusual en la distribución de los beneficios indica una gestión de los beneficios en torno a los objetivos. Las observaciones situadas en los objetivos o ligeramente por encima de ellos presentan beneficios de baja calidad. |
| **Accruals** | *Accruals= Earningst - CFt*<br>*Accruals=Δ(noncash working capital)*<br>*Accruals= Δ(net operating assets)*<br>*Specific accrual components* | Los devengos extremos son de baja calidad porque representan un componente menos persistente de los beneficios. |
| **Residuals from accrual models** | *Término de error de la regresión de los intereses devengados en función de sus determinantes económicos* | Los residuos de los modelos de devengo representan la discrecionalidad de la dirección o errores de estimación, que reducen la utilidad de las decisiones. |
| **Earnings response** | $Ret_{t+1}=\alpha+\beta(EarningsSurprise_t)+\varepsilon_t$ | Los inversionistas responden a la información que tiene |

| | | |
|---|---|---|
| **coefficient (ERCs)** | Los componentes más informativos de los beneficios tendrán un β más alto. Los beneficios más relevantes para el valor tendrán un R2 más alto. | implicaciones de valor. Una mayor correlación con el valor implica que los beneficios reflejan mejor el proceso fundamental de beneficios. |
| **External indicators of financial reporting quality** | ∗ AAERs identificadas por la SEC<br>∗ Reexpresiones<br>∗ Informes SOX de deficiencias de control interno. | Las empresas tuvieron errores (AAER y empresas de reexpresión) o es probable que hayan tenido errores (deficiencias de control interno) en sus sistemas de información financiera, lo que implica una baja calidad. |

Fuente: Extracto del Anexo 1 "Summary of earnings quality proxies" de Dechow, Ge & Schrand (2010).

En el siguiente apartado se analiza el conservadurismo contable (*Timely loss recognition, TLR***).** En cuanto a la medición de las ganancias a través de Accruals, existen diversos modelos, los cuales se analizan en la sección "2.2.2 Modelos basados en Devengo (accruals)"

### 2.2.1 Conservadurismo Contable

Conservadurismo contable puede ser definido como la verificabilidad diferencial requerida para el reconocimiento de ganancias versus pérdidas (Watts, 2003) o como la persistencia en subestimar el valor en libros de la empresa, lo que implica que el valor en libros es menor que el valor de mercado (Feltham & Ohlson, 1995). Si bien no hay única definición de conservadurismo (Hansen, Hong & Park, 2018), en la literatura se reconoce como una de las características más importantes de la información financiera (Zhong & Li, 2017), ya que tiene beneficios para las partes relacionadas con la empresa que informa (Watts, 2003).

Los beneficios entregados por llevar una contabilidad conservadora están relacionados con la mitigación de problemas de agencia (LaFond & Watts, 2008; Lafond & Roychowdhury, 2008; Elshandidy & Hassanein, 2014), entre otros. A modo de ejemplo, se puede mencionar la evidencia entregada por Ahmed, Billings, Morton & Stanford-Harris (2002), quienes concluyen que las compañías que tienen conflictos más graves sobre la política de dividendos tienden a ser más conservadoras, y que esto disminuye el costo de la deuda.

***Explicaciones para el uso del conservadurismo contable***

Si bien existen criticas fundamentadas en contra del conservadurismo (Watts, 2003) sus beneficios lo compensan. El conservadurismo contable es indispensable porque las partes principales de una empresa lo exigen para mitigar los costos de agencia (Zhong & Li, 2017). Watts (2003) entrega explicaciones sobre el conservadurismo, reforzando la idea en base a la contratación. Las explicaciones contractuales para el uso de conservadurismo propuestas por Watts (2003) son:

**a) Uso contractual de medidas contables (Watts, 2003):**

Las empresas utilizan contratos con cláusulas que utilizan números contables para reducir los costos de agencia asociados con la empresa. Estos contratos pueden ser contratos de deuda, contratos de compensación de la gerencia, contratos de empleo y contratos de ventas de costo más margen.

Las partes contratantes exigen medidas oportunas de desempeño y valores de activos netos (por ejemplo, para propósitos de compensación y contrato de deuda).

Las medidas de desempeño gerencial en contratos de compensación (por ejemplo, ganancias) son más efectivas si reflejan los efectos de las acciones de los gerentes sobre el valor de la empresa en el período en que se toman las acciones (es decir, son oportunas). La puntualidad evita resultados disfuncionales, como que el gerente renuncie a proyectos de valor presente neto positivo porque las ganancias no reflejan los beneficios del proyecto hasta después de que el gerente se haya jubilado o dejado la empresa.

También, si hay una disminución en las ganancias y los activos netos, la efectividad de la restricción mejora si las medidas de ganancias y activos netos son oportunas. Por lo tanto, existe una demanda de contracción de deuda por ganancias oportunas y medidas de activos netos.

**b) Rol de verificación (Watts, 2003):**

Gran parte de la información que podría hacer que las medidas contables, como las ganancias y los activos netos, sean oportunas e informativas no puede verificarse fácilmente. La verificación es necesaria para que el contrato se haga cumplir en un tribunal de justicia. Idealmente, para que sean oportunas, las medidas de desempeño incluirían las entradas de efectivo netas futuras de las acciones de gestión actuales, incluidas las entradas de efectivo futuras debido a nuevos productos de desarrollo. Sin embargo, dado que la medida de las ganancias tiene que ser verificable para que el contrato sea exigible, los contratos excluyen los efectos de las entradas de efectivo netas futuras no verificables de las medidas de las ganancias.

Cuando los flujos de efectivo netos operativos futuros esperados de una empresa son negativos y aún no están contratados, no existe responsabilidad legal por esos flujos de efectivo. A pesar del requisito de verificación más bajo para las pérdidas, los flujos de efectivo negativos futuros normalmente no se reconocerán. Aparte de ninguna responsabilidad legal, una razón importante es que se tomarán medidas para eliminar esos flujos de efectivo futuros negativos. Por ejemplo, si los flujos de efectivo se deben a beneficios futuros para los empleados que aún no son un pasivo legal, la gerencia puede cambiar el plan para eliminar esos beneficios. Otro escenario es que la gerencia (o un asaltante corporativo) liquidará el negocio o la parte del negocio que genera las salidas y realizará los activos netos.

**c) Rol de verificación asimétrica (Watts, 2003):**

La verificación es necesaria para contratar, pero considerando que las partes relevantes de la empresa obtienen pagos asimétricos de los contratos es por lo que se requiere un mayor grado de verificación para las ganancias que para las pérdidas. Los argumentos a favor de las medidas contables conservadoras en los contratos de compensación gerencial y de deuda se aplican a la mayoría de los usos de la contabilidad dentro de la empresa.

Por ejemplo, al evaluar un préstamo potencial, los prestamistas están interesados en la probabilidad de que la empresa tenga suficientes activos netos para cubrir sus préstamos. Los valores futuros de la empresa y de los activos netos generalmente no son verificables. Los prestamistas, sin embargo, obtienen medidas verificables (límite inferior) del valor actual de los activos netos y lo utilizan como base para el préstamo. Además, utilizan esas medidas de límite inferior durante la vida del préstamo para monitorear la capacidad de pago del prestatario.

Los *covenants* de dividendos son importantes en los acuerdos de deuda y son ejemplos importantes de la función del conservadurismo. Se restringen los dividendos con base en las utilidades retenidas calculadas con principios de contabilidad conservadores. Para proteger a los tenedores de deuda, esas restricciones obligan a la administración a mantener dentro de la empresa activos con un valor límite inferior determinado. Sin esa restricción, las corporaciones no podrían endeudarse debido a la posibilidad de que la gerencia distribuya los activos y, dada la responsabilidad limitada, deje a los acreedores sin nada ni forma de recuperar sus préstamos.

Las demandas de restricciones en las distribuciones de activos netos también afectan las medidas de ganancias contables a través de contratos de compensación de gestión. El gerente frecuentemente tiene más información que las otras partes de la empresa. En ausencia del requisito de verificación, el gerente puede sesgar hacia arriba las estimaciones de esos efectos de flujo de efectivo futuros, lo que no solo produciría grandes pagos en virtud de los planes de compensación basados en las ganancias, sino que también puede conducir a inversiones de valor presente neto negativas por parte de la empresa.

**d) Cifras contables conservadoras como información para inversores de capital (Watts, 2003):**

El valor de liquidación ordenada (conservador) de los activos netos también es relevante para los inversionistas en acciones. Las medidas de desempeño contable conservadoras, como las ganancias, también cumplen un papel importante en el suministro de información para los inversores. Eventualmente, los flujos de efectivo se realizan y fluyen a través del estado de resultados. Como tales números de ganancias proporcionan un control para otras fuentes de información para los inversores. Es probable que las estimaciones no verificables del rendimiento futuro proporcionadas por diversas fuentes, como los analistas, sean de mayor calidad cuando se puedan utilizar ganancias conservadoras posteriores para evaluarlas. Si las ganancias contables no fueran verificables, es probable que la calidad de otra información disminuya.

***Tipos de conservadurismo contable***

El conservadurismo contable se puede dividir en incondicional (*ex-ante or news-independent*) y condicional (*ex-post or news-dependent*). El primero hace referencia a la adopción de métodos y políticas contables que reducen las ganancias y el valor contable de los activos netos independientemente de las noticias económicas (Pae, 2007); esto significa que los aspectos del proceso contable producirían un *Goodwill* no registrado (Beaver & Ryan, 2005).

El conservadurismo contable condicional, objeto de estudio de esta tesis, consiste en la aplicación de métodos y políticas contables que reconocen las malas noticias en las ganancias de forma más oportuna que las buenas noticias (Pae, 2007). Los valores contables se anotan en circunstancias suficientemente adversas, pero no en escenarios favorables (Beaver & Ryan, 2005), es decir, se exige un mayor grado de verificación para reconocer las buenas noticias que las malas en los estados financieros (Basu, 1997).

Beaver & Ryan (2005) recalcan que el conservadurismo incondicional se determina al inicio de los activos y pasivos y, por lo tanto, precede al conservadurismo condicional. Las decisiones de políticas contables de los activos y pasivos, impactarían en la generación de conservadurismo contable condicional. Dan como ejemplo, que si los activos intangibles que son reconocidos inmediatamente como gasto en la contabilidad, están sujetos a conservadurismo incondicional. En la Tabla Nº 2 se presentan más ejemplos de prácticas de conservadurismo contable.

**Tabla 2. Ejemplos de prácticas de conservadurismo contable**

| Tipo de conservadurismo | Ejemplos comunes |
|---|---|
| Conservadurismo condicional | Deterioro de *goodwill.*<br>Deterioro de activos de largo plazo.<br>Inventarios registrados al menor entre el costo y valor de mercado.<br>Asimetría en las contingencias de ganancia/pérdida. |
| Conservadurismo incondicional | Métodos de depreciación acelerada.<br>Gastos de Investigación y Desarrollo.<br>Gastos de publicidad.<br>Inventarios medidos de acuerdo a LIFO.<br>Reservas acumuladas en exceso de costos futuros esperados (por ejemplo, estimación para cuentas incobrables, provisión para garantía). |

Fuente: Table 2 "Examples of accounting conservatism" de Ruch, G. W., & Taylor, G. (2015).

De acuerdo a Ruch & Taylor (2015), de los dos tipos, el condicional prevalece más que el conservadurismo incondicional en la investigación sobre el conservadurismo contable. Una razón potencial para el enfoque en el conservadurismo condicional podría ser la noción de que comunica información sobre eventos inciertos y, por lo tanto, es de mayor interés para los investigadores que estudian temas de contratación y valoración que el conservadurismo incondicional (Ball & Shivakumar, 2005; Ryan, 2006).

***Modelos de Conservadurismo Contable***

En la literatura se han planteado diversos modelos para analizar el conservadurismo contable, pero en la literatura el más utilizado es el modelo de Basu (1997). En la Tabla Nº 3 se exponen brevemente los principales modelos utilizados.

**Tabla 3 Modelos de medición de conservadurismo contable.**

| | |
|---|---|
| **Basu's Asymmetric Timeliness Measure** | |
| Model | $\frac{EPS_{it}}{P_{it}} = \alpha_o + \alpha_1 DR_{it} + \beta_0 R_{it} + \beta_1 R_{it} DR_{it+} \varepsilon_{it}$<br><br>*$EPS_{it}$ : Utilidad por acción de la empresa i año t*<br>*$P_{it}$ : Precio de apertura del mercado de valores de la empresa i año t*<br>*$R_{it}$ : Rentabilidad de los mercados bursátiles para la empresa i año t*<br>*$DR_{it}$: Variable dummy que es igual a 1 si la rentabilidad bursátil de la empresa i en el año t es negativa, e igual a 0 en otro caso.* |
| Explanation | Básicamente, Basu (1997) aplica una regresión a los beneficios contables (*EPS/P*) en función de los rendimientos bursátiles (*R*) por separado para las empresas-año con "buenas-noticias" y las empresas-año con "malas-noticias". Se considera que una empresa es una empresa con "buenas noticias" si su rentabilidad bursátil es positiva o nula, es decir, $R_{it} \geq 0$. Se considera que una empresa es una empresa con "malas noticias" si su rentabilidad bursátil es negativa, es decir, $R_{it} < 0$. El coeficiente de pendiente estimado mide la puntualidad con la que las noticias incorporadas en la rentabilidad bursátil se reconocen en los beneficios, en función de la naturaleza (es decir, el signo) de las "noticias". |
| **Asymmetric Accrual to Cash-flow Measure** | |
| Model | $ACC_t = \beta_0 + \beta_1 DCFO_t + \beta_2 CFO_t + \beta_3 DCFO_t * CFO_t + \varepsilon_t$<br><br>*$ACC_t$ : Los devengos son medidos como ΔCuentas por cobrar + ΔInventarios + Δotros activos corrientes– Δcuentas por pagar – Δimpuestos por pagar + Δotros pasivos corrientes – Depreciación*<br>*$CFO_t$ : Flujo de caja del periodo t.*<br>*$DCFO_t$ : Variable dummy que se establece en 0 si $CFO_t \geq 0$ , y se establece en 1 si $CFO_t < 0$.* |
| Explanation | La medida AACF y la medida Basu AT se basan en la misma idea fundamental de oportunidad asimétrica y se estiman a partir de modelos con una estructura muy similar. En esencia, ambos modelos hacen una regresión de una variable de ingresos en un proxy de "noticias" económicas. Ambos modelos emplean variables dummies (DR o DCFO) para distinguir entre "buenas noticias" y "malas noticias". La principal diferencia entre estas dos medidas proviene de sus diferentes elecciones de los representantes de las "noticias" económicas y las ganancias. El modelo Basu AT utiliza la rentabilidad de las acciones como proxy de las noticias, mientras que la medida AACF utiliza el flujo de caja operativo como proxy de las noticias. En cuanto a la variable de respuesta, el modelo Basu AT utiliza |

| | |
|---|---|
| | los ingresos totales, mientras que la medida AACF selecciona solo el componente de acumulación de los ingresos totales. Ball & Shivakumar (2005, 2006) utilizan el componente de devengo de las ganancias totales porque, desde su punto de vista, el conservadurismo contable influye principalmente en el componente de devengo de las ganancias más que en el componente de flujos de efectivo. |
| **The Hidden Reserves Measure** | |
| Model | $C_{it} = \frac{ER_{it}}{NOA_{it}}$<br><br>$ER_{it}$ ***: Reservas ocultas estimadas creadas por el conservadurismo contable i indica empresas y t denota fechas de balance.***<br>$NOA_{it}$***: Activos operativos netos, el valor en libros de los activos operativos menos los pasivos operativos, excluyendo los activos y pasivos financieros.*** |
| Explanation | Penman & Zhang (2002) sostienen que el conservadurismo contable crea reservas, cuyo importe puede utilizarse para calibrar el grado de conservadurismo de una empresa. Sostienen que cuanto mayor es el importe de las reservas ocultas, más conservador es el sistema de información financiera de la empresa. Sin embargo, como las reservas ocultas no figuran explícitamente ni en los estados financieros ni en ninguna otra parte, sólo pueden ser estimadas por los propios investigadores. |

Fuente: Elaboración en base a Wang, Hógartaigh & van Zijl (2009).

***Modelo de Basu (1997)***

El modelo de Basu (1997) es uno de los más utilizados en los estudios empíricos (Zhong & Li, 2017), a pesar de recibir variadas críticas. A modo de ejemplo, se puede mencionar a Dietrich, Muller & Riedl (2007) quienes indican que los resultados obtenidos a través de pruebas asimétricas de puntualidad son atribuibles a estadísticas de prueba sesgadas más que al conservadurismo. En la misma línea, Patatoukas & Thomas (2011) solicitan no utilizarlo, a pesar de reconocer que las irregularidades no se relacionan directamente con el conservadurismo condicional. Sin embargo, sigue siendo ampliamente utilizado, y se ha demostrado que proporciona estimaciones econométricamente válidas del conservadurismo contable (Ball, Kothari & Nikolaev, 2013).

Como se mencionó anteriormente, el modelo más importante de este tipo, y mayormente utilizado en la literatura es el de Basu (1997) (Dechow, Ge & Schrand, 2010), por lo cual es el utilizado en este estudio y a continuación, se procede a realizar una breve descripción.

Este modelo, reflejado en la ecuación 1, considera que los precios de las acciones reflejan información de los mercados de capital, por lo cual los rendimientos negativos de las acciones son un proxy de las malas noticias.

$$X_{i,t} = \beta_0 + \beta_1 \cdot R_{i,t} + \beta_2 \cdot DR_{i,t} + \beta_3 \cdot DR_{i,t} \cdot R_{i,t} \qquad (1)$$

En este modelo, las variables relevantes son:

$X_{i,t}$ : representa las ganancias por acción sobre el precio de las acciones al comienzo del año,

$R_{i,t}$ : representa el rendimiento anual de las acciones y

$DR_{i,t}$ : es una variable dummy de malas noticias que toma el valor 1 si el rendimiento de las acciones es negativo y 0 en caso contrario.

En el modelo de Basu (1997) se espera que los rendimientos de las acciones ($R_{i,t}$) estén positivamente asociados con las ganancias ($X_{i,t}$). El reconocimiento asimétrico de malas noticias se captura mediante el término de interacción entre $R_{i,t}$ y una variable *dummy* que toma el valor 1 cuando se observa un rendimiento bursátil negativo ($DR_{i,t}$), y cero en caso contrario. Por lo tanto, si existe una mayor sensibilidad de las ganancias a los rendimientos negativos el coeficiente ($\beta_3$) que acompaña a

la interacción $DR_{i,t} \cdot R_{i,t}$ será positivo y estadísticamente significativo, sugiriendo la existencia de un conservadurismo condicional de las ganancias.

Continuando con las ventajas y debilidades del Modelo de Basu (1997), en la revisión literaria realizada por Wang, Hógartaigh & van Zijl (2009) se identifican las siguientes fortalezas:

1) Este modelo se ha utilizado ampliamente y durante casi nueve años fue la única medida en la literatura para implementar la puesta en práctica asimétrica de la puntualidad del conservadurismo,
2) existe abundante literatura que utilizando esta medida entregaron resultados que son consistentes con sus predicciones teóricas, aumentando así la confianza de los investigadores no solo en la teoría sino también en la medida misma,
3) el modelo se adapta bien al análisis transversal de muestras grandes, manifestado por el uso de este modelo en estudios comparativos internacionales de muy gran escala.

Por otro lado, los autores Wang, Hógartaigh & van Zijl (2009) citando a Ryan (2006) argumentan que el modelo de Basu no está tan fuertemente sesgado como argumentan Dietrich et al. (2007). Ryan señala que, con controles más sólidos para los factores de confusión, el modelo de Basu puede ser una medida de conservadurismo muy válida y útil.

Considerando que en Latino América en los últimos años se ha fomentado el uso de las Normas Internacionales de Información Financieras emitidas por el IASB, las cuales solicitan la presentación neutral de la información, es importante analizar el grado de conservadurismo contable que tienen sus informes contables-financieros. En este punto, es relevante considerar que las diferencias en el reconocimiento oportuno de pérdidas dentro de países (o regiones) con los mismos estándares u origen legal sugieren que el reconocimiento oportuno de pérdidas tiene un componente endógeno relacionado con los incentivos de presentación de informes de las empresas. No está impulsado únicamente por el sistema contable de un país (Dechow, Ge & Schrand, 2010).

### 2.2.2 Modelos basados en Devengo (*Accruals*)

Es necesario destacar que en contabilidad se utilizan dos criterios para el reconocimiento de las transacciones de una empresa, devengo y flujos de caja pasados. En el primero las transacciones se registran cuando ocurren, es decir se genera una obligación o un derecho para la empresa, independiente de que exista movimiento de dinero. En cambio, el segundo se limita solo a entradas o salidas de dinero. El principio de devengo es ampliamente utilizado en las normas contables, dado que entrega mayor información e incluye a la información generada en base a caja.

Dado que para los registros basados en devengo y no caja (por ejemplo: depreciación) necesariamente se debe realizar una estimación, es que es posible que la administración tenga incentivos a manipularlos, por lo que es crucial analizarlos para entender la generación de la información financiera y su calidad.

Considerando la importancia de los *accruals* en la contabilidad de una empresa, en la literatura se pueden encontrar diversos modelos. El objetivo de los modelos de devengo es separar los devengos en un componente que mida las ganancias basadas en devengo que se asociarán con el proceso fundamental de ganancias de la empresa a partir de devengos anormales, que se supone que representan devengos que son discrecionales o que son el resultado de acciones intencionales o no intencionales, errores contables. Se supone que los niveles más altos de acumulación que no están asociados con el proceso fundamental de ganancias de la empresa reducen la calidad de las ganancias (Dechow, Ge & Schrand, 2010).

#### *Modelos de medición de Devengo (accruals)*

Dado el interés de la literatura de estudiar los efectos de los devengos en la calidad de la información financiera se han desarrollado diversos modelos para analizarlos, en la Tabla Nº 4 se presentan algunos de los modelos más utilizados.

**Tabla 4: Modelos de medición de Devengos (*Accruals*)**

| | ***Modelo de devengo (accrual)*** |
|---|---|
| **Jones (1991) model** | $Acc_t = \alpha + \beta_1 \Delta REV_t + \beta_2 PPE_t + \varepsilon_t$<br>***Teoría:*** Los devengos son una función del crecimiento de los ingresos y la depreciación es una función del PPE. Todas las variables se calculan en función de los activos totales. |
| **Modified Jones model (Dechow, Sloan & Sweeney, 1995)** | $Acc_t = \alpha + \beta_1 (\Delta Rev_t - \Delta Rec_{t)} + \beta_2 PPE_t + \varepsilon_t$<br>***Teoría:*** Ajusta el modelo de Jones para excluir el crecimiento de las ventas a crédito en años identificados como años de manipulación. |
| **Performance matched (Kothari, Leone, & Wasley, 2005)** | $DisAcct_t$ - $Matched\ firm's\ DisAcc_t$<br>***Teoría***: Empareja la observación del año de la empresa con otra del mismo sector y año con el ROA más cercano.<br>Los devengos discrecionales proceden del modelo de Jones (o del modelo de Jones modificado). |
| **Dechow and Dichev (2002) approach** | $\Delta WC = \alpha + \beta_1 CFO_{t-1} + \beta_2 CFO_t + \beta_3 CFO_{t+1} + \varepsilon_t$<br>***Teoría***: Los devengos se modelizan en función de los flujos de caja pasados, presentes y futuros, dado que su finalidad es alterar el calendario de reconocimiento de los flujos de caja en los resultados. |
| **Discretionary estimation errors (Francis, LaFond, Olsson, Schipper, 2005)** | $TCA_t = \alpha + \beta_1 CFO_{t-1} + \beta_2 CFO_t + \beta_3 CFO_{t+1} + \beta_4 Rev_t + \beta_5 PPE_t + \varepsilon_t$<br>$\theta(\varepsilon_t) = \alpha + \lambda_2 \sigma(CFO)_t + \lambda_3 \sigma(Rev)_t + \lambda_4 log(OperCycle)_t + \lambda_5 Loss_t + v_t$<br>***Teoría***: Descompone la desviación típica del residuo del modelo de devengo en un componente innato que refleja el entorno operativo de la empresa y un componente discrecional ($v_t$) que refleja la elección de los directivos. |

Fuente: Extracto del Anexo 2 "*Summary of widely used models of accruals*" de Dechow, Ge & Schrand (2010).

***Modelo de Dechow & Dichev (2002)***

Dechow & Dichev (2002) modelan la calidad de las ganancias como la magnitud de los errores de estimación en los devengos y proporcionan estimaciones empíricas de este constructo basadas en la relación entre los devengos y los flujos de caja. Los autores reconocen que las acumulaciones sirven para ajustar el reconocimiento de los flujos de efectivo a lo largo del tiempo para que el número ajustado (ganancias) mida mejor el desempeño de la empresa. Sin embargo, las acumulaciones requieren suposiciones y estimaciones de flujos de efectivo futuros.

El modelo analiza la calidad acumulada como el residuo de las regresiones específicas de la empresa de los cambios en el capital de trabajo sobre los flujos de efectivo operativos pasados, presentes y futuros (Dechow & Dichev, 2002). Como se muestra en la siguiente ecuación:

$$\Delta WC = \alpha + \beta 1 CFOt-1 + \beta 2 CFOt + \beta 3 CFOt+1 + \varepsilon t$$

Las variables relevantes son:

$\Delta WC$: nivel de accruals medido como el valor absoluto del cambio en el capital de trabajo. Estos cambios se miden como:

$\Delta WC$ = *ΔCuentas por cobrar + ΔInventarios – Δcuentas por pagar – Δimpuestos por pagar + Δotros activos (netos)*

CFO: corresponde al flujo de caja operativo en el periodo correspondiente.

Dechow & Dichev (2002) argumentan que la calidad de los devengos y ganancias disminuyen en la magnitud del error de estimación en los devengos. El residuo de la regresión representa los ajustes por devengo que no están relacionadas con movimientos de dinero. El valor absoluto del residuo se utiliza para medir la calidad de los ingresos, si es mayor peor será la calidad de los ingresos (Jara Bertin & López Iturriaga, 2011).

# CAPÍTULO 2

# CHARACTERISTICS OF CHILEAN BOARDS AND THEIR IMPACT ON ACCOUNTING CONSERVATISM

**Abstract**

Accounting conservatism is a desired characteristic of financial statements; and one of its determinants is the composition of the board of directors. This study shows how directors' independence, gender diversity, nationality, education, and experience contribute to accounting conservatism in an emerging country.

An unbalanced panel of 877 observations-years is used, for a sample of Chilean listed companies, during the period between 2005 and 2015. Using the Basu (1997) model, we find that factors such as independence of the board of directors have a positive influence on accounting conservatism, while the inclusion of foreigners and participation of directors in multiple positions reduce it. We do not find significant results regarding the presence of female directors and directors' education.

Keywords: Board of directors, accounting conservatism, gender diversity, independence, foreigners, level of studies, business expertise, experience.

## 1. Introduction

There is considerable literature that analyzes the effect of corporate governance on different contractual consequences in an international setting. Although there is a certain consensus about the benefits that different corporate governance mechanisms have on ensuring that company decision-making processes are more efficient, the discussion remains about mechanisms and their heterogeneity in different contexts (La Porta et al. 1998, La Porta et al. 2000, Brown et al. 2011). This paper focuses on the mechanism defined as the pinnacle of corporate governance, the board of directors, and its impact on a quality dimension of the financial disclosure process called accounting conservatism.

Zhong & Li (2017), in their literature review, recognize accounting conservatism as one of the most important properties of financial information, in line with Sterling (1970), and indicate that it should be required as a mitigation measure for agency problems that a company faces. This concept corresponds to the asymmetric recognition of profits; a higher degree of verification is required to recognize good news than the bad in the financial statements (Basu, 1997).

Our work contributes to the literature by providing evidence related to gender, independence, educational level, experience, and nationality. These attributes are necessary for a better understanding of the diversity of the board and its relationship with the financial environment (Khatib, Abdullah, Elamer & Abueid, 2021). Specifically, for the Chilean case, we study the association between these characteristics and accounting conservatism practices measured as the asymmetric recognition of profits.

The extant literature has generally focused on how corporate governance influences the financial disclosure process through different dimensions. Ho & Wong (2001) show that the existence of an audit committee is significantly and positively related to the extent of voluntary disclosure, while the percentage of family members on the board is negatively correlated. Eng & Mak (2003) show that the ownership structure and board's composition affect disclosure, studying the types of company owners (management, government, blockholders) and the presence of independent directors, among other characteristics.

Regarding financial disclosure, previous studies focus on measuring the quality of earnings, either through earnings management or accounting conservatism, among other measures. Concerning the former, the literature shows that companies with good corporate governance tend to perform less earnings management (Shen & Chih, 2007). Specifically, the independence of the board and its expertise have a negative relationship with this type of practice (Lin & Hwang, 2010). Therefore, the quality of board characteristics allows for more effective monitoring of earnings management practices, especially in non-concentrated markets (El Diri, Lambrinoudakis & Alhadab, 2020).

On the other hand, various studies analyze the importance of corporate governance characteristics in accounting conservatism practices. Fadzil & Ismail (2014) recognize that corporate governance plays a vital role in improving the level of conservatism and thereby reduces agency problems. Regarding the composition of the board of directors, Beekes, Pope & Young (2004) recognize that this composition is relevant for the quality of financial statements and recognition of bad news.

There is extensive literature on the impacts of board independence on accounting conservatism. Most articles argue that it favors conservatism, since it helps mitigate agency problems. To our knowledge, only four academic articles analyze the relationship between gender diversity and accounting conservatism, all of which find a positive and significant relationship. This is attributable to women being more ethical and risk-averse, which translates into better monitoring of the board (Rustiarini, Gama & Werastuti, 2021; Makhlouf, Al-Sufy & Almubaideen, 2018; Garcia-Sanchez, Martínez-Ferrero & García-Meca, 2017; Boussaid, Hamza & Sougne, 2015).

Foreign directors have different skills and experiences, so their inclusion adds value to the board and the company in general (Makhlouf, Al-Sufy & Almubaideen, 2018). The little existing literature on conservatism and cultural diversity led us to carry out an analysis based on Hofstede (2001). According to Salter, Kang, Gotti & Doupnik (2013) and Kanagaretnam, Lim & Lobo (2014), a country's characteristics in terms of individualism and aversion to

uncertainty are decisive to analyze the impact on accounting conservatism.

The literature on participation in multiple boards in the same period is not conclusive regarding its effects. For example, directors on multiple boards could be more effective in detecting earnings management (Saleh, Iskandar & Rahmat, 2005); but Sarkar, Sarkar & Sen (2008) show evidence these directors generate greater profit management. Serving on multiple boards is also associated with a lower demand for accounting conservatism (Ahmed & Duellman, 2007) due to being too busy (Lipton & Lorsch, 1992).

Regarding directors' education -degree obtained, or accounting-financial knowledge- articles highlight the benefits they generate, but there is no conclusive evidence of their effects on the recognition of profits. On the one hand, educational level is associated with director intelligence; and, on the other hand, directors with more financial knowledge would practice greater conservatism than their peers since more business expertise would mean a higher level of moral reasoning (Ason, Bujang, Jidwin & Said, 2021). However, Enache & García-Meca (2019) find a negative relationship with accounting conservatism, and the results of Pulungan & Sadat (2014) are not significant. Regarding educational level, we only found the study by Makhlouf, Al-Sufy & Almubaideen (2018), who obtained a positive relationship associated with obtaining skills that contribute to strategic thinking and decision making.

Although there is a vast literature that analyzes the board characteristics, there are still some gaps that this work seeks to fill, especially in terms of gender and cultural diversity. Additionally, there is little evidence on the effect that heterogeneity of qualitative attributes in board composition has on the financial disclosure process in emerging economies, especially in Latin America.

Latin American companies are characterized by having a high concentration of ownership, and investors have less legal protection (La Porta et al., 1998). In this sense, corporate governance practices become crucial to protect minority shareholders since they function as a substitute mechanism for existing legislation (Klapper & Love, 2002).

To the best of our knowledge, no studies exist that assess the characteristics of the board of directors and their influence on accounting conservatism for Chile. At the Latin American level, studies have been carried out, but they only analyze certain characteristics of the board. For example, Melgarejo (2019), analyzes the relationship between accounting conservatism and company membership in a governance index, which Peruvian companies can access when reporting information on compliance with specific regulatory areas including some board features.

To fill this knowledge gap regarding the impact of board composition and accounting conservatism, we use an unbalanced panel of 877 observations-year for a sample of Chilean listed companies in the period between 2005 and 2015. Our main findings show a positive relationship between independence and conservatism, a negative relationship with foreigners, and directors in multiple positions. We found no statistical significance regarding female directors and directors' education.

In Chile, regulations and disclosure requirements related to companies' corporate governance have increased in recent years. For companies with higher stock market prices, there is regulation on the presence of independents and limitations so that their directors do not participate on boards of companies that are direct competitors. Currently, a bill is being processed that requires a gender quota on boards. Therefore, our results have implications both in academia and for regulators because there is still room for improvement in the corporate governance rules. This article provides new evidence of the importance of diversity on the board and its impact on the quality of financial information.

The work is organized as follows; after this introduction, the literary review and the hypotheses to be tested are carried out. The third section presents the methodology and the fourth the data to be used. The fifth section presents the descriptive statistics. The results and discussion are presented in the sixth section. Finally, the study's conclusions, limitations, and future extensions are found.

## 2. Literature review and hypothesis

### 2.1 Accounting conservatism

The literature has emphasized accounting conservatism as an important tool to help reduce agency problems (Ball & Shivakumar, 2005; LaFond & Watts, 2008; Lafond & Roychowdhury, 2008; Elshandidy & Hassanein, 2014). Conservatism helps reduce managers' discretion to over-reward themselves by restricting opportunistic behavior such as overstating net assets and earnings (Watts, 2003). On the other hand, high-ability managers could have an incentive to engage in accounting conservatism to avoid losing their reputation and future careers (Haider, Singh, & Sultana, 2021).

Furthermore, accounting conservatism limits the transfer of wealth from bondholders to shareholders (Ahmed et al., 2002), helps directors to reduce deadweight losses caused by agency conflicts (Ahmed & Duellman, 2007), and even allows the board to supervise investment decisions better, as long as it is done by effective supervision of financial reports (Caskey & Laux, 2017).

Although authors agree that accounting conservatism is a desirable property of accounting results (Watts, 2003b; Francis et al., 2004; Ball & Shivakumar, 2005), there are certain disadvantages related mainly to the undervaluation of assets. For example, Haider, Singh, & Sultana (2021) recognize that reducing the value of assets could impose stricter restrictions on dividend policy. Additionally, the International Accounting Standards Board (IASB) requests that financial information be presented neutrally in its Conceptual Framework for Financial Information (IASB, 2018). IASB does not consider the conservative principle, arguing that conservatism can undervalue assets.

As mentioned, a relevant aspect of adopting IASB standards is that preparation and presentation of financial information is neutral. However, there is no conclusive evidence that the adoption of International Financial Reporting Standards (IFRS) reduces accounting conservatism. There are studies that conclude that IFRS reporting effectively decreases accounting conservatism (Piot et al., 2015; André et al., 2015). Still other studies find

conflicting results that IFRS reporting actually increases accounting conservatism (Barth et al., 2008; Jara-Bertin & Arias, 2013; Rodríguez García et al., 2017; Garcia Lara et al., 2008). For example, Moy, Heaney, Tarca & van Zyl (2020) find that the introduction of IFRS in France is not associated with changes in conditional conservatism, whereas they find significant decreases in conditional conservatism in Australia after the adoption of IFRS.

The Chilean case is not an exception; literature shows that the adoption of International Financial Reporting Standards, which began in 2009, increased accounting conservatism (Jara-Bertin & Arias, 2013), thereby improving the relevance and reliability of accounting reports. However, on the other hand, there is evidence that it did not have a significant effect (Lopez, Jara & Cabello, 2020).

The effect of corporate governance practices on accounting conservatism is still an unresolved issue; apparently it depends on the environment in which the companies are established. As an example, we can mention García Lara, Osma & Penalva (2009), who, using a sample of US companies, find that if corporate governance is strong, companies will exhibit a higher degree of conditional conservatism. Instead, Chi, Liu & Wang (2009), using data from Taiwan, postulate that accounting conservatism is a substitute for other corporate governance mechanisms. Hence, companies with weak structures will tend to be more conservative.

### 2.2 Characteristics of the board of directors and accounting conservatism

The board of directors is one of the most relevant elements of a company's corporate governance. Its composition is an important factor in determining the quality of company reports, especially with respect to the incorporation of bad news (Beekes, Pope & Young, 2004). This can be explained because its incorporation and disclosure provides warning signs so that the board can carry out a timely investigation of the corresponding reasons (García Lara et al., 2009). Therefore, it can be expected that companies with solid boards tend to be more conservative, even in institutional settings with low litigation risk (García Lara, Osma & Penalva, 2007). This study recognizes the importance of the board of directors in the asymmetric recognition of earnings. For this reason, boards' diversity is analyzed,

specifically in terms of independence, gender, nationality, level of studies, and directors' experience.

According to Shehata (2013), the existing literature has identified advantages of the diversity of the board. Among them, the author indicates that it improves discussion, providing greater creativity and innovation, better problem solving. This is because diversity fosters new ideas and perspectives on the board. Ruigrok, Peck & Tacheva (2007) conclude that in order to manage board diversity, it is essential to understand the characteristics, qualifications, and affiliations that directors bring, and that it is important to take into account the circumstances of each country instead of depending on research results from other countries. This last point is where our present research contributes to the existing literature by studying a country with differentiating characteristics such as high concentration of ownership, presence of family businesses, business groups, and institutional investors, among others.

In the present work, we will analyze different characteristics of the board, which are discussed in the following sections.

***Independence***

The inclusion of independent directors in company boards has been extensively studied, and one of the main conclusions is that they help mitigate agency problems. Jensen & Meckling (1976) indicate that they carry out effective monitoring of the opportunistic behavior of the managers, for which they are a support for the agency problems generated between shareholders and managers. They should also stop the abusive use of transactions with related parties in companies with principal-principal conflicts (Khosa, 2017).

Independent directors are motivated to protect their reputations, so they have incentives to dissuade managers from withholding information. Especially when other external monitoring mechanisms are weak, and there is uncertainty about the company's future expectations (Sila, Gonzalez & Hagendorff, 2017).

There are studies which do not find a significant relationship between board independence and informative quality of earnings (Vafeas, 2000; Ahmed, Hossain & Adams, 2006) or with accounting conservatism (Wistawan, Subroto & Ghofar, 2015). However, most existing empirical studies have shown a positive relationship with accounting conservatism (Beekes, Pope & Young, 2004; Dimitropoulos & Asteriou, 2010; Yunos, Ahmad & Sulaiman, 2014; Nasr & Ntim, 2018; El- habashy, 2019; Phapho, Pichetkun & Ngudgratoke, 2020), arguing that it contributes to mitigating agency problems and improving information to financial markets. As an example, the study by Beekes, Pope & Young (2004) who, using a sample from the United Kingdom, provide evidence that companies with a higher proportion of independent directors are more likely to recognize bad practices news in a timely manner. Therefore, these authors conclude that such independence improves the quality of accounting reports.

Considering the benefits of independent directors and a series of worldwide financial-accounting scandals (Enron, Parmalat, etc.), in the last two decades, financial regulators have issued regulations requiring the inclusion of independents in companies' board of directors. One example is the Sarbanes Oxley Law issued in the United States in 2002. Chile is not exempt from requirements related to the independence of the board of directors. In the year 2000, the constitution of a committee of directors was required for companies with a high stock market presence, which must at least be composed of one independent director. In 2009, the enactment of Law No. 20,382 "Introduces improvements to the regulations that regulate the Corporate Governance of Companies", the necessary conditions to be considered an independent director were clarified and strengthened. Additionally, issues related to corporate governance have become more relevant after the country joined the Organization for Economic Cooperation and Development (OECD) in 2010.

Considering the characteristics of the country studied its corresponding regulations, it is expected that the presence of independent directors on a board will increase accounting conservatism. Such presence will hence improve the information delivered to minority shareholders and the market in general, for which we propose the following hypothesis:

**H1:** There is a positive relationship between board independence and accounting conservatism.

***Gender diversity***

The presence of women on the board of directors has become more relevant in recent times, mainly driven by the inclusion of board gender quotas in some countries. Norway, a pioneer in this area, has required a minimum of 40% women since 2003. France, Italy, and Belgium are examples of countries that also require a gender quota (Bianco, Ciavarella & Signoretti, 2015). India and the United Arab Emirates require at least one woman on the board (Khatib, Abdullah, Elamer & Abueid, 2021). Other countries include it as a recommendation in their codes of good corporate governance practices. As an example, Spain in 2007, through the issuance of Organic Law 3/2007, recommended that the boards have a balanced presence between men and women, and in June 2020, it issued the updated version of its "Code of good governance of listed companies" where it includes in its recommendation No. 15 "that the number of female directors should be at least 40% of the members of the board of directors".

At an academic level, multiple studies demonstrate the effect of women on business. In their literature review, Nguyen, Ntim & Malagila (2020) analyze qualitative, quantitative, mixed, and theoretical studies in more than 100 countries and more than ten different disciplines (accounting, finance, economics, and governance, among others). Khlif & Achek (2017) classify the related accounting literature into financial reports, auditing, and other miscellaneous topics. Specifically, in relation to female directors and financial reports, we can mention the following topics as an example: earnings quality (Srinidhi, Gul, & Tsui, 2011; Hoang, Abeysekera & Ma, 2017), earnings management (Bhuiyan, Rahman & Sultana, 2020; Sun, Liu, & Lan, 2011; Arun, Almahrog & Aribi, 2015; Lakhal, Aguir, Lakhal & Malek, 2015; Gull, Nekhili, Nagati & Chtioui, 2018) and informativeness of annual accounting earnings (Scholtz & Kieviet, 2020).

Khlif & Achek (2017) conclude that there is little empirical research on the effect of the presence of women on accounting phenomena in emerging economies. Furthermore, few

studies directly relate accounting conservatism with women on the board. According to the review, there are only four studies that analyze this relationship at the date of analysis. The studies show a positive relationship between the variables analyzed (Rustiarini, Gama & Werastuti, 2021; Makhlouf, Al-Sufy & Almubaideen, 2018; Garcia-Sanchez, Martínez-Ferrero & García-Meca, 2017; Boussaid, Hamza & Sougne, 2015).

Boussaid, Hamza & Sougne (2015) argue that because women improve monitoring carried out by the board, they require a higher degree of verification to recognize good news in financial information than bad news. Garcia-Sanchez, Martínez-Ferrero & García-Meca (2017), used a sample of banks from 9 countries for the period between 2004 and 2010. These authors pointed out that in contexts of stricter regulatory environments and greater investor protection, gender diversity and financial experience on boards have more influence on banks' earnings conservatism and quality. Makhlouf, Al-Sufy & Almubaideen (2018) argue that the positive relationship between diversity and accounting conservatism is related to women being more ethical and risk-averse. Therefore, women play an essential role in improving accounting conservatism credibility of the financial statements and improving the information disclosure mechanisms. Rustiarini, Gama & Werastuti (2021) found similar results.

Other studies indirectly analyze accounting conservatism. For example, Schadewitz & Spohr (2021) carry out an analysis of the impact of female directors on changes in goodwill, which they relate to adopting risks and accounting conservatism. The authors present evidence that provides information on the composition of the board of directors and how it affects good corporate governance and its consequences in making strategic decisions. Suleiman (2020) analyzes the female presence on the board of directors with tax avoidance, moderated by accounting conservatism, finding a positive and significant relationship. Purwa & Setiawan (2020) used the masculinity score of Hofstede (2001) for a sample of banks from 24 countries, finding that those who operate in highly masculine societies are less conservative than those who have a lower score in this index.

In the literature, there are more studies that relate accounting conservatism with women in managerial positions. For example, Ho, Li, Tam & Zhang (2015) provide evidence that female CEOs positively influence accounting conservatism, especially in companies that have a higher risk of litigation and takeover. Similarly, Francis, Hasan, Park & Wu (2015) find that female CFOs tend to adopt more conservative accounting policies than men, mainly when they are in companies that have a higher risk of litigation, default (default risk), or management turnover risk, arguing that this is because they are more risk-averse than men. In a pioneering study, Krishnan & Parsons (2008) concluded that hiring more executive women does not generate higher-quality reports. They argue that companies that have greater gender diversity in senior management recognize bad news faster, than those who have less diversity. Therefore, it is not only the inclusion of women but also the balance between both genders which creates this phenomenon.

In a literature review on gender diversity by Pucheta-Martínez, Bel-Oms & Olcina-Sempere (2018), empirical studies analyzed showed that female directors have a more risk-averse attitude (Jianakoplos & Bernasek, 1998; Byrnes, Miller & Schafer, 1999; Thiruvadi & Huang, 2011; Man & Wong, 2013). From this review, the authors argued that the inclusion of women on the board of directors can improve the financial decision-making of companies since they are more responsible, strict, and more conservative than their male counterparts.

Chile does not have legislation that requires a mandatory gender quota on the board of directors. It is only requested to report the number of women and men on the board of directors. Since 2014, a bill has been in process that requires a minimum quota of 30% of women present in the boards. Considering the existing literature and the null regulation, we propose the following hypothesis:

> **H2:** The presence of women on the board positively impacts accounting conservatism.

***Nationality of directors***

Ruigrok, Peck & Tacheva (2007) recognize that foreign directors have differentiating characteristics relevant to their role as corporate directors, mentioning that they have different skills, experiences, values, norms, and understanding along with other demographic characteristics and affiliations. Considering that foreign directors have different skills and experiences, their presence adds value to the board and the company in general (Makhlouf, Al-Sufy & Almubaideen, 2018). Therefore, companies may include the presence of foreigners improve corporate governance and their reputation in the financial market (Oxelheim & Randøy, 2003).

However, not all studies support benefits from the inclusion of foreign directors. For example, Frijns, Dodd & Cimerova (2016) find that there is a negative relationship between a high cultural diversity of the board of directors and company performance. They relate this to the fact that the frictions generated by this diversity outweigh the positive aspects on average, especially when the directors are independent.

Several articles show that nationality influences accounting decision-making. As an example, Schultz Jr. and Lopez (2001) conducted a study where they analyzed the judgments made by accountants from France, Germany, and the United States, in which they were presented with economic facts that are governed by similar rules of financial information in the countries studied. However, despite similar facts and rules, judgments among accountants from the three nations varied significantly. On the other hand, Tsakumis (2007) conducted similar research, finding that U.S. accountants are more conservative than Greek accountants.

Few studies analyze the relationship between nationality diversity and accounting conservatism on the board level. However, there is no conclusive relationship. For example, Yunos, Ismail & Smith (2012) suggest that accounting conservatism of Malaysian companies is not influenced by the presence of ethnicities or foreign directors. In contrast, for a sample of Jordanian companies, Makhlouf, Al-Sufy & Almubaideen (2018) find a positive and significant relationship, arguing that foreigners will demand higher quality information; therefore, they will tend to require greater conservatism.

From the literature review, it is not feasible to directly propose a hypothesis of foreign directors' relationship with accounting conservatism. Therefore, we will analyze accounting conservatism from another angle. Salter, Kang, Gotti & Doupnik (2013) suggest that social values (individualism, uncertainty avoidance, power distance, and masculinity) are a potentially important factor in the study of accounting conservatism. Following this line, Kanagaretnam, Lim, & Lobo (2014) used individualism and uncertainty aversion, two dimensions of national culture identified by Hofstede (2001), as a proxy for cultural diversity, focusing their analysis on the banking industry of 65 countries. These authors concluded that banks in societies with low individualism and high uncertainty avoidance report their profits more conservatively. Similar results were obtained by Guermazi & Halioui (2020) for a sample of 14 countries from the European Union post-implementation of IFRS.

The effect on accounting conservatism of the inclusion of foreign directors will depend on their nationality, independence, the accounting standards in effect in their country, among other characteristics. Chile has a low level of individualism and a high level of aversion to uncertainty (Hofstede Insights, 2022). Therefore, to simplify the analysis, we suppose it should be more conservative, and it is expected that the inclusion of foreigners in the board of directors will reduce accounting conservatism, as expressed in the following hypothesis:

**H3:** The presence of foreign directors diminishes accounting conservatism.

***Multiple Directorships***

This section will analyze the experience of the directors acquired by participating in different boards. Both advantages and disadvantages of participating in more than one board in the same period appear in the literature.

Among the advantages of participating in other boards, Lee & Lee (2014), find a positive relationship between directors in multiple positions and company valuation. This effect is true as long as the company has a high need for advice and external financing, and it is more powerful in countries with weak shareholder protection rights and companies with a large

share. Saleh, Iskandar & Rahmat (2005) show evidence to demonstrate that the presence in multiple boards effectively detects profit management practices, especially in companies with unmanaged losses.

On the other hand, the exposed disadvantages are related to the fact that the ability to monitor the company's management is reduced because directors are too busy, as they are distracted by matters of other organizations (Lipton & Lorsch, 1992). For a sample of Palestinian companies, Saleh, Latif, Bakar & Maigoshi (2020) show that being on multiple boards, especially in the case of independent directors, reduces the efficiency and performance of companies.

Along the same lines, Yunos, Smith, Ismail & Ahmad (2011) show evidence that companies that have directors with multiple positions have a greater number of legal investigations (Schnake, Fredenberger & Williams, 2005), a lower market/book value ratio (Fich & Shivdasani, 2006), less conservatism (Ahmed and Duellman, 2007) and greater profit management (Sarkar, Sarkar & Sen, 2008). They postulate that directors in multiple positions correspond to weak governance related to less accounting conservatism, finding no conclusive evidence for Malaysian listed companies. Similar results were obtained by Yunos, Smith & Ismail (2012) for a sample of Malaysian companies, not finding a relationship between accounting conservatism and multiple managerial positions. Fadzil & Ismail (2014) found conclusive evidence in their study for Jordanian companies, to show that there is a negative relationship between the share of directors in multiple directorships, following the hypothesis of Lipton & Lorsch (1992).

Considering the existing literature, in which the adverse effects on accounting conservatism of participation in multiple boards predominate, the following hypothesis is proposed:

> **H4:** The involvement of directors in multiple directors reduces accounting conservatism.

***Business Expertise***

Business expertise is related to the knowledge that directors possess in accounting and finance. Several studies highlight the benefits generated for companies whose directors possess this type of knowledge. For example, Enache & García-Meca (2019) mention in their study that business expertise allows directors to anticipate industry conditions, better manage production resources and provide protection against supply or demand shocks (Dass et al., 2014). Their experience in the industry allows them to better understand the challenges and opportunities, analyze information relevant to the operation and the company's financial conditions, and evaluate the decision-making by the company's managers (Wang et al., 2014).

Considering that, in general, the board of directors is ultimately responsible for approving the company's financial statements, it is important to mention the benefits related to them. For example, Yunos, Smith, Ismail & Ahmad (2011) indicate that directors must know accounting to monitor the process of generating quality financial information, either to avoid manipulation or boost transparency. Along these same lines, Ason, Bujang, Jidwin & Said (2021) recognize that the inclusion of directors with accounting experience could become effective internal corporate governance mechanisms to reduce earnings manipulation. Lanfranconi & Robertson (2002) recognize that in addition to having this type of knowledge, directors must know about the company's economics and business model. By having a better understanding of the company's business operations, they can effectively review the financial reports.

Regarding the relationship between accounting conservatism and financial experience, various studies find a positive and significant relationship (Yunos, Smith, Ismail & Ahmad, 2011; Yunos, Smith & Ismail, 2012; Fadzil & Ismail, 2014; Sultana & Mitchell, 2015; Aifuwa & Embele, 2019). Ason, Bujang, Jidwin & Said (2021) relate this to the fact that by having accounting knowledge, directors exhibit a higher level of moral reasoning than their counterparts with no accounting training.

On the other hand, Enache & García-Meca (2019), using a sample of biotechnology companies, find evidence that the financial experience of directors weakens accounting conservatism. In contrast, Pulungan & Sadat (2014) find no significant relationship between the financial knowledge of the members of the Audit Committee and accounting conservatism for manufacturing companies in Indonesia.

Considering the existing literature related to the benefits of this type of knowledge, and that in Chile it is a requirement that the board of directors approves the publication of financial statements, we propose the following hypothesis:

> **H5:** The presence of directors with business expertise increases accounting conservatism.

***Educational level of directors***

In their study, Cheng, Chan & Leung (2010) cite authors who relate the educational level with an open mind, tolerance for ambiguity, information processing capacity, and the ability to evaluate alternatives (Hambrick & Mason, 1984; Herrmann & Datta, 2002). Hitt & Tyler (1991) find that top managers with more education have greater cognitive complexity and are less conservative in processing information to make decisions. Regarding directors with higher education, Khanna, Jones & Boivie (2014) postulate that they have a greater cognitive capacity to contribute to the organization. Therefore, they indicate that having a bachelor's degree is more valuable than finishing high school because it reflects the individual's level of intelligence.

Fedaseyeu, Linck & Wagner (2018) present evidence that the qualification of the directors has a significant effect on the functions of the board of directors. Cheng, Chan & Leung (2010) show that the university degree of the chairman of the board is positively associated with various measures of performance, in the case of Chinese companies. Papadimitri, Pasiouras, Tasiou & Ventouri (2020) conclude, for a sample of 39 countries, that if crucial board members have a higher educational level, companies are more likely to obtain better

credit ratings. On the other hand, Aifuwa & Embele (2019), for a sample of manufacturing companies, find that the experience of directors, measured as education and professional experience, is positively related to the quality of financial reports.

Regarding the relationship between the level of education and accounting conservatism, according to our knowledge, there is only one academic article that addresses this issue. Makhlouf, Al-Sufy & Almubaideen (2018) show that the relationship between educational level and accounting conservatism is positive and significant. This implies that more directors with a higher education degree (master or doctorate) on the board, higher levels of accounting conservatism are obtained. This is related to the fact that if the directors have had a higher level of education, they obtain sufficient skills in strategic thinking and decision making. Higher levels of education gives them access to a creative of ideas to deal with information and decision making.

Despite the little evidence on this relationship and the existing null regulation in the country studied, following the literature analyzed above, especially considering the results of Aifuwa & Embele (2019) and Makhlouf, Al-Sufy & Almubaideen (2018), we propose the following hypothesis:

**H6:** The educational level of directors positively affects accounting conservatism.

## 3. Method

We used an extension of Basu's (1997) asymmetric utility recognition model to test the hypotheses raised in the previous section. The model is in equation 1:

$$X_{i,t} = \beta_0 + \beta_1 \cdot R_{i,t} + \beta_2 \cdot DR_{i,t} + \beta_3 \cdot DR_{i,t} \cdot R_{i,t} + \beta_4 \cdot A_{i,t} + \beta_5 \cdot DR_{i,t} \cdot A_{i,t} + \beta_6 \cdot R_{i,t} \cdot A_{i,t} + \beta_7 \cdot R_{i,t} \cdot DR_{i,t} \cdot A_{i,t} + \mathrm{CV} + y_t + i_i + u_{i,t} \quad (1)$$

Where $X_{i,t}$ represents earnings per share over stock price at the beginning of the year, $R_{i,t}$ represents annual stock return, and $DR_{i,t}$ is a Bad News dummy that takes the value 1 if stock

return is negative, and 0 otherwise. The relevant independent variables of this study are represented by the letter "A". Year ($y_t$) and industry ($y_t$) fixed effects are added.

The interaction between $DR_{i,t} \cdot R_{i,t}$ measures the reaction of returns to bad news, so since accounting conservatism exists, the associated parameter ($\beta_3$) is expected to be positive and statistically significant. The sign and significance of the parameter ($\beta_7$) associated with $R_{i,t} \cdot DR_{i,t} \cdot A_{i,t}$ will measure the relationship of the variables studied (independence, gender, nationality, multiple directorships, business expertise, and education) with accounting conservatism.

The size of the firm (Ln(assets)), Tobin's Q, adoption of International Financial Reporting Standards (IFRS), the ownership of the first shareholder, and the percentage of ownership of institutional investors are included as control variables; according to the related literature and the country characteristics.

## 4. Data sources

This study's raw data consists of 116 Chilean companies and 952 observations for the period between 2005 and 2015. The entities under study trade their shares on the Santiago Stock Exchange and are regulated by the Chilean Financial Market Commission (CMF). Financial companies, sports clubs, pension administrators, and all those for which it was not possible to obtain the necessary information were excluded from the analysis. Variables were adjusted in the top and bottom 1%. The final sample corresponds to an unbalanced panel of 96 companies with 877 company-year observations.

The variables related to the composition and characteristics of the board of directors were obtained manually from the information published by each company on the CMF website and their respective annual reports. The analysis of the independence of the boards was complemented with information extracted from the Thomson Reuters Eikon database. To identify the gender of the directors, firstly, filters were made by the first name, and then the verification was carried out through searches in the annual reports and various web pages. In

the case of nationality, level, and type of studies, it was necessary to extend the search to national and international web pages, such as LinkedIn, transparency portals, and even press publications. The rest of the variables were obtained from Thomson Reuters Eikon. Appendix A shows the definition of all the variables used in this study.

## 5. Sample Description

Table N° 1 presents the statistics of the sample used in this study. On average, the boards are made up of 7 people, 79.7% have a Directors' Committee, 75.6% have at least one independent director, 17.3% have at least one woman, and 34.5% have some foreign director. On average, 17.9% of directors are independent, 2.7% are women, and 9.6% are foreigners. Appendix B presents the correlation matrix of the main variables under study.

The regulation in Chile requires that the boards of open corporations be made up of at least five people. In Table 1, we can see that the minimum is 4, which corresponds to 6 company-year observations. This is because a director ceased his work before the end of the year, which was corroborated by the essential facts sent to CMF by these companies.

Of our sample, 44.5% have accounting and or finance studies. 27.5% of the directors have master's and or doctorate studies. 48.4% of the directors belong to two or more boards different from the company analyzed in the same year, with two boards being the average. 28.9% belong to more than two boards, 24.3% in the case of independent directors.

68.4% of the sample reports its financial statements using International Financial Reporting Standards (IFRS). Regarding property, the first shareholder owns an average of 30.8% and institutional investors as a whole is 8.7%.

**Table 1: Descriptive Statistics**

| Variable | Mean | Std.Dev. | Min | Max |
|---|---|---|---|---|
| X | 0.080 | 0.167 | -1.014 | 1.117 |
| D | 0.545 | 0.498 | 0 | 1 |
| Ret | 0.060 | 0.483 | -.8140 | 3.683 |
| N°Dir | 7.316 | 1.325 | 4 | 14 |
| N°IndDir | 1.353 | 1.016 | 0 | 5 |
| %IndDir | 0.179 | 0.136 | 0 | 0.714 |
| DIndDir | 0.756 | 0.430 | 0 | 1 |
| N°Women | 0.196 | 0.456 | 0 | 3 |
| %Women | 0.027 | 0.062 | 0 | 0.333 |
| DWomen | 0.173 | 0.379 | 0 | 1 |
| N°For | 0.698 | 1.181 | 0 | 6 |
| %For | 0.096 | 0.163 | 0 | 1 |
| DFor | 0.345 | 0.476 | 0 | 1 |
| Exp_Educ | 0.275 | 0.210 | 0 | 1 |
| Exp_Bus | 0.445 | 0.210 | 0 | 1 |
| Average | 2.094 | 0.918 | 1 | 5.429 |
| Exp_Dir | 0.243 | 0.363 | 0 | 1 |
| Exp_Ind | 0.289 | 0.268 | 0 | 1 |
| Ln(assets) | 20.30 | 1.645 | 16.467 | 23.86 |
| $IOwn$ | 0.087 | 0.098 | 0 | 0.462 |
| $IFRS_{i,t}$ | 0.684 | 0.465 | 0 | 1 |
| P1 | 0.308 | 0.259 | 0 | 0.980 |
| Tobin's Q | 0.981 | 0.479 | 0.262 | 3.049 |
| d_comdir | 0.797 | 0.402 | 0 | 1 |
| Debt/Assets | 0.262 | 0.119 | 0.004 | 0.864 |

Note: The definition of the variables is found in Appendix A.

## 6. Results and Discussion

Table N°2 presents the results of Equation 1, considering the directors' independence, gender, and nationality. Table N°3 presents the results of multiple directorships, education level, and business expertise of board directors. Columns 1 to 4, of both tables, show the estimated results with OLS regressions controlling for industry and year fixed effects, columns 5 to 8 of both tables only have year-fixed effects. The results of the control variables are not reported to facilitate the visualization of the results.

All the columns of table N° 2 show that stock returns ($R_{i,t}$) are positively and significantly related to earnings ($X_{i,t}$), with coefficients between 0.057 and 0.085. All the coefficients of the relationship $DR_{i,t} \cdot R_{i,t}$ are positive and significant, with values between 0.120 and 0.286.

Table Nº 3 presents similar results. Therefore, the presence of accounting conservatism is corroborated, according to Basu (1997).

Next, we present and discuss the results separately for each of the hypotheses proposed.

### *6.1. Independence*

When analyzing the impact of the presence of independent directors on accounting conservatism (H1), it can be seen in Columns 2 and 6 that the coefficient of the interaction $DR_{i,t} \cdot R_{i,t} \cdot \%IndDir$ is positive and significant, with values of 0.558 and 0.631, respectively. This result implies that independent directors increase accounting conservatism in the companies in which they participate in, in line with the existing literature (Beekes, Pope & Young, 2004; Dimitropoulos & Asteriou, 2010; Yunos, Ahmad & Sulaiman, 2014; Nasr & Ntim, 2018; El- habashy, 2019; Phapho, Pichetkun & Ngudgratoke, 2020).

Chile is a Latin American country with French civil law and a greater concentration of property and less legal protection for investors than countries with Common Law (La Porta et al. 1998). Our results are in keeping with the argument that the presence of independent directors helps to mitigate agency problems and improve financial information (Beekes, Pope & Young, 2004; Dimitropoulos & Asteriou, 2010; Yunos, Ahmad & Sulaiman, 2014; Nasr & Ntim, 2018; El-habashi, 2019; Phapho, Pichetkun & Ngudgratoke, 2020).

### *6.2. Gender diversity*

Although the *D x Ret x %Women* interaction coefficients, which measure the impact of women on the board of directors on accounting conservatism (H2), are positive (0.063 and 0.215, column 3 and 7), they are not significant. So, it is not possible to conclude their influence, despite the evidence in the literature that the impact is positive.

A reasonable explanation for our results is provided by Krishnan & Parsons (2008), who state that the mere presence of women is not a factor of change, the board must be diversified for its influence to be felt. Furthermore, Joecks, Pull & Vetter (2013) show evidence that if the average number of female directors is less than 30%, its positive effects cannot be seen. In

our data, only 17.3% of the boards include at least one woman, and the average presence is only 2.7%, not reaching a minimum diversity according to the cited authors.

### *6.3. Nationality of directors*

The presence of foreigners on the board and its impact on accounting conservatism is captured by coefficient *D x Ret x %For*. Columns 4 and 8 of Table Nº 2 show the results are negative and statistically significant, with coefficients -0.520 and -0.499, respectively. These results imply that foreign directors tend to decrease accounting conservatism, which confirms our hypothesis (H3).

Our results are in line with the arguments that the effect of foreigners depends on variables specific to the country (Salter, Kang, Gotti & Doupnik, 2013; Kanagaretnam, Lim & Lobo, 2014; Guermazi & Halioui, 2020). Chile has a high level of uncertainty avoidance (Hofstede Insights, 2022) then the inclusion of foreign directors decreases conservatism because the directors may come from countries with a lower degree of uncertainty aversion.

## Table 2: Characteristics of the board of directors

| VARIABLES | (1) OLS | (2) OLS | (3) OLS | (4) OLS | (5) OLS | (6) OLS | (7) OLS | (8) OLS |
|---|---|---|---|---|---|---|---|---|
| Ret | 0.062*** | 0.085*** | 0.057** | 0.066** | 0.062*** | 0.079*** | 0.059** | 0.064** |
| | (0.023) | (0.025) | (0.026) | (0.026) | (0.022) | (0.026) | (0.026) | (0.027) |
| D | 0.002 | -0.031 | -0.007 | 0.006 | -0.003 | -0.046 | -0.013 | 0.000 |
| | (0.021) | (0.033) | (0.023) | (0.025) | (0.023) | (0.039) | (0.025) | (0.028) |
| D x Ret | 0.244*** | 0.140** | 0.241*** | 0.286*** | 0.241*** | 0.120* | 0.234*** | 0.286*** |
| | (0.042) | (0.071) | (0.045) | (0.048) | (0.042) | (0.068) | (0.045) | (0.050) |
| %IndDir | | -0.027 | | | | -0.073 | | |
| | | (0.098) | | | | (0.110) | | |
| Ret x %IndDir | | -0.088 | | | | -0.057 | | |
| | | (0.087) | | | | (0.097) | | |
| D x %IndDir | | 0.207 | | | | 0.262* | | |
| | | (0.129) | | | | (0.148) | | |
| D x Ret x %IndDir | | 0.558* | | | | 0.631** | | |
| | | (0.300) | | | | (0.294) | | |
| %Women | | | -0.299 | | | | -0.243 | |
| | | | (0.218) | | | | (0.196) | |
| Ret x %Women | | | 0.206 | | | | 0.125 | |
| | | | (0.215) | | | | (0.196) | |
| D x %Women | | | 0.360 | | | | 0.368 | |
| | | | (0.262) | | | | (0.262) | |
| D x Ret x %Women | | | 0.063 | | | | 0.215 | |
| | | | (0.552) | | | | (0.541) | |
| %For | | | | -0.114* | | | | -0.088 |
| | | | | (0.067) | | | | (0.055) |
| Ret x %For | | | | 0.005 | | | | -0.003 |
| | | | | (0.074) | | | | (0.066) |
| D x %For | | | | -0.037 | | | | -0.028 |
| | | | | (0.064) | | | | (0.067) |
| D x Ret x %For | | | | -0.520*** | | | | -0.499*** |
| | | | | (0.160) | | | | (0.164) |
| Constant | 0.002 | 0.021 | 0.005 | -0.019 | 0.022 | 0.038 | 0.028 | 0.009 |
| | (0.120) | (0.123) | (0.119) | (0.131) | (0.127) | (0.129) | (0.128) | (0.132) |
| Observations | 877 | 877 | 877 | 877 | 877 | 877 | 877 | 877 |
| R-squared | 0.146 | 0.151 | 0.149 | 0.154 | 0.132 | 0.139 | 0.134 | 0.138 |
| Industria FE | Yes | Yes | Yes | Yes | No | No | No | No |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Control Variables | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Adj. R2 | 0.121 | 0.122 | 0.120 | 0.125 | 0.113 | 0.116 | 0.112 | 0.116 |
| F-Stat | 11.64 | 10.88 | 9.600 | 8.135 | 10.50 | 9.674 | 8.909 | 7.391 |

*Notes*: Estimated results of equation (1). The dependent variable is earnings per share over stock price at the beginning of the period. Among the independent variables, the definition of the independent variables is found in Appendix A. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

### *6.4. Multiple Directorships*

As we mentioned before, the experience of the directors is measured considering their simultaneous participation in more than one board of directors and their education level and knowledge related to finance and accounting. Table N° 3 presents these results. Columns 1 to 4 show the estimated results with OLS regressions controlling for industry and year fixed effects, columns 5 to 8 only have year fixed effects. As in Table Nº 2, the results of the control variables are not reported.

As mentioned in the descriptive statistics section, the directors are seated on average in 2 boards in the same year. When analyzing its effect on accounting conservatism (H4), columns 1 and 5 show a decrease in this variable. Coefficients of -0.083 and -0.085 are obtained, with a significance of 5%. To deepen the participation in multiple boards, the results presented in Columns 2 and 6 show the impact of participation in the same period in more than two boards. As shown in Columns 2 and 6, the effect is more significant than that presented considering only the average. The coefficients are -0.294 considering the year-industry fixed effect and -0.307 considering only the year fixed effect, both at 5% significance. This increase in the coefficients reaffirms the hypothesis that being on multiple boards of directors in the same year decreases accounting conservatism since they could be distracted by matters of other companies (Lipton & Lorsch, 1992).

### *6.5 Business Expertise and Level of Education*

Regarding the effect of the education of directors, although 44.5% of the directors in our sample have accounting and or finance studies and 27.5% of the directors have master's and or doctorate studies, we did not obtain conclusive results, despite the benefits described in the literature (Fedaseyeu, Linck & Wagner, 2018; Makhlouf, Al-Sufy & Almubaideen, 2018; Aifuwa & Embele, 2019).

When considering the accounting-financial knowledge of the directors (H5) as shown in columns 3 and 7 of Table Nº 3, the coefficients are negative (-0.226 and -0.295, depending on the fixed effects used) but not significant. In columns 4 and 8, the coefficients of the level of education (H6) are around zero (0.000 and -0.012); despite not having statistical significance, it could give us indications that it does not influence accounting conservatism.

## Table 3: Experience of the board of directors

| VARIABLES | (1) OLS | (2) OLS | (3) OLS | (4) OLS | (5) OLS | (6) OLS | (7) OLS | (8) OLS |
|---|---|---|---|---|---|---|---|---|
| Ret | -0.100 | 0.014 | 0.022 | 0.077** | -0.112* | 0.010 | 0.004 | 0.068** |
| | (0.061) | (0.027) | (0.040) | (0.030) | (0.062) | (0.027) | (0.042) | (0.030) |
| D | 0.006 | 0.010 | -0.009 | -0.015 | -0.006 | 0.003 | -0.020 | -0.025 |
| | (0.046) | (0.030) | (0.046) | (0.029) | (0.050) | (0.032) | (0.052) | (0.032) |
| D x Ret | 0.392*** | 0.304*** | 0.346*** | 0.241*** | 0.392*** | 0.304*** | 0.374*** | 0.244*** |
| | (0.092) | (0.055) | (0.101) | (0.062) | (0.094) | (0.056) | (0.101) | (0.065) |
| Average | 0.001 | | | | -0.005 | | | |
| | (0.013) | | | | (0.014) | | | |
| Ret * Average | 0.092*** | | | | 0.098*** | | | |
| | (0.032) | | | | (0.032) | | | |
| D * Average | 0.000 | | | | 0.004 | | | |
| | (0.017) | | | | (0.018) | | | |
| Ret * D Average | -0.083** | | | | -0.085** | | | |
| | (0.040) | | | | (0.042) | | | |
| Exp_Dir | | 0.005 | | | | -0.011 | | |
| | | (0.042) | | | | (0.043) | | |
| Ret x Exp_Dir | | 0.262*** | | | | 0.280*** | | |
| | | (0.089) | | | | (0.089) | | |
| D x Exp_Dir | | -0.014 | | | | -0.007 | | |
| | | (0.062) | | | | (0.062) | | |
| D x Ret x Exp_Dir | | -0.294** | | | | -0.307** | | |
| | | (0.141) | | | | (0.153) | | |
| Exp_Bus | | | -0.102 | | | | -0.103 | |
| | | | (0.065) | | | | (0.069) | |
| Ret x Exp_Bus | | | 0.088 | | | | 0.126* | |
| | | | (0.071) | | | | (0.075) | |
| D x Exp_Bus | | | 0.024 | | | | 0.037 | |
| | | | (0.089) | | | | (0.095) | |
| D x Ret x Exp_Bus | | | -0.226 | | | | -0.295 | |
| | | | (0.228) | | | | (0.215) | |
| Exp_Educ | | | | -0.099 | | | | -0.091 |
| | | | | (0.064) | | | | (0.061) |
| Ret x Exp_Educ | | | | -0.041 | | | | -0.016 |
| | | | | (0.077) | | | | (0.064) |
| D x Exp_Educ | | | | 0.070 | | | | 0.084 |
| | | | | (0.086) | | | | (0.089) |
| D x Ret Exp_Educ | | | | 0.000 | | | | -0.012 |
| | | | | (0.202) | | | | (0.183) |
| Constant | 0.005 | 0.004 | -0.002 | -0.031 | 0.047 | 0.037 | 0.038 | 0.010 |
| | (0.134) | (0.127) | (0.128) | (0.133) | (0.143) | (0.135) | (0.137) | (0.143) |
| Observations | 877 | 877 | 877 | 877 | 877 | 877 | 877 | 877 |
| R-squared | 0.176 | 0.168 | 0.152 | 0.155 | 0.162 | 0.154 | 0.137 | 0.138 |
| Industria FE | Yes | Yes | Yes | Yes | No | No | No | No |
| Year FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Control Variables | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Adj. R2 | 0.148 | 0.139 | 0.122 | 0.126 | 0.140 | 0.132 | 0.114 | 0.116 |
| F-Stat | 8.963 | 9.973 | 8.493 | 8.193 | 8.296 | 9.150 | 7.595 | 7.196 |

*Notes*: Estimated results of equation (1). The dependent variable is earnings per share over stock price at the beginning of the period. Among the independent variables, the definition of the independent variables is found in Appendix A. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

## 7. Conclusions

We analyzed how the characteristics of directors of Chilean companies influence accounting conservatism. This is the first study to analyze these determinants for this country. Independence, gender, nationality, educational level, accounting-financial knowledge, and participation in other boards in the same period were the focal points of this study.

Accounting conservatism is a desired characteristic since it helps mitigate agency problems (LaFond & Watts, 2008; Lafond & Roychowdhury, 2008; Elshandidy & Hassanein, 2014), among other benefits. On the other hand, the composition of the board of directors is relevant since it is one of the most important mechanisms of corporate governance, and its influence on the financial disclosure process has been demonstrated (Ho & Wong, 2001; Eng & Mak, 2003).

One of the most studied characteristics of the board of directors in the literature is the independence of the directors, mainly due to the benefits they generate by protecting minority investors and mitigating agency problems (Jensen & Meckling, 1976), among others. In countries with a high concentration of ownership and dominated by family businesses, as is the case in Chile, they become even more relevant. This article provides evidence that corroborates that its presence favors accounting conservatism.

Regarding the inclusion of women in the board, no significant results were obtained. It is mainly due to their low presence in the analyzed period. Krishnan & Parsons (2008) indicate that it is not the mere presence of women, but gender diversity itself that generates an impact. Even Joecks, Pull & Vetter (2013) show evidence that if the average number of female directors is less than 30%, its positive effects cannot be seen.

Although foreign directors positively impact companies (Oxelheim & Randøy, 2003; Ruigrok, Peck & Tacheva, 2007; Makhlouf, Al-Sufy & Almubaideen, 2018), their impact on accounting conservatism depends on the characteristics of the country in which the company operates. Chile is a country with a high aversion to uncertainty, so foreign directors generate a decrease in conservatism when coming from cultures with less aversion.

As empirical evidence in other countries shows (Yunos, Smith, Ismail & Ahmad, 2011), the level of occupation of directors has a negative influence on accounting conservatism, especially if they are on more than two boards at the same time. The evidence corroborates that this influences dedication (Lipton & Lorsch, 1992), so it should be a point of analysis when selecting directors and could even be a wake-up call for regulators. It is not possible to conclude, regarding the impact of the education of the directors, since statistically, it was not possible to corroborate our hypotheses.

Our results contribute to academia and Chilean regulators since we provide evidence that the inclusion of directors with specific characteristics impacts the disclosure of financial information, specifically accounting conservatism.

## Appendix A: Variable definitions

| Abbreviation | Variable | Definition |
|---|---|---|
| $X_{i,t}$ | $EPS_{i,t}/Price_{i,t-1}$ | Earnings per share scaled over share price at the beginning of the period. |
| $R_{i,t}$ | Annual stock return | Annual share return of firm *i* in year *t*. |
| $D_{i,t}$ | *Bad News* dummy | Takes the value 1 if annual return is negative, and 0 otherwise. |
| N°Dir | Board Size | Total number of directors |
| Lndir | Ln (Board Size) | Natural logarithm of the total number of directors |
| N°IndDir | Number of Independent Directors | Number of independent directors present on the board |
| %IndDir | % Independent Director | Percentage of independent directors over total number of board members. |
| DIndDir | Dummy Independent Director | Measures the presence of independents on the board. Takes the value 1 if there is at least one foreigner, 0 otherwise. |
| N°Women | Number of Female Directors | Number of women on the board |
| %Women | % Women on Board | Percentage of women over the total number of board members. |
| DWomen | Dummy Women | Measures the presence of women on the board. Takes the value 1 if there is at l.east one foreigner, 0 otherwise. |
| N°For | Number of Foreigners Directors | Number of foreigners present on the board |
| %For | % Foreigners Directors | Percentage of foreigners over the total number of board members. |
| DFor | Dummy Foreigners Directors | It takes the value of one if the director's nationality is different from that of the country studied. |
| Exp_Bus | Business Experience | Percentage of directors who have studies in accounting or finance. |
| Exp_Educ | % Education level of board directors | Percentage of directors with a master's or doctorate. |
| Average | Average boards | Average number of boards to which a director belongs in the same year. |
| Exp_Dir | Average participation in more than 2 boards | Percentage of directors who participate in 3 or more boards in the same year. |
| *Firm-level control* | | |
| $I0wn$ | Institutional Ownership | Proportion of shares owned by institutional investors |
| $IFRS_{i,t}$ | IFRS dummy | Takes the value 1 if financial statements are reported under International Financial Reporting Standards, and 0 otherwise. |
| Tobin's Q | Tobin's Q | (Market capitalization + Total debt)/Total asset replacement value |
| Ln(assets) | Size | Natural logarithm of total assets |
| Debt/Assets | Debt ratio | Total debt to total assets |
| P1 | First shareholder | Proportion of shares owned by the largest shareholder |
| *Fixed effects* | | |
| Industry FE | Industry fixed effect | Set of industry dummies (Thomson Reuters Business Level definition) |
| Year FE | Year fixed effect | Set of year dummies |

## Appendix B: Correlation Matrix

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (1) %IndDir | 1.000 | | | | | | | | | | | |
| (2) %Women | -0.044 | 1.000 | | | | | | | | | | |
| (3) %For | 0.013 | 0.004 | 1.000 | | | | | | | | | |
| (4) Exp_Educ | 0.218* | -0.086* | 0.362* | 1.000 | | | | | | | | |
| (5) Exp_Bus | 0.093* | -0.170* | 0.103* | 0.463* | 1.000 | | | | | | | |
| (6) Average | 0.053* | -0.265* | -0.250* | -0.055* | 0.173* | 1.000 | | | | | | |
| (7) Exp_Dir | 0.041 | -0.286* | -0.210* | -0.069* | 0.141* | 0.941* | 1.000 | | | | | |
| (8) Ln(assets) | 0.243* | 0.021 | 0.273* | 0.363* | 0.299* | 0.024 | 0.009 | 1.000 | | | | |
| (9) *IOwn* | 0.258* | 0.018 | 0.122* | 0.273* | 0.079* | -0.148* | -0.131* | 0.227* | 1.000 | | | |
| (10) *IFRS* | -0.058* | 0.080* | 0.018 | 0.123* | 0.107* | -0.025 | -0.028 | 0.092* | 0.142* | 1.000 | | |
| (11) P1 | -0.005 | -0.027 | 0.214* | 0.207* | 0.151* | 0.024 | 0.027 | 0.332* | 0.411* | 0.069* | 1.000 | |
| (12) Tobin's Q | 0.174* | -0.020 | 0.024 | 0.094* | 0.041 | -0.008 | -0.013 | 0.122* | 0.088* | -0.119* | -0.041 | 1.000 |

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

Note: The definition of the variables is found in Appendix A.

## CAPÍTULO 3

# ARE INSTITUTIONAL INVESTORS RELEVANT WHEN FIRMS ADOPT MANDATORY IFRS? EVIDENCE FROM LATIN-AMERICA

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**Abstract**

We analyze the interplay between an exogenous regulatory shock such as mandatory IFRS adoption and institutional investor's heterogeneity (external monitoring), and their effect on the asymmetric timeliness of earnings and earnings quality using a sample of Latin-American firms. In line with prior research, our results suggest that, on average, IFRS adoption boosts earnings conservatism and quality in Latin American markets. We disentangle the effect of IFRS adoption by studying the role played by institutional investors in accounting reporting strategies. We find that institutional investors reduce the beneficial role of IFRS adoption in earnings conservatism and quality, in line with short-term pricing incentives. However, when separating by investor type, grey blockholder investors, such as private pension funds, boost earnings conservatism when firms adopt IFRS but reduce the earnings quality. On average, our results highlight that not only institutional investors heavily influence the impact of IFRS adoption in the Latin American context, but this effect is not independent of the type of investor. The results of this paper improve our knowledge about the implications of corporate ownership and investors incentives on firms' accounting strategies in emerging markets, an area that has been overlooked by stant research.



**Keywords:** IFRS, corporate governance, institutional investors, accounting conservatism, earnings quality.

## 1. Introduction

Evidence in both accounting and finance literature suggests that institutional investors in emerging markets have contributed to a better capital allocation and improved corporate governance practices (De-la-Hoz and Pombo 2016; Aggarwal et al. 2011). This trend has also brought some benefits for companies in emerging Latin American economies, which have experienced an improvement in market liquidity and improved their corporate governance practices. For instance, according to our data, institutional equity holdings on the *top largest* firms are around 22% in Brazil, 14% in Mexico, and 12% in Chile, where private pension funds are the most dominant investor across Latin-American financial markets, which is consistent with OECD (2011).

Empirical evidence highlights the institutional investors' ability to raise information, monitor corporate policies[1], and improve capital markets' allowing them to enjoy more sophisticated demands regarding risk assurance, efficient transactions, and information transparency (Gillan and Starks 2003; Gillan and Starks 2000; Ferreira and Matos 2008). However, recent socio-political movements across Latin America cast doubts about the contribution of institutional investors to society and bear their public scrutiny to private pension funds and foreign institutions. Several political initiatives related to tax reforms, capital flows, and others[2] have increased the concern about the expected economic stability of the Latam region, leading foreign investors to rebalance their equity investment portfolios. In addition, the excessive public exposure and the loss of legitimacy of the private pension system in Latin American countries such as Chile and Colombia has led to questioning the very foundations of their capital markets[3], which have been characterized by providing high liquidity and contributing to improve corporate governance (Jara et al. 2019; Fernandez 2014; Da et al. 2018). The social and political pressure to modify pension schemes and the COVID-19 economic consequences has encouraged some political initiatives to point at the financial sector, generating liquidity constraints in the pension system [4] that could damage local financial markets regarding resource allocation and liquidity.

This article brings a new dimension to the discussion about the role of institutional investors in

[1] Such as executive compensation, board of directors structure, corporate governance standards, among others.
[2] For example:
-https://www.ft.com/content/770487c6-20cf-11ea-b8a1-584213ee7b2b;
-https://www.ft.com/content/2a5dd9ee-576f-4b42-b401-485b6a449fdb.

[3] For example: https://www.ft.com/content/7aed14d6-9d8f-40b9-b543-c0edc7c428ce; https://www.ft.com/content/3c25b7e0-b31f-4d5b-9845-3514af2970a3.
[4] For example: https://www.reuters.com/world/americas/chilean-bill-allow-fourth-pension-withdrawal-advances-congress-2021-09-28/ ; https://www.reuters.com/article/us-colombia-pensions-idUSKCN24V3UB.

Latin-American emerging markets. In general, institutional investors face two types of incentives: to "monitor" (long-term) or "pricing" (short-term) (Ferreira & Matos, 2008). We explore the heterogeneity among institutional investors to address the following research questions in the context of an exogenous shock such as a regulatory change: do institutional investors focus on the long term and improve the quality of financial information? Conversely, do institutional investors privilege short-term benefits and encourage firms to adopt more aggressive accounting strategies in that context? To answer these questions, we study the moderating role of institutional investors on Latin-American firms' financial information when they face the exogenous shock of the International Financial Reporting Standards (IFRS) adoption. More specifically, we analyze asymmetric timeliness of earnings (earnings conservatism) and accrual quality (earnings quality) for a sample of five Latin American emerging markets. Those two properties have shown to be crucial in promoting informational transparency through reported financial statements.[5]

Holding everything else equal, a market-wide regulatory change such as IFRS adoption could have two opposing effects on the conservatism of the firm's financial reporting and accounting earnings quality[6]. On the one hand, accounting conservatism may decrease when the earnings quality increases because IFRS emphasizes fair value over conservatism[7] (André et al. 2015; Ahmed et al. 2013).

Also, firms in institutional environments characterized by weaker legal protections and enforcement tend to adopt more aggressive financial reporting strategies, which may result in lower quality of earnings (Leuz et al. 2003). Thus, one of the goals of IFRS adoption is to incorporate more economic rationality into financial reports to provide helpful and quality information to investors, which may mitigate the effect of institutional factors on earnings quality. In addition, IFRS promotes that information should be understandable, verifiable, comparable, and timely (IASB 2018). Therefore, IFRS adoption could increase attributes such as conservatism and earnings quality in institutional frameworks characterized by lower legal investor protection.

The extensive literature on institutional investors has pointed out the beneficial role of institutional

[5] Some authors have suggested that accounting conservatism has positive implications for capital markets by mitigating information asymmetries. For instance, suggest that accounting conservatism reduces the agency cost of debt and agency costs in general (Ahmed 2007). Watts (2003) argues that conservative behavior can improve a firm's value by reducing litigation costs, and it constitutes an efficient monitoring mechanism.

[6] We use the measure of conditional conservatism proposed by Basu (1997). Conditional conservatism is defined as the tendency of requiring weaker evidence to recognize losses rather than gains (Beaver and Ryan 2005). It depends on the manager's ad hoc criteria, based on competing arguments for and against willingly increasing reported conservatism within allowed accounting standards. To measure earnings quality we use the residual's standard deviation of the model proposed by Dechow and Dichev (2002).

[7] For instance, IASB (International Accounting Standards Board) and the FASB (Financial Accounting Standards Board) argue that conservatism is not desirable because it could lead to asset undervaluation (IASB 2006).

investors in improving the quality of information and investment (Aggarwal et al. 2011; Ferreira and Matos 2008). In line with this, Ramalingegowda and Yu (2012) show that institutional investors' firm ownership plays a key role in increasing conservatism in financial reporting. However, evidence about institutional investors' role in regulatory changes is still scarce, and there is no evidence about institutional investors' role in improving accounting information following IFRS adoption in emerging markets and there are very few articles that delve into the impact by type of institutional investors on accounting conservatism at all.

Our results suggest that IFRS adoption increases accounting conservatism and earnings quality. But, most importantly, on average, our results show that institutional investors negatively impact the beneficial role of IFRS adoption in accounting conservatism and earnings quality. In other words, the effect of IFRS adoption on accounting conservatism and earnings quality is more pronounced in firms that do not count with institutional investors as equity blockholders. This result is more prominent when institutional investors are blockholders and independent and suggest that these investors demand more aggressive accounting strategies to meet or beat earnings expectations to avoid investor reaction to negative earnings surprises (Skinner and Sloan 2002). Also, institutional investors could encourage firms to cater to dividend targets to influence investor sentiment (Byun et al. 2021; Barberis and Thaler 2003). An alternative explanation of our results is that the increasing effect of IFRS on accounting conservatism and earnings quality is significant only for companies that do not have *"external monitoring"* provided by institutional investors' ownership.

In addition, our results show that grey[8] blockholder institutional investors positively impact the beneficial role of IFRS adoption in accounting conservatism. This effect is mainly explained by monitoring incentives of some Latin American grey investors, such as private pension funds. However, grey investors improve earnings conservatism when a regulatory change occurs but negatively impact earnings quality.

This paper contributes to the literature by providing new evidence for unraveling how institutional investors help or harm regulatory change adoption processes such as IFRS adoption. In addition, we also find evidence supporting the substitute role of comparable accounting standards. More relevant is that we provide novel evidence on the moderating role of investors' types in firms' accounting outcomes and IFRS. To the best of our knowledge, we are the first to distinguish between the different types, separating them by the proportion of shares held (blockholder and minority) and classifying

[8] Banks, trusts, insurance companies, pension funds, and endowments. More details in section 3: Method.

them by type of investors (grey and independent). Wang (2021) focuses its analysis on long-term institutional investors, and Aladwey (2021) only argues that the different types of institutional investors can explain its results.

Our results also have implications for regulators and practitioners about institutional investors' role in improving the quality of accounting information that flows in Latinamerincan capital markets. We shed some light on whether some key investors, such as investment advisors and private pension funds, have contributed to the development of Latin American capital markets.

The remainder of the paper is organized as follows: section 2 discusses institutional investors in the literature and presents the hypotheses of our study; section 3 defines the method used; section 4 presents data sources and sample description; section 5 shows the results of the study; and section 6 concludes the paper.

## 2. Literature Review & Hypothesis

Adopting a new mandatory accounting rule for listed companies in financial markets has attracted the attention of investors and policymakers. New accounting rules encourage managers to adopt different accounting strategies to signal useful information to the market about the company's long-term strategy. Accounting strategies related to accounting standards are generally linked to the use of discretionary accruals (issues with recognition and realization of cash flows), and the asymmetric recognition of good and bad news in earnings (earnings conservatism) (Dechow et al. 2012; Dechow et al. 2010).

The evidence about the effect of new regulations such as IFRS mandatory adoption is mixed and inconclusive (De George et al. 2016). Even among adopters, the effects are different whether issuers apply cosmetic or deep changes in their accounting reporting policies (Daske et al. 2013). On the one hand, Barth et al. (2008) suggests that IFRS[9] implementation improves earnings quality and provides higher value relevance (lower conservatism) using a sample from 21 European economies. Piot et al. (2015) find evidence suggesting that IFRS adoption reduces accounting conservatism for a sample of 16 European countries in 2000-2010, and André et al. (2015) also find support concerning a decline in conditional earnings conservatism. The main argument of the results found in these studies is that IFRS is less prudent than other accounting rules because it allows various 'imprudent' assessments of

[9] Barth et al. (2008), refer to IFRS by their previous name (pre-2001): International Accounting Standards (IAS).

fair value.

On the other hand, García Lara et al. (2008) suggest firms reporting under IFRS are more conservative than firms reporting under local GAAP standards, increasing investor confidence in financial information and capital market transparency in countries with lower investor protection legal enforcement. Moreover, Latin-American evidence suggests that IFRS adoption increases accounting conservatism and value relevance (Rodríguez García et al. 2017; Lopez et al. 2020; Jara-Bertin and Arias 2013), while it has also made the reported information more opaque (Mongrut and Winkelried 2019). Taken together, the extant literature shows a different effect of IFRS on conservatism in Europe than in Latin-America, which is in line with Nobes (2013), who provides evidence that international accounting differences survived the arrival of IFRS.

Moreover, Zeghal et al. (2012) show evidence that IFRS adoption in Europe improves earnings quality due to the distance between IFRS and the local GAAP of each country. Păşcan (2015) suggests that accounting standards, political and legal systems, and incentives for the presentation of financial statements affect quality; therefore, the impact of IFRS should be analyzed considering the characteristics of each country and company.

Also, the empirical evidence is not conclusive on the effect of IFRS on the quality of earnings. For instance, Kabir et al. (2010) show that IFRS adoption decreases earnings quality using a sample from New Zealand firms. They argue that results are similar to previous standards and IFRS. Benkraiem et al. (2021) do not provide empirical evidence for a sample of French companies. Nevertheless, they show that earnings are more reliable following IFRS adoption, suggesting that international standards could limit managerial opportunism. However, Bryce et al. (2015) do not find evidence about the effect of IFRS adoption, suggesting that Australian GAAP was probably enough to provide adequate controls on earnings management, while Fuad et al. (2019) also do not find a significant effect for Indonesian firms.

Regarding the Latin-American context, Rodríguez García et al. (2017) show a positive relation between accounting conservatism (and value relevance) and IFRS adoption by using a sample of large companies in Argentina, Brazil, Chile, and Mexico. In addition, comparable studies support the concept of a positive effect of IFRS on conservatism by arguing that IFRS adoption attenuates the effect of a weaker legal structure (Rodríguez García et al. 2017; Jara-Bertin and Arias 2013; Chen et al. 2010; Hellman 2008; Cai et al. 2008). Therefore, if the "complementary" role of IFRS is expected

due to weaker legal protection, hence our Hypothesis 1 is as follows:

**H1**: *The mandatory IFRS adoption increase earnings conservatism and earnings quality.*
H1 corresponds to our baseline hypothesis, meaning that we should not expect to have different results from prior studies that analyzed Latin American economies. Hence our posterior results should not be explained by sample or method differences with comparable literature. The main focus of our paper, and in turn, the main contribution, is described by the following hypotheses that focus on the role played by institutional investors.

### 2.1. Institutional investors' influence.

Few studies consider the influence of institutional investors on earnings attributes for emerging markets. Moreover, to the best of our knowledge, there is no other article studying accounting conservatism in this context. Therefore, we contribute to the literature and analyze the effect of IFRS and institutional investors on the quality of earnings estimated through changes in working capital and the residuals models proposed by Dechow and Dichev (2002) and McNichols (2002), and conditional conservatism using Basu (1997) model.

Institutional investors have become the largest and most relevant minority shareholders in Latin-American listed firms (OECD 2011). The most common view is that institutional investors have contributed to the capital markets development by promoting efficient transactions, risk evaluation, and improvements in corporate governance and informational transparency (Alvarez et al. 2018; Gompers and Metrick 2001; Elyasiani and Jia 2010; Elyasiani et al. 2010; Gillan and Starks 2003; Chung et al. 2002; Amihud and Li 2006). In addition, the evidence has pointed out that an increase in institutional investors results in higher value premiums (Ferreira and Matos 2008), lower corporate bond yields (Elyasiani et al. 2010), and better corporate governance (Aggarwal et al. 2011), and that IFRS adoption has increased institutional holdings (Florou and Pope 2012).

Evidence has also shown that positive institutional ownership shocks positively impact corporate disclosure quantity and quality (Bird and Karolyi 2016). Using a sample of US non-financial firms, Chung et al. (2002) analyze institutional investors' incentives to monitor opportunistic earnings management. Their results show that when institutional investors participate in a firm's ownership, they effectively restrict managers' incentives to increase or decrease reported earnings. Chung et al. (2005) argue that managers of low-growth firms that generate surplus free cash flows have incentives to engage in earnings management to attenuate low earnings problems and negative NPV associated

with new investment projects. Their results suggest that institutional investor ownership moderates this relation between earnings management and surplus free cash flow. In another study, Garcia Lara et al. (2009) examine how corporate governance influences accounting conservatism. Their results show a positive relationship between strong-governance firms and conditional accounting conservatism and conclude that strong-governance firms timelier inform investors about bad news.

Empirical evidence suggests that institutional investors improve corporate governance in emerging markets due to the incentives and ability to monitor activities and reduce asymmetric information (Hartzell et al. 2014), which is particularly relevant in institutional settings where investors' rights are not fully protected (Alvarez et al. 2018). The rational for this effect is that institutional ownership represents a direct mechanism to discipline management by exerting monitoring or indirect influence through threatening to sell their shares, even in developed markets (Gillan and Starks 2003; Gillan and Starks 2000; Gillan and Starks 2007; Hsu and Koh 2005). In developing countries such as the Latin-American context, the role of institutional investors is more critical than in developed markets due to the weakness of the external investor protection and the controlling shareholder's incentives to extract private benefits (La Porta et al. 1998).

### 2.2. The moderating effect of institutional investors

Two competing forces can explain the impact of institutional investors on the relationship between IFRS mandatory adoption and accounting conservatism and earnings quality, which are the focus of this study: "monitoring" roles and "pricing" incentives.

The "monitoring" role suggests that institutional investors are called to play a crucial role in improving corporate governance. Watts (2003) argues that institutions have incentives to monitor activities and demand conservatism as a corporate governance mechanism. The empirical evidence shows that institutional ownership reduces financial risk, measured by the firm's credit rating (Elyasiani et al. 2010). LaFond and Watts (2008) claim that outside investors reduce informational asymmetries by promoting accounting conservatism, reducing insiders' incentives and ability to manipulate earnings. Ramalingegowda and Yu (2012) point out that independent and long-term-oriented investors have higher monitoring incentives. Their results suggest that institutional investors improve corporate governance by monitoring management and demanding financial reporting conservatism.

The intensity of the "monitoring" role also depends on the heterogeneity of institutions. On the one hand, independent investors (e.g., Investment advisors and mutual funds) engage in more active monitoring because they are less likely to have business ties with firms they invest. These investors are called "*pressure-resistant*" to management influence (Ferreira and Matos 2008; Kucuk 2010; Brickley et al. 1988; Almazán et al. 2005). Moreover, when independent institutions become blockholders, their incentives to gather information, monitor controllers, and demand more and better information are boosted (McConnell and Servaes 1990; Maug 1998; Cornett et al. 2007). They can use both mechanisms, "the voice" or "the threat of exit", to ask for greater conservatism, consistent with arguments related to investor demand for investment aimed at securing superior firm value (Gompers and Metrick 2001; Marie and Bastien 2009; Pombo and Taborda 2017).

On the other hand, "pricing" incentives are related to institutional investors' incentives to act in a myopic manner (Burns et al. 2010). Institutional investors seeking short-term returns could encourage managers to alter the current performance or adopt more aggressive financial reporting strategies (Andrés 2008; Bushee et al. 2014). In this line, Rajgopal et al. (2007) claim that when investor sentiment about firms is optimistic, they demand stocks that report positive earnings surprises, causing fluctuations in investors' reaction to upbeat earnings news. Simpson (2013) also supports this evidence by using a sample of listed firms between 1976-2005 and finding that the likelihood of observing income-increasing earnings management is higher during periods of high investor sentiment.

Other "pricing" incentives arise when institutional blockholders collude with insiders to extract private benefits (Edmans 2014). For example, when institutional investors are short-term oriented, it's expected they encourage managers to undertake aggressive accounting strategies to meet or beat earnings targets (Ahmed et al. 2013; Peasnell et al. 1999; Burgstahler and Eames 2006; Burgstahler and Dichev 1997).

From the perspective of the quality of earnings, Chung et al. (2002) show evidence to support that institutional investors reduce earnings management. Institutional investors have the resources, experiences, and incentives to monitor managers' actions actively and improve financial information quality. However, other studies postulate negative influence (Velury and Jenkins 2006). In a closer study, institutional investor ownership is related to higher earnings quality in countries with low levels of anti-director rights and investor protection (De Lima et al. 2018). Additionally, if the country has greater protection for investors, the relation between strategic institutional ownership and firm

earnings quality is stronger (Zhong et al. 2017).

In sum, the influence of institutional investors on the relationship between IFRS mandatory adoption and earnings conservatism and quality will depend on their incentives to influence financial information. On the one hand, the "monitoring" roles suggest that institutional ownership boosts IFRS mandatory adoption's effect in improving earnings quality and increasing earnings conservatism. Institutional investors could improve financial reports attributes and reduce the likelihood of private benefits extraction when firms adopt mandatory rules such as IFRS (Leuz et al. 2003; Nenova 2003; La Porta et al. 2002; La Porta et al. 2000; Hsu and Koh 2005; Chen et al. 2018). Thus, if the "monitoring" role predominates, we expect institutional investor ownership to boost the effect of IFRS adoption on accounting conservatism and earnings quality. On the other hand, if "pricing" incentives prevail, we expect firms to undertake more aggressive short-term accounting strategies that reduce the beneficial role of IFRS adoption on accounting conservatism and earnings quality. Hence, we state the following hypothesis:

**H2A**: *Institutional investors boost the effect of IFRS mandatory adoption on earnings conservatism and earnings quality*.

**H2B**: *Institutional investors reduce the effect of IFRS mandatory adoption on earnings conservatism and earnings quality*.

H2A and H2B could also be referred as the “monitoring hypothesis” and the “pricing hypothesis”, respectively.

As discussed above, incentives to engage in monitoring or pricing goals may not be linked to the generalistic term “institutional investor”, but to the type of investor. In this study, we contribute to disentangling institutional investors' influence on mandatory IFRS adoption in Latin America. For instance, as “grey” investors such as banks, pension fund managers, and endowments tend to form long-term business ties with insiders, they are more prone to give in to pressure from the management, and they also present higher monitoring costs (Ferreira and Matos 2008; Almazán et al. 2005; Brickley et al. 1988). Unfortunately, studies in the field of IFRS/conservatism have not analyzed this type of institutional investor. Our study fills that gap in the literature. Moreover, unlike other emerging economies, private pension funds play an important role in monitoring and providing market liquidity (Jara et al. 2019). They tend to behave as independent investors in Latin America. Therefore, they have the incentives and resources to "monitor" rather than "price".

Due to the heterogeneous incentives faced by different institutional investors, we expect that the prevailing role on mandatory IFRS adoption depends on the type of investor. Hence, our Hypothesis 3 follows:

**H3:** *The increasing/decreasing effect of institutional ownership on the relation between mandatory IFRS adoption and earnings conservatism and quality depends on the type of institutional investor.*

In particular, for Hypothesis 3, we expect the results found at the testing of Hypothesis 2 to be driven by the type of investor.

## 3. Method

Since we analyze two earnings attributes, we test two separate models to test the effect of IFRS adoption and institutional investors on earnings conservatism and earnings quality, respectively.

To test the earnings conservatism, we extend the Basu (1997) model[10], in which conservatism is proxied by the asymmetric timeliness recognition of bad economic news in earnings rather than good news, due to accountants' and investors' inclination to require greater verification of positive expectations. We incorporate the effect of IFRS adoption and the institutional investor ownership variable to test their role in curving management incentives. To test our hypotheses, we estimate different specifications of the following general empirical model, where we highlighted the main parameters to test our hypotheses.

$$X_{i,t} = \beta_0 + \beta_1 \cdot R_{i,t} + \beta_2 \cdot DR_{i,t} + \boldsymbol{\beta_3} \cdot DR_{i,t} \cdot R_{i,t} + \beta_4 \cdot IFRS_{i,t} + \beta_5 \cdot DR_{i,t} \cdot IFRS_{i,t} + \beta_6 \cdot R_{i,t} \cdot IFRS_{i,t} + \boldsymbol{\beta_7} \cdot R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} + \beta_8 \cdot IOwn_{i,t} + \beta_9 \cdot R_{i,t} \cdot IOwn_{i,t} + \beta_{10} \cdot DR_{i,t} \cdot IOwn_{i,t} + \boldsymbol{\beta_{11}} \cdot DR_{i,t} \cdot R_{i,t} \cdot IOwn_{i,t} + \beta_{12} \cdot IFRS_{i,t} \cdot IOwn_{i,t} + \beta_{13} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t} + \beta_{14} \cdot R_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t} + \boldsymbol{\beta_{15}} \cdot R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t} + C.V._{i,t-1} + cy_i + i_i + u_{i,t} \quad (1)$$

where $IFRS_{i,t}$ is a dummy variable that takes the value 1 if firm *i* in year *t* reports their financial statements with IFRS, and 0 otherwise. $IOwn$ is the proportion of shares owned by institutional

[10] defines his empirical model as: $X_{i,t} = \beta_0 + \beta_1 \cdot R_{i,t} + \beta_2 \cdot DR_{i,t} + \beta_3 \cdot DR_{i,t} \cdot R_{i,t} + u_{i,t}$, where, $X_{i,t}$ represents earnings per share over stock price at the beginning of the year, $R_{i,t}$ represents annual stock return, and $DR_{i,t}$ is a *Bad News* dummy that takes the value 1 if stock return is negative, and 0 otherwise. A key concept in this model is that *Bad News* is represented by a proxy of negative stock returns, conceptually because stock prices reflect firm information flowing in capital markets. The coefficient for the $DR_{i,t} \cdot R_{i,t}$ ($\beta_3$) is expected to be positive and statistically significant.

investors (total, blockholder, minority, grey blockholder, and independent blockholder institutional investors). Because the relevant variation of this model comes from the differential effect of IFRS implementation and the institutional ownership participation on the relationship between *Bad News* and earnings, we use panel data regressions for our estimations, introducing a set of fixed effects. Specifically, we introduce Country-Year Fixed Effect ($cy_i$), and Industry Fixed Effect ($i_i$) as control variables. Including the Country-Year Fixed Effect captures country time-variant variables, such as GDP growth and inflation, to avoid specification issues such as those raised by Isidro et al. (2020) and Nobes (2022).

In this framework, if conditional conservatism in earnings exists (Basu 1997; Dechow et al. 2010; Roychowdhury and Watts 2007; García Lara et al. 2005), the parameter of $DR_{i,t} \cdot R_{i,t}$ ($\beta_3$) is expected to be positive. As the evidence suggests, greater conservatism should increase *Bad News* sensitivity of earnings.

Moreover, the interacted variable between $DR$, $R$, and $IFRS$ is introduced ($R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ and the parameter is $\beta_7$) to test hypothesis 1, where we expect that IFRS adoption enhances earnings conservatism. If $IFRS$ has a positive effect on earnings conservatism, $\beta_7$ will be positive and statistically significant. In summary, since we expect a positive parameter for both $\beta_3$ and $\beta_7$, we also expect the sum $\beta_3 + \beta_7$ to be positive and significant.

The impact of institutional ownership ($IOwn$) on earnings conservatism is captured by the term $DR_{i,t} \cdot R_{i,t} \cdot IOwn_{i,t}$ ($\beta_{11}$), and overall conditional conservatism for firms with institutional ownership would be captured by $\beta_3 + \beta_{11} * IOwn$.

More importantly, the role of institutional investors on earnings conservatism when firms adopt mandatory IFRS is captured by the interacted term $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t}$ (parameter $\beta_{15}$). Specifically, we test whether the presence of institutional investors ($IOwn$) moderates the relationship between IFRS adoption and earnings conservatism. According to hypotheses 2A and 2B, if the monitoring role predominates, the sensitivity between IFRS adoption and conservatism ($\beta_3 + \beta_7$) should increase (H2A). In this regard, this moderating relation is measured by the marginal effect of $IOwn$ on the association between IFRS and conservatism ($\beta_7 + \beta_{15} * IOwn$). As a robustness test, we introduce additional firm-level covariates to the Basu model such as Tobin's Q, Size (the natural logarithm of total assets), and the Debt-to-Assets ratio. Also, we control for potential endogeneity concerns in panel data using GMM-IV regressions.

In line with Hypothesis 3, we expect that the role played by institutional investors will depend on the incentives that they face. To shed light on this concept, we estimate equation (1) by introducing the type of institutional investor. Empirical evidence suggests that institutional investors invest more in large firms and those with a better corporate governance reputation. They also prefer firms with higher operational performance, valuation, and information disclosure (Ferreira and Matos, 2008). These factors raise concerns about potential endogeneity in the model linked to investor preferences. To attenuate this problem, we first differentiate between institutional investors who can monitor through significant ownership holdings -blockholders- and minority holders. We define blockholders institutional ownership as the sum of all ownership held by any blockholding institutional investor ($BIOwn$). When a stand-alone institutional investor does not meet the 5% blockholding threshold, we compute the $BIOwn$ variable as zero. We also include, separately, the potential effect on investment of institutions defined as having minority institutional ownership ($MIOwn$), computed as the sum of all ownership held by any minority institutional investor (stake <5%), taking value 0 if stake exceeds 5%.

Moreover, we separate institutional investors between independent blockholder institutional investors (*IndIO*) –hedge funds, hedge fund portfolios, investment advisors, and mutual funds–, and grey blockholder institutional investors (*GreyIO*) –banks, trusts, insurance companies, pension funds, and endowments.

This paper also analyzes the effect of institutional investors and IFRS mandatory adoption on earnings quality. We first obtain our earnings quality proxy through the standard deviation of residuals from industry-year regressions ($SdDDQ_{i,t}$), following the working capital accruals model by Dechow and Dichev (2002). Second, we test the following empirical model:

$$SdDDQ_{i,t} = \gamma_0 + \gamma_1 \cdot \text{IFRS}_{i,t} + \gamma_2 IFRS_{i,t} \cdot IOwn_{i,t} + \gamma_3 \cdot IOwn_{i,t} + C.V. + cy_i + i_i + u_{i,t} \qquad (2)$$

where $IFRS_{i,t}$ is a dummy variable that takes the value 1 if firm $i$ in year $t$ reports their financial statements with IFRS, and 0 otherwise, and $IOwn$ is the proportion of shares owned by institutional investors (total, minority, grey blockholder, and independent blockholder institutional investors). $C.V.$ includes firm-level control variables such as natural logarithm of assets (Ln (Assets)), debt to assets ratio, Tobin's Q, operating cash flow to assets ratio, the absolute value of total accruals (Abs(Accruals), PPE to assets ratio, sales to assets ratio and dividends paid to assets ratio. In addition, we introduce Country-Year Fixed Effect ($cy_i$), and Industry Fixed Effect ($i_i$) as control variables. To

the tests hypothesis related to earnings quality, we focus on $\gamma_1$ for H1 (the effect of IFRS adoption), $\gamma_2$ and $\gamma_3$ for H2 (the effect of institutional ownership), and we introduce the variables $BIOwn$, $MIOwn$, $IndIO$, and $GreyIO$ to identify different institutional investors incentives (H3).

## 4 Data sources and sample description

Our data set comprises firm-level information from Thomson Reuters Eikon. Our raw data consists of 545 Latin American listed firms and 4,501 observations of annual financial information from 2005 to 2015. Since we only focus on non-financial corporations, we exclude financial and real estate firms. We also eliminate firms with less than three-year coverage and firms with missing values for income, sales, assets, debt, cash flow, and stock prices. Lastly, we trim the data for each variable at the top and bottom 1%. Thus, our final sample is an unbalanced panel of 508 non-financial firms from Argentina, Brazil, Chile, Mexico, and Peru contributing a total of 3,988 firm-year observations[11]. The most restrictive data source availability is the information related to ownership structure and institutional investors. The definition of the variables used in the empirical analysis has been specified in Appendix A.

Table 1 provides a further description of each sample by country. Brazil and Argentina offer the largest and smallest samples, with 1,570 and 344 observations, respectively. Around 65% of the total sample reported under IFRS: Brazil and Chile show the highest reporting percentages due to earlier implementation[12] than the other countries, with 75% and 69%, respectively. The lowest IFRS reporting percentages correspond to Argentina and Mexico, with 47% and 51%, respectively.

Institutional investor ownership in Latin American firms is low. Table 1 shows that the mean ownership by institutional investors ($IOwn$) is 9.4%. For firm-year observations where $IOwn > 0$, the mean institutional ownership rises to 16.8%. Institutional investor blockholders ($BIOwn$) hold 5.2% of total equity rights are held, while 4.3% of sample equity rights are in the hands of minority institutional investors ($MIOwn$)[13]. Finally, when we separate blockholders between independent ($IndIO$) and grey investors ($GreyIO$), the full-sample averages are reduced to 4.0% and 1.2%,

[11] Colombia has been excluded due to its small sample size of 31 observations, which does not allow us to estimate the earnings quality model with sufficient power.
[12] The mandatory IFRS adoption calendar differed for each country in the sample. In Chile, larger firms began reporting using IFRS in 2009, while smaller firms started in 2010. In Brazil, this occurred from 2010 to 2012, while in Mexico, Argentina and Peru firms adopted IFRS in 2012.
[13] Recall that the ownership variables are constructed as the sum of all the ownerships in each category, which is why the $MIOwn$ average is above 5%.

because of the lower frequency of incidence.

**Table 1: Summary of statistics for 2005–2015**

| | Argentina | | Brazil | | Chile | | Mexico | | Peru | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Variable | Mean | Std. Dev | Mean | Std. Dev | Mean | Std. Dev | Mean | Std. Dev | Mean | Std. Dev | Mean | Std. Dev |
| $X_{i,t}$ | 0.080 | 0.301 | 0.038 | 0.284 | 0.064 | 0.163 | 0.034 | 0.186 | 0.149 | 0.302 | 0.060 | 0.252 |
| $R_{i,t}$ | 0.172 | 0.566 | 0.114 | 0.749 | 0.061 | 0.486 | 0.160 | 0.522 | 0.266 | 0.748 | 0.131 | 0.647 |
| $D_{i,t}$ | 0.448 | 0.498 | 0.554 | 0.497 | 0.549 | 0.498 | 0.401 | 0.491 | 0.432 | 0.496 | 0.505 | 0.500 |
| $IFRS_{i,t}$ | 0.465 | 0.500 | 0.750 | 0.433 | 0.687 | 0.464 | 0.508 | 0.500 | 0.579 | 0.494 | 0.652 | 0.476 |
| $SdDDQ_{i,t}{}^{+}$ | 0.035 | 0.019 | 0.040 | 0.027 | 0.036 | 0.025 | 0.036 | 0.028 | 0.036 | 0.025 | 0.373 | 0.026 |
| $TA_{i,t}$ | -0.060 | 0.144 | -0.069 | 0.172 | -0.049 | 0.126 | -0.066 | 0.139 | -0.073 | 0.145 | -0.064 | 0.151 |
| $Abs(Accruals)_{i,t}$ | 0.105 | 0.116 | 0.128 | 0.134 | 0.092 | 0.099 | 0.092 | 0.099 | 0.113 | 0.117 | 0.112 | 0.194 |
| $CFO/Assets_{i,t}$ | 0.089 | 0.089 | 0.079 | 0.090 | 0.078 | 0.082 | 0.094 | 0.077 | 0.089 | 0.094 | 0.083 | 0.087 |
| $PPE/Assets_{i,t}$ | 0.498 | 0.212 | 0.350 | 0.260 | 0.482 | 0.247 | 0.435 | 0.221 | 0.593 | 0.262 | 0.439 | 0.260 |
| Tobin's Q | 0.911 | 0.549 | 1.056 | 0.719 | 0.991 | 0.545 | 1.203 | 0.713 | 0.947 | 0.772 | 1.039 | 0.678 |
| Ln(assets) | 19.460 | 1.631 | 20.756 | 1.659 | 20.261 | 1.724 | 21.080 | 1.480 | 19.573 | 1.358 | 20.430 | 1.698 |
| Debt/Assets | 0.246 | 0.167 | 0.300 | 0.166 | 0.260 | 0.123 | 0.276 | 0.163 | 0.236 | 0.137 | 0.274 | 0.154 |
| Sales/Assets | 0.979 | 0.618 | 0.800 | 0.536 | 0.750 | 0.493 | 0.841 | 0.462 | 0.792 | 0.495 | 0.809 | 0.520 |
| Div/Assets | 0.010 | 0.025 | 0.021 | 0.037 | 0.027 | 0.034 | 0.017 | 0.031 | 0.023 | 0.038 | 0.211 | 0.350 |
| $IOwn_{i,t}$ | 0.040 | 0.107 | 0.142 | 0.181 | 0.088 | 0.106 | 0.059 | 0.095 | 0.036 | 0.102 | 0.094 | 0.145 |
| $BIOwn_{i,t}$ | 0.022 | 0.092 | 0.089 | 0.153 | 0.033 | 0.069 | 0.022 | 0.082 | 0.028 | 0.089 | 0.052 | 0.118 |
| $MIOwn_{i,t}$ | 0.018 | 0.044 | 0.053 | 0.058 | 0.055 | 0.062 | 0.036 | 0.043 | 0.008 | 0.025 | 0.043 | 0.056 |
| $IndIO_{i,t}$ | 0.000 | 0.005 | 0.072 | 0.163 | 0.029 | 0.065 | 0.022 | 0.082 | 0.012 | 0.038 | 0.040 | 0.102 |
| $GreyIO_{i,t}$ | 0.022 | 0.092 | 0.017 | 0.063 | 0.004 | 0.018 | 0.000 | 0.000 | 0.016 | 0.055 | 0.012 | 0.053 |
| Obs. | 344 | | 1,570 | | 971 | | 628 | | 475 | | 3,988 | |

*Notes*: This table provides the mean and standard deviation for variables across sample countries. Variables are defined in appendix A. The total count of observations is lower for the variable $SdDDQ_{i,t}$ because its construction requires two lagged observations.

## 5. Results and discussion

To evaluate the role of institutional ownership on the IFRS mandatory adoption, we first analyze the impact of IFRS adoption on earnings conservatism and earnings quality. In this sense, hypothesis 1 represents a baseline result moderated by institutional ownership in hypotheses 2 and 3.

### 5.1. Baseline results: IFRS adoption, earnings conservatism, and earnings quality.

Columns 1 to 5 of Table 2 show the baseline OLS estimations for equation (1) by including fixed effects at the country-year level and industry level. In column 3, we analyze the effect of IFRS mandatory adoption on conditional earnings conservatism. All columns of Table 2 show that stock returns ($R_{i,t}$) are positively associated with earnings ($X_{i,t}$), as expected. We capture Asymmetric recognition of *Bad News* by the interaction term between $R_{i,t}$(annual stock return) and $DR_{i,t}$ (negative stock return dummy). Overall results suggest the existence of conditional conservatism of earnings due to an increased sensitivity of earnings to negative returns (interaction $DR_{i,t} \cdot R_{i,t}$). For instance, if we consider the effect of *Bad News*, the sensitivity of earnings to stock return increase from 0.088

to 0.246, which is consistent with previous evidence on earnings conservatism (Garcia Lara et al. 2016; Iyengar and Zampelli 2010; Garcia Lara et al. 2009; Ahmed 2007).

Hypothesis 1 suggests that mandatory IFRS adoption increases earnings conservatism in Latin America. Column 3 of Table 2 incorporates the effect of IFRS adoption. Results show that the parameter for the interaction $DR_{i,t} \cdot R_{i,t}$ is positive and statistically significant (only in the OLS model). We introduce the triple interacted term $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$, captured by parameter $\beta_7$, to measure the moderating effect of IFRS adoption on the relationship between *Bad News* and earnings. Results show that the parameter of the interaction $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ is positive and statistically significant, indicating that earnings are even more sensitive to *Bad News* when firms report under the introduced IFRS standards. Thus, the marginal effect in column 3 shows that the marginal of *Bad News* on earnings is 0.115 + 0.177$\cdot IFRS_{i,t}$. Consequently, when considering the effect of IFRS, sensitivity to *Bad News* increases from 0.098 to 0.292. This result is in line with the arguments on the positive impact of IFRS adoption on earnings conservatism in Latin America (Rodríguez García et al. 2017).

As a robustness check, columns 6 and 10 of Table 2 show the extended Basu baseline estimates of equation (1) using the GMM system estimator, controlled by fixed effects at country, year, and Industry levels. In sum, results hold qualitatively robust to potential endogeneity concerns.

## Table 2: Baseline Estimations and Robustness check

| | | Baseline Model (OLS) | | | | | Baseline Model (GMM-IV) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| VARIABLES | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| $R_{i,t}$ | $\beta_1$ | 0.088*** | 0.059*** | 0.098*** | 0.131*** | 0.136*** | 0.096*** | 0.067** | 0.120*** | 0.152*** | 0.187*** |
| | | (0.015) | (0.021) | (0.021) | (0.025) | (0.039) | (0.015) | (0.034) | (0.025) | (0.029) | (0.042) |
| $DR_{i,t}$ | $\beta_2$ | -0.012 | -0.026* | -0.033 | -0.023 | 0.022 | -0.010 | 0.076* | -0.050* | 0.009 | 0.065 |
| | | (0.013) | (0.015) | (0.023) | (0.027) | (0.023) | (0.013) | (0.040) | (0.027) | (0.023) | (0.047) |
| $DR_{i,t} \cdot R_{i,t}$ | $\beta_3$ | 0.159*** | 0.260*** | 0.115** | 0.088 | 0.111 | 0.070* | 0.404*** | -0.013 | 0.105 | -0.076 |
| | | (0.036) | (0.052) | (0.054) | (0.063) | (0.067) | (0.038) | (0.114) | (0.055) | (0.065) | (0.089) |
| $IFRS_{i,t}$ | $\beta_4$ | | | 0.056* | 0.050 | 0.048 | | | 0.047 | 0.006 | 0.072** |
| | | | | (0.031) | (0.032) | (0.039) | | | (0.030) | (0.025) | (0.032) |
| $DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_5$ | | | 0.014 | 0.014 | -0.012 | | | 0.058* | 0.019 | -0.027 |
| | | | | (0.033) | (0.034) | (0.031) | | | (0.033) | (0.027) | (0.055) |
| $R_{i,t} \cdot IFRS_{i,t}$ | $\beta_6$ | | | -0.069 | -0.084*** | -0.075* | | | -0.053* | -0.119*** | -0.136** |
| | | | | (0.045) | (0.030) | (0.043) | | | (0.029) | (0.039) | (0.057) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_7$ | | | 0.177** | 0.177** | 0.155* | | | 0.148** | 0.297*** | 0.340*** |
| | | | | (0.083) | (0.078) | (0.084) | | | (0.073) | (0.103) | (0.115) |
| $IOwn_{i,t}$ | $\beta_8$ | | -0.035 | | 0.063 | 0.083 | | -0.084 | | 0.259 | 0.442* |
| | | | (0.027) | | (0.065) | (0.083) | | (0.092) | | (0.179) | (0.227) |
| $R_{i,t} \cdot IOwn_{i,t}$ | $\beta_9$ | | 0.073 | | -0.300** | -0.222* | | 0.067 | | -0.818** | -0.675* |
| | | | (0.053) | | (0.119) | (0.120) | | (0.117) | | (0.365) | (0.376) |
| $DR_{i,t} \cdot IOwn_{i,t}$ | $\beta_{10}$ | | 0.108* | | -0.123 | -0.206 | | -0.216 | | -0.172 | -0.565 |
| | | | (0.064) | | (0.122) | (0.143) | | (0.178) | | (0.145) | (0.548) |
| $DR_{i,t} \cdot R_{i,t} \cdot IOwn_{i,t}$ | $\beta_{11}$ | | -0.230* | | 0.099 | 0.064 | | -0.920** | | 1.089* | 0.415 |
| | | | (0.132) | | (0.181) | (0.202) | | (0.456) | | (0.638) | (0.731) |
| $IFRS_{i,t} \cdot IOwn_{i,t}$ | $\beta_{12}$ | | | | -0.114 | -0.132 | | | | -0.274 | -0.531** |
| | | | | | (0.078) | (0.090) | | | | (0.180) | (0.254) |
| $DR_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t}$ | $\beta_{13}$ | | | | 0.169 | 0.215 | | | | 1.043 | 0.421 |
| | | | | | (0.138) | (0.155) | | | | (0.967) | (0.562) |
| $R_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t}$ | $\beta_{14}$ | | | | 0.391*** | 0.315** | | | | 0.987*** | 0.883** |
| | | | | | (0.127) | (0.130) | | | | (0.363) | (0.422) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot IOwn_{i,t}$ | $\beta_{15}$ | | | | -0.435* | -0.515* | | | | -1.548** | -1.399* |
| | | | | | (0.253) | (0.261) | | | | (0.729) | (0.813) |
| Constant | $\beta_0$ | 0.097*** | 0.105*** | 0.067*** | 0.070*** | -0.062 | 0.164*** | 0.085*** | 0.172*** | 0.060*** | 0.163 |
| | | (0.009) | (0.012) | (0.022) | (0.022) | (0.051) | (0.038) | (0.021) | (0.043) | (0.020) | (0.184) |
| Observations | | 3,988 | 3,988 | 3,988 | 3,988 | 3,041 | 3,988 | 3,988 | 3,988 | 3,988 | 3,041 |
| R-squared | | 0.188 | 0.186 | 0.193 | 0.193 | 0.212 | - | - | - | - | - |
| Adj. R2 | | 0.175 | 0.173 | 0.178 | 0.178 | 0.194 | - | - | - | - | - |
| F-Stat | | 34.75 | 34.41 | 29.37 | 19.42 | 16.39 | - | - | - | - | - |
| Firm-Level Control Variables | | No | No | No | No | Yes | No | No | No | No | Yes |
| Country-Year FE | | Yes | Yes | Yes | Yes | Yes | No | No | No | No | No |
| Industry FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Country FE | | No | No | No | No | No | Yes | Yes | Yes | Yes | Yes |
| Year FE | | No | No | No | No | No | Yes | Yes | Yes | Yes | Yes |
| F-Test | | - | - | - | - | - | 9.89 | 16.37 | 10.24 | 17.10 | 25.83 |
| Auto(2) | | - | - | - | - | - | 0.567 | 0.545 | 0.543 | 0.545 | 0.577 |
| Hansen p-value | | - | - | - | - | - | 0.314 | 0.152 | 0.412 | 0.152 | 0.386 |
| Marginal Effect | | | | | | | | | | | |
| $\beta_1 + \beta_3 \cdot DR_{i,t}$ | | 0.246*** | 0.319*** | 0.213*** | 0.218*** | 0.247*** | 0.166*** | 0.472*** | 0.107** | 0.257*** | 0.264** |
| | | (0.0321) | (0.0484) | (0.0468) | (0.0547) | (0.0523) | (0.035) | (0.110) | (0.0478) | (0.085) | (0.111) |
| $\beta_3 + \beta_{11} \cdot IOwn$ | | | 0.238*** | | 0.0970* | 0.118** | - | 0.318*** | - | 0.208* | 0.119 |
| | | | (0.0472) | | (0.0557) | (0.0572) | - | (0.083) | - | (0.114) | (0.156) |
| $\beta_3 + \beta_7 \cdot IFRS$ | | | | 0.292*** | 0.264*** | 0.266*** | - | - | 0.135*** | 0.402** | 0.417** |
| | | | | (0.0641) | (0.0524) | (0.0505) | - | - | (0.046) | (0.158) | (0.194) |
| $\beta_3 + \beta_{11} \cdot IOwn + \beta_{15} \cdot IFRS$ | | | | | -0.338 | -0.397 | - | - | - | -1.340** | -1.280* |
| | | | | | (0.270) | (0.283) | - | - | - | (0.641) | (0.689) |
| $\beta_3 + \beta_7 \cdot IFRS + \beta_{15} \cdot IOwn$ | | | | | 0.223*** | 0.213*** | - | - | - | 0.256** | 0.272* |
| | | | | | (0.0458) | (0.0473) | - | - | - | (0.122) | (0.141) |

*Notes*: Estimated results of equations (1). The dependent variable is earnings per share over stock price at the beginning of the period. As independent variables, we include *R*, which represents annual stock return. *DR* is a dummy variable that takes the value 1 if annual return is negative, and 0 otherwise. *IFRS* is a dummy variable that takes the value 1 if firms report their financial statements under IFRS standards, and 0 otherwise. *IOwn* is the proportion of shares owned by institutional investors. Firm-level control variables included are Tobin's Q, the natural logarithm of total assets (Size), and the Debt-to-Assets ratio. Standard errors are clustered at the firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively. Due to the potential endogeneity of the OLS regressions, we introduce all independent variables lagged from *t*–2 to *t*–4 in Columns 6 to 10, which are used as instruments in equations (1) and (2). Methodologically, the GMM results in columns 6 to 10 pass the required autocorrelation and instrumental validity tests. These tests do not reject either the null hypothesis of the validity of the instruments (Hansen) or the null hypothesis of the absence of second-order autocorrelation.

Regarding the effect of IFRS on earnings quality, we first measure earnings quality using three years' residual standard deviations[14] from the model proposed by Dechow and Dichev (2002), estimated through industry-year cross-sectional regressions.[15]

All the columns of Table 3 show a negative and significant relation between IFRS and the standard deviation of the Dechow and Dichev (2002) model residuals, with values between -0.007 and -0.009. These results indicate that IFRS adoption improves the quality of earnings by reducing the variability of short-term accrual estimation errors. In other words, IFRS adoption reduces informational risk and enhances the inferences related to accruals and cash-flow matching problems.

**Table 3: OLS Regressions of IFRS adoption and Earnings Quality**

| | | Dependent Variable: $SdDDQ_{i,t}$ (Three-year Dechow and Dichev's earnings quality measure) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| VARIABLES | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| $IFRS_{i,t}$ | $\beta_1$ | -0.009*** | -0.007*** | -0.007*** | -0.008*** | -0.007*** | -0.008*** | -0.008** | -0.008** |
| | | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.003) | (0.003) |
| Ln (Assets) $_{i,t}$ | $\beta_2$ | | -0.002*** | -0.002*** | -0.002*** | -0.002*** | -0.002*** | -0.002*** | -0.002*** |
| | | | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) |
| Debt/Assets $_{i,t}$ | $\beta_3$ | | | 0.004 | 0.003 | 0.004 | -0.000 | 0.001 | 0.001 |
| | | | | (0.004) | (0.004) | (0.003) | (0.004) | (0.004) | (0.004) |
| Tobin's Q $_{i,t}$ | $\beta_4$ | | | | -0.003*** | -0.002** | -0.002*** | -0.003*** | -0.004*** |
| | | | | | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| CFO/Assets $_{i,t}$ | $\beta_5$ | | | | | -0.018** | -0.017** | -0.013 | -0.015 |
| | | | | | | (0.008) | (0.008) | (0.008) | (0.010) |
| Abs(Accruals) $_{i,t}$ | $\beta_6$ | | | | | | 0.023*** | 0.023*** | 0.023*** |
| | | | | | | | (0.007) | (0.007) | (0.007) |
| PPE/Assets $_{i,t}$ | $\beta_7$ | | | | | | | -0.017*** | -0.017*** |
| | | | | | | | | (0.003) | (0.003) |
| Sales/Assets $_{i,t}$ | $\beta_8$ | | | | | | | 0.003*** | 0.003*** |
| | | | | | | | | (0.001) | (0.001) |
| Div/Assets $_{i,t}$ | $\beta_9$ | | | | | | | | 0.012 |
| | | | | | | | | | (0.030) |
| Constant | $\beta_0$ | 0.044*** | 0.082*** | 0.085*** | 0.084*** | 0.085*** | 0.081*** | 0.083*** | 0.084*** |
| | | (0.002) | (0.007) | (0.007) | (0.008) | (0.007) | (0.007) | (0.007) | (0.007) |
| Observations | | 2,151 | 2,124 | 2,103 | 2,082 | 1,931 | 1,923 | 1,903 | 1,903 |
| R-squared | | 0.047 | 0.060 | 0.062 | 0.067 | 0.072 | 0.079 | 0.106 | 0.106 |
| Adj. R2 | | 0.0266 | 0.0391 | 0.0406 | 0.0447 | 0.0479 | 0.0543 | 0.0808 | 0.0805 |
| F-Stat | | 18.25 | 27.70 | 20.72 | 20.16 | 20.16 | 22.30 | 17.70 | 15.63 |
| Country-Year FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

*Notes*: Estimated results of equation (2). The dependent variable quality of earnings is measured as the three-year standard deviation of the Dechow and Dichev model residuals. The other variables are defined in appendix A. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

[14] Note that the number of observations in Tables 3 and 5 is lower than estimations in Tables 2 and 4 (3,988) because we use two lags in estimating Dechow and Dichev's residual standard deviations.

[15] As a robustness test, we also employ the McNichols (2002) measure of earnings quality. Not tabulated results are consistent with the ones shown in this version of the paper.

The discussed results in tables 2 and 3 confirm the expectations about the gross effect of mandatory IFRS adoption on the financial information reported by firms in Latin America. In the following subsections, we disentangle those results by studying the institutional investors' role during the adoption.

### 5.2. The influence of institutional investors on firms adopting IFRS.

Hypothesis 2 points out the existence of two competing forces that could have opposite influences on IFRS's impact on earnings properties. The monitoring (pricing) effect suggests that institutional ownership boost (reduce) the beneficial role of IFRS on earnings conservatism and quality.

We first test the average effect of institutional investors on earnings conservatism without the inclusion of IFRS. Results in columns 2 and 7 of Table 2 show the results of Basu's model by only incorporating the institutional ownership variable (*IOwn*). We can observe that the parameter for the $DR_{i,t} \cdot R_{i,t}$ is positive and statistically significant. More importantly, the parameter of the interaction $DR_{i,t} \cdot R_{i,t} \cdot IOwn_{i,t}$ is negative and statistically significant, with value of -0.230 and -0.920. Considering the average of $IOwn_{i,t}$ in column 2, we observe a decreased sensitivity of *Bad News* from 0.260 to 0.238. In line with "pricing" incentives, our average results indicate that institutional ownership reduces earnings conservatism. That is, earnings are less sensitive to *Bad News* when institutional investors' ownership increases.

Addressing the moderating role of institutional investors on the relationship between IFRS adoption and conservatism (H2), columns 4, 5, 9 and 10 of Table 2 show the results of equation (1) by incorporating the interacted effect of institutional investor ownership (*IOwn*). Results in columns 4, 5, 9 and 10 show that the parameter of $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ interaction is positive and statistically significant, with values of 0.177, 0.155, 0.297 and 0.340, and suggests an increasing effect of IFRS adoption on conservatism. However, this increasing effect on earnings conservatism is counterbalanced by the presence of institutional investors in the ownership structure. For instance, in column 4 the marginal effect of institutional ownership is $0.088 + 0.177 - 0.435 \cdot IOwn_{i,t}$ ($\beta_3 + \beta_7 \cdot IFRS + \beta_{15} \cdot IOwn$). Evaluated at the sample average of institutional ownership, this results in a marginal effect of 0.223. In other words, when considering the effect of *IOwn*, the effect of *IFRS* is reduced from 0.264 ($\beta_3 + \beta_7 \cdot IFRS$) to 0.223. This result indicates that institutional investors reduce earnings conservatis by undertaking more aggressive earnings strategies when institutional investors' ownership increases. In addition, this result also can be explained by controlling shareholder's

incentives to undertake more aggressive accounting strategies to avoid external monitoring and maintain higher levels of asymmetric information regarding external investors (Jara-Bertin et al. 2018).

Digging deeper into the drivers for the effect by institutional investors, in Columns 1, 2, 3, 7, 8 and 9 of Table 4 we separately show the results of equation (1) by incorporating the moderating effect of institutional blockholders ($BIOwn$) and minority institutional holdings ($MIOwn$). Results indicate that the moderating role is only negative and significant for institutional blockholders ($R_{i,t}x\ DR_{i,t}x\ IFRS_{i,t}x\ BIOwn_{i,t}$) negative and statistically significant, with values of -0.486, -0.333, -0.743 and -0.439 (columns 1, 3, 7 and 9, respectively). For instance, considering column 3, the effect of IFRS on earnings conservatism is reduced from 0.259 to 0.242. Thus, when institutional investors increase their relative power becoming blockholders, they encourage insiders to undertake more aggressive accounting strategies in line with "pricing incentives".

## Table 4: Institutional Investor Heterogeneity and IFRS-Conservatism Relationship

| VARIABLES | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| $R_{i,t}$ | $\beta_1$ | 0.099*** | 0.106*** | 0.106*** | 0.101*** | 0.098*** | 0.101*** | 0.128*** | 0.134*** | 0.135*** | 0.131*** | 0.124*** | 0.130*** |
| | | (0.021) | (0.021) | (0.021) | (0.021) | (0.020) | (0.021) | (0.023) | (0.027) | (0.027) | (0.023) | (0.022) | (0.023) |
| $DR_{i,t}$ | $\beta_2$ | -0.036 | -0.022 | -0.024 | -0.035 | -0.030 | -0.032 | 0.008 | 0.030 | 0.029 | 0.010 | 0.011 | 0.012 |
| | | (0.024) | (0.028) | (0.029) | (0.024) | (0.023) | (0.024) | (0.021) | (0.022) | (0.023) | (0.020) | (0.020) | (0.020) |
| $DR_{i,t} \cdot R_{i,t}$ | $\beta_3$ | 0.117** | 0.137* | 0.138* | 0.116** | 0.122** | 0.123** | 0.109* | 0.118* | 0.115* | 0.108* | 0.115** | 0.113* |
| | | (0.056) | (0.073) | (0.074) | (0.057) | (0.054) | (0.057) | (0.059) | (0.063) | (0.065) | (0.058) | (0.056) | (0.058) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_4$ | 0.210** | 0.250** | 0.259** | 0.222** | 0.160* | 0.207** | 0.142** | 0.176** | 0.190** | 0.143** | 0.102 | 0.137** |
| | | (0.089) | (0.112) | (0.113) | (0.092) | (0.084) | (0.090) | (0.070) | (0.081) | (0.084) | (0.069) | (0.065) | (0.069) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot BIOwn_{i,t}$ | $\beta_5$ | -0.486* | | -0.333* | | | | -0.743* | | -0.439** | | | |
| | | (0.263) | | (0.191) | | | | (0.379) | | (0.219) | | | |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot MIOwn_{i,t}$ | $\beta_6$ | | -1.656 | -1.429 | | | | | -1.627* | -1.326 | | | |
| | | | (1.081) | (1.086) | | | | | (0.833) | (0.819) | | | |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot IndIO_{i,t}$ | $\beta_7$ | | | | -0.914*** | | -0.951*** | | | | -0.959** | | -0.746** |
| | | | | | (0.302) | | (0.243) | | | | (0.421) | | (0.295) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot GreyIO_{i,t}$ | $\beta_8$ | | | | | 1.542* | 1.622* | | | | | 0.029 | 0.188 |
| | | | | | | (0.877) | (0.887) | | | | | (0.915) | (0.908) |
| Constant | $\beta_0$ | 0.071*** | 0.056** | 0.058*** | 0.071*** | 0.067*** | 0.071*** | -0.045 | -0.054 | -0.057 | -0.077 | -0.078 | -0.079 |
| | | (0.022) | (0.021) | (0.021) | (0.022) | (0.022) | (0.021) | (0.069) | (0.069) | (0.069) | (0.070) | (0.070) | (0.070) |
| Observations | | 3,988 | 3,988 | 3,988 | 3,988 | 3,988 | 3,988 | 3,104 | 3,104 | 3,104 | 3,104 | 3,104 | 3,104 |
| R-squared | | 0.173 | 0.179 | 0.180 | 0.175 | 0.171 | 0.176 | 0.213 | 0.217 | 0.219 | 0.214 | 0.212 | 0.215 |
| Adj. R2 | | 0.157 | 0.163 | 0.163 | 0.159 | 0.155 | 0.158 | 0.194 | 0.198 | 0.198 | 0.194 | 0.193 | 0.194 |
| F-Stat | | 22.31 | 23.41 | 23.05 | 40.95 | 25.44 | 46.18 | 24.99 | 21.92 | 20.43 | 40.74 | 30.69 | 41.88 |
| Country-Year FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm-Level Control Variables | | No | No | No | No | No | No | Yes | Yes | Yes | Yes | Yes | Yes |
| Marginal Effect | | | | | | | | | | | | | |
| $\beta_1 + \beta_3 \cdot DR_{i,t}$ | | 0.216*** | 0.244*** | 0.244*** | 0.218*** | 0.220*** | 0.224*** | 0.237*** | 0.252*** | 0.250*** | 0.239*** | 0.239*** | 0.243*** |
| | | (0.0495) | (0.0655) | (0.0665) | (0.0499) | (0.0469) | (0.0501) | (0.0529) | (0.0574) | (0.0593) | (0.0525) | (0.0511) | (0.0532) |
| $\beta_3 + \beta_4 \cdot IFRS_{i,t}$ | | 0.327*** | 0.387*** | 0.397*** | 0.338*** | 0.283*** | 0.329*** | 0.252*** | 0.294*** | 0.305*** | 0.251*** | 0.217*** | 0.250*** |
| | | (0.0703) | (0.0803) | (0.0808) | (0.0718) | (0.0652) | (0.0714) | (0.0456) | (0.0561) | (0.0584) | (0.0452) | (0.0390) | (0.0459) |
| $\beta_4 + \beta_5 \cdot BIOwn_{i,t}$ | | 0.185** | - | 0.242** | - | - | - | 0.100* | - | 0.165** | - | - | - |
| | | (0.0823) | - | (0.111) | - | - | - | (0.063) | - | (0.0813) | - | - | - |
| $\beta_4 + \beta_6 \cdot MIOwn_{i,t}$ | | - | 0.179** | 0.199** | - | - | - | - | 0.101 | 0.129* | - | - | - |
| | | - | (0.0836) | (0.0865) | - | - | - | - | (0.0656) | (0.0692) | - | - | - |
| $\beta_4 + \beta_7 \cdot IndIO_{i,t}$ | | - | - | - | 0.185** | - | 0.168** | - | - | - | 0.101 | - | 0.104 |
| | | - | - | - | (0.0829) | - | (0.0841) | - | - | - | (0.0639) | - | (0.0659) |
| $\beta_4 + \beta_{15} \cdot GreyIO_{i,t}$ | | - | - | - | - | 0.178** | 0.225** | - | - | - | - | 0.103 | 0.140** |
| | | - | - | - | - | (0.0826) | (0.0897) | - | - | - | - | (0.0636) | (0.0681) |

*Notes*: Estimated results of equation (1). Orthogonality conditions are not reported. Dependent variable is earnings per share over stock price at the beginning of the period. Among the independent variables, we include *R*, which represents annual stock return. *DR* is a dummy variable that takes the value 1 if annual return is negative, and 0 otherwise. *IFRS* is a dummy variable that takes the value 1 if firms report their financial statements under IFRS standards, and 0 otherwise. *BIOwn* is the proportion of shares owned by institutional blockholders, *MIOwn* is the proportion of shares owned by minority institutional investors, *IndIO* is the proportion of shares owned by independent institutional investors, and *GreyIO* is the proportion of shares owned by grey institutional investors. Firm-level control variables included are Tobin's Q, the natural logarithm of total assets (Size), and the Debt-to-Assets ratio. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

Table 5 shows the moderating role of institutional investor ownership, IFRS mandatory adoption, and earnings quality. Column 1 shows that introducing the stand-alone institutional ownership ($IOwn$) variable is not statistically significant, while the IFRS variable is negative and statistically significant. However, when introducing the interaction between IFRS and Institutional Ownership in column 2, the coefficient $IOwn$ becomes negative and statistically significant, with a value of -0.022. However, institutional investors' role in the relationship between IFRS adoption and earnings quality is captured by the interaction between *IFRS x IOwn*. The parameter for the interaction is positive and statistically significant (0.019, S.E.=0.008). Using the estimation in column 2, the marginal effect of IFRS adoption on earnings quality is -0.009+0.019* *IOwn*. Evaluated at the sample average of institutional investor ownership, this result has a marginal effect of -0.007. In other words, if institutional investor ownership increases, the effect of IFRS adoption on earnings quality is reduced.

Moreover, in Columns 3, 4, 5 and 6 of Table 5 we separate the effect of institutional ownership between blockholders and minority shareholders. Results indicate that institutional investor effect on IFRS adoption and earnings quality is only significant when institutional investors become blockholders. The parameter for the interaction ($\beta_4$) is positive and statistically significant. These results are in line with "pricing" incentives when firms adopt a regulatory change, encouranging managers to undertake more aggressive accouting strategies that could serve as a mechanism to meet or beat earnings target, or to signal investment opportunities to investors (Burgstahler and Eames 2006; Healy and Palepu 2001; Healy and Wahlen 1999).

The caveat with this analysis is that, although these are arguments that satisfactorily explain the average sample results, there are still different and opposing incentives and behaviors from different orientation of institutional investors when digging deeper into the variables. So although these arguments describe the general sample well, they do not tell the whole story. We present the results regarding those differences (H3) in the next subsection.

## Table 5: OLS Regressions of Institutional Investor type, IFRS adoption and Earnings Quality

| VARIABLES | | Dependent Variable: $SdDDQ_{i,t}$ (Three-year Dechow and Dichev's earnings quality measure) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| $IFRS_{i,t}$ | $\beta_1$ | -0.008** | -0.009** | -0.008** | -0.009** | -0.007** | -0.008** | -0.008** | -0.008** | -0.008** | -0.009** |
| | | (0.003) | (0.004) | (0.003) | (0.004) | (0.003) | (0.004) | (0.003) | (0.003) | (0.004) | (0.004) |
| $IFRS_{i,t}$ x $IOwn_{i,t}$ | $\beta_2$ | | 0.019** | | | | | | | | |
| | | | (0.008) | | | | | | | | |
| $IOwn_{i,t}$ | $\beta_3$ | -0.007 | -0.022*** | | | | | | | | |
| | | (0.005) | (0.006) | | | | | | | | |
| $IFRS_{i,t}$ x $BIOwn_{i,t}$ | $\beta_4$ | | | | 0.027*** | | 0.028*** | | | | |
| | | | | | (0.007) | | (0.007) | | | | |
| $BIOwn_{i,t}$ | $\beta_5$ | | | -0.005 | -0.026*** | -0.005 | -0.026*** | | | | |
| | | | | (0.005) | (0.004) | (0.005) | (0.003) | | | | |
| $IFRS_{i,t}$ x $MIOwn_{i,t}$ | $\beta_6$ | | | | | -0.007 | -0.017 | | | | |
| | | | | | | (0.021) | (0.020) | | | | |
| $MIOwn_{i,t}$ | $\beta_7$ | | | -0.014 | -0.016 | -0.009 | -0.003 | | | | |
| | | | | (0.012) | (0.012) | (0.019) | (0.018) | | | | |
| $IFRS_{i,t}$ x $GreyIO_{i,t}$ | $\beta_8$ | | | | | | | | 0.038** | | 0.035** |
| | | | | | | | | | (0.014) | | (0.015) |
| $GreyIO_{i,t}$ | $\beta_9$ | | | | | | | -0.005 | -0.035*** | -0.005 | -0.033*** |
| | | | | | | | | (0.009) | (0.011) | (0.009) | (0.011) |
| $IFRS_{i,t}$ x $IndIO_{i,t}$ | $\beta_{10}$ | | | | | | | | | 0.024*** | 0.023*** |
| | | | | | | | | | | (0.008) | (0.008) |
| $IndIO_{i,t}$ | $\beta_{11}$ | | | | | | | -0.007 | -0.006 | -0.025*** | -0.024*** |
| | | | | | | | | (0.006) | (0.006) | (0.003) | (0.004) |
| Constant | $\beta_0$ | 0.082*** | 0.083*** | 0.081*** | 0.080*** | 0.080*** | 0.080*** | 0.084*** | 0.084*** | 0.084*** | 0.084*** |
| | | (0.007) | (0.008) | (0.008) | (0.008) | (0.008) | (0.008) | (0.007) | (0.007) | (0.007) | (0.007) |
| Observations | | 1,903 | 1,903 | 1,903 | 1,903 | 1,903 | 1,903 | 1,903 | 1,903 | 1,903 | 1,903 |
| R-squared | | 0.107 | 0.109 | 0.108 | 0.110 | 0.108 | 0.110 | 0.107 | 0.108 | 0.109 | 0.109 |
| Adj. R2 | | 0.0813 | 0.0826 | 0.0810 | 0.0832 | 0.0805 | 0.0829 | 0.0803 | 0.0809 | 0.0815 | 0.0820 |
| F-Stat | | 21.37 | 17.04 | 19.40 | 17.68 | 18.11 | 19.70 | 19.03 | 22.26 | 18.13 | 18.35 |
| Country-Year FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry FE | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm-Level C.V. | | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| *Marginal Effect* | | | | | | | | | | | |
| $\beta_1 + \beta_2 \cdot IOwn_{i,t}$ | | | -0.007** | | | | | | | | |
| | | | (0.003) | | | | | | | | |
| $\beta_1 + \beta_4 \cdot BIOwn_{i,t}$ | | | | | -0.007** | | -0.006* | | | | |
| | | | | | (0.003) | | (0.004) | | | | |
| $\beta_1 + \beta_6 \cdot MIOwn_{i,t}$ | | | | | | -0.008** | -0.009** | | | | |
| | | | | | | (0.003) | (0.004) | | | | |
| $\beta_1 + \beta_4 \cdot BIOwn_{i,t} + \beta_6 \cdot MIOwn_{i,t}$ | | | | | | | -0.007** | | | | |
| | | | | | | | (0.004) | | | | |
| $\beta_1 + \beta_8 \cdot GreyIO_{i,t}$ | | | | | | | | | -0.007** | | -0.008** |
| | | | | | | | | | (0.003) | | (0.004) |
| $\beta_1 + \beta_{10} \cdot IndIO_{i,t}$ | | | | | | | | | | -0.007** | -0.008** |
| | | | | | | | | | | (0.003) | (0.003) |
| $\beta_1 + \beta_8 \cdot GreyIO_{i,t} + \beta_{10} \cdot IndIO_{i,t}$ | | | | | | | | | | | -0.007** |
| | | | | | | | | | | | (0.004) |

*Notes*: Estimated results of equation (2). The three dependent variables - quality of earnings, IFRS adoption and earnings quality - are measured as the three-year standard deviation of the Dechow and Dichev model residuals. All variables are defined in appendix A. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

### 5.3. Institutional Investor Heterogeneity.

Our main results suggest that "pricing" incentives of institutional investors predominate when firms adopt regulatory changes. Thus, on average, institutional investors reduce the beneficial role of adopting new accounting regulations, encouraging managers to adopt more aggressive accounting strategies and worsen earnings quality. Further, we now explore how this effect differs between the different orientations of blockholder institutional investors, such as investor type (grey vs independent investors) as posited by hypothesis 3 (H3).

Tables 4 and 5 present the heterogeneity results for equation (1) and (2), respectively. Columns 4 to 6, and 10 to 12 of Table 4 show the estimated results of OLS regressions of equation (1) by separating the effect of independent blockholder institutional investors ($IndIO$) and grey blockholder institutional shareholders ($GreyIO$). All the estimations of the equation (1) are controlled by a fixed effect at the Country-Year level and Industry level[16], and in column 10 to 12 we include a set of firm-level control variables such as Tobin's Q, Size (the natural logarithm of total assets), and the Debt-to-Assets ratio. On the one hand, results in columns 4, 6, 10 and 12 give support to "pricing" incentives of independent institutional investors with the interacted term $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot IndIO_{i,t}$ being negative and statistically significant, with values of -0.914, -0.951, -0.959 and -0.746, respectively. For instance, in column 6 of Table 4, the marginal effect of independent institutional investors on the increasing effect of IFRS on conservatism is 0.168. In other words, the increasing effect of IFRS adoption on earnings conservatism is reduced from 0.207 to 0.168 in firms with independent institutional ownership.

On the other hand, only grey investors such as private pension funds help to increase monitoring, encouraging managers to provide more timely accounting information. Results in columns 5 and 6 show that the presence of grey institutional investors boosts the increasing effect of IFRS on earnings conservatism. In columns 5 and 6, the interacted term $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t} \cdot GreyIO_{i,t}$ is positive and statistically significant, with values of 1.542 and 1.622, respectively. Despite that coefficients in columns 11 and 12 are not significant when firm-control variables are introduced, results in columns 5 and 6 do not align with arguments related to grey investors' tendency to create business ties with firms' insiders, which can generate incentives for higher levels of asymmetric information. Conversely, our results suggest that grey investors have incentives to engage in monitoring and keep

[16] Notice that the results observed in Table 4 only show the main interactions because we introduce two institutional investor variables as interactions at the same time. The orthogonality conditions are not reported.

for the good way when firms adopt a regulatory change. Moreover, as mentioned above, some grey investors in Latin American countries are called to play a critical role in improving the informativeness of financial reports issued by firms.

Hypothesis 3 also deals with the effect of investor orientation on IFRS adoption effect on earnings quality. Our results suggest that the effect of IFRS adoption is lower in firms with higher levels of institutional investor ownership, arguing for "*pricing*" incentives. Columns 9 and 10 of Table 5 shows that this effect is significant in firms with independent and grey blockholder institutional investors. The parameter of $IFRS_{i,t}$ is negative and statistically significant (-0.008 and -0.009). This result indicates that IFRS adoption reduces the volatility of earnings estimations errors as a proxy of earnings quality. In addition, the parameter for the interaction *IFRS x IndIO* is positive and statistically significant (0.024 and 0.023). Using the estimation in column 9, the marginal effect of IFRS adoption on earnings quality is -0.008+0.024**IndIO*. Evaluated at the sample average of independent institutional investor ownership (0.040), this result has a marginal effect of -0.007. Concerning grey investors, the results are similar. Columns 8 and 10 show that the parameter for the interaction *IFRS x GreyIO* is positive and statistically significant (0.038 and 0.035). In other words, regardless of the type of investor, if blockholder institutional ownership increases, the beneficial effect of IFRS on earnings quality is weakened.

### 5.4. Robustness check

In order to explore the effect of IFRS adoption under different levels of institutional ownership -as we mentioned above-, we conduct a heterogeneity robustness check in order to contrast if the IFRS effect over conservatism is more prominent in firms with supposedly weaker monitoring. In particular, we split the sample in tertiles of different types of institutional investors and run the equation (1) by only including the IFRS interaction. Our results are reported in Appendix B and support the "pricing" arguments. The effect of IFRS adoption in earnings conservatism is more prominent in firms that do not have institutional investors as shareholders.

## 6. Conclusions

In this paper we explore the moderating role of institutional investors in improving the quality of financial information when a regulatory change occurs. In particular, we focus on the relationship between IFRS adoption and earnings attributes such as earnings conservatism and earnings quality for a group of Latin American emerging markets such as Argentina, Brazil, Chile, Mexico, and Peru.

Institutional investors' beneficial role in contributing to the capital market development in Latin America has been accompanied by a wave of socio-political uncertaintly, including social pressure to improve countries' economic conditions, such as income inequality, social security, and wealth distribution. This social pressure has questioned the current financial system and the real contribution of different types of institutional investors such as investment advisors and private pension funds.

This work contributes to the discussion on institutional investors' role in ensuring for minimum quality standars of financial information and corporate governance, and reduce oportunistic incentives generated when firms adopt new accounting rules such as IFRS adoption. Specifically, we highlight insights some corporate governance mechanisms through which financial reporting standard changes affect accounting practices and information quality in emerging markets. Previous empirical evidence analyzed the role of IFRS in the conservatism of financial statement reporting (using the asymmetric timeliness of *Good/Bad news* recognition) and in earnings quality (using accrual-based models) has proven to be inconclusive. However, the international evidence suggests that the effect of IFRS adoption on earnings conservatism and quality will depend on the way that external investors are unprotected by law.

In line with previous evidence, we provide evidence to support the importance of International Financial Reporting Standards in increasing earnings quality and accounting conservatism.

Most important, we contribute to the literature by analizing institutional investors incentives to improve or to worse financial information flows around a regulatory change that, in our case is the IFRS mandatory adoption. In this way, our results have implications for a better understanding of corporate governance in small emerging economies.

We find that mandatory IFRS adoption in Latin America has increased earnings conservatism and quality, but institutional investors' presence reduces this effect. Thus, the evidence provided in this study suggests that the global unification of accounting standards has led to greater earning conservatism and quality, which is in line with earnings conservatism being a characteristic demanded by financial information users.

Moreover, our results also suggest that institutional investors appears to be seduced by "pricing" forces when a regulatory changes arrives. The literature has been showed that institutional investors

in emerging markets and specially the independent institutions play an active role in several corporate governance dimensions (Alvarez et al. 2018; De-la-Hoz and Pombo 2016; Aggarwal et al. 2011; Ferreira and Matos 2008), however our results suggest that these investors demand more aggressive accounting strategies to meet or beat earnings expectations. Note that our results also could indicate that the effect of IFRS on accounting conservatism and earnings quality could serve as a mechanism that improves financial reporting quality in firms that lacks of *"external monitoring"* provided by institutional investors' ownership.

Future research is encouraged to examine how institutional investors exert their influence and explore relevant differences between developed and developing markets. Another research path could explore the value added or subtracted by IFRS adoption, analyzing whether investor type also exerts influence in this area.

## Appendix A: Variable definitions

| Abbreviation | Variable | Definition |
|---|---|---|
| $X_{i,t}$ | $EPS_{i,t}/Price_{i,t-1}$ | Earnings per share scaled over share price at the beginning of the period. |
| $R_{i,t}$ | Annual stock return | Annual share return of firm *i* in year *t*. |
| $D_{i,t}$ | *Bad News* dummy | Takes the value 1 if annual return is negative, and 0 otherwise. |
| $SdDDQ_{i,t}$ | D&D's earnings quality measure | Standard Deviation of the residuals of the Dechow and Dichev (2002) model. |
| $IOwn$ | Institutional Ownership | Proportion of shares owned by institutional investors |
| $MIOwn$ | Minority institutional Ownership | Proportion of shares owned by minority shareholder investors (<5%) |
| $BIOwn$ | Blockholder institutional Ownership | Proportion of shares owned by institutional blockholder investors (>5%) |
| $GreyIO$ | Blockholder grey institutional Ownership | Proportion of shares owned by banks and trusts, insurance companies, and pension funds (>5%) |
| $IndIO$ | Blockholder independent institutional ownership | Proportion of shares owned by independent institutional blockholders (>5%): hedge funds, hedge fund portfolios, investment advisors, and mutual funds |
| *Firm-level control* | | |
| $CFO/Assets_{i,t}$ | Cash flow from operating activities ratio | Operating cash flow over lagged total assets. |
| $PPE/Assets_{i,t}$ | Property, plants and equipment ratio | Property, plants and equipment scaled by lagged total assets. |
| $TA_{i,t}$ | Total accruals | Net income before extraordinary items minus operating cash flow. |
| $Abs(Accruals)_{i,t}$ | Absolute value of accruals | Absolute value of total accruals. |
| $IFRS_{i,t}$ | IFRS dummy | Takes the value 1 if financial statements are reported under International Financial Reporting Standards, and 0 otherwise. |
| Tobin's Q | Tobin's Q | (Market capitalization + Total debt)/Total asset replacement value |
| Ln(assets) | Size | Natural logarithm of total assets |
| Debt/Assets | Debt ratio | Total debt to total assets |
| Sales/Assets | Sales ratio | Total sales over lagged total assets |
| Div/Assets | Dividend ratio | Dividends paid over total assets |
| *Fixed effects* | | |
| Industry FE | Industry fixed effect | Set of industry dummies (Thomson Reuters Business Level definition) |
| Year-Country FE | Year-country fixed effect | Set of year-country dummies |
| Firm FE | Firm fixed effect | Set of firm dummies |
| Country FE | Country fixed effect | Set of country dummies |

## Appendix B: Robustness Check Heterogeneity

This appendix shows the robustness check results by conducting a heterogeneity analysis by splitting the sample according to institutional investor variables (total institutional ownership, blockholders, minority shareholders and independent investors).

In Table B1 we split the sample in tertiles of total institutional ownership and provide separate regressions. The estimated results in Columns 1 and 2 indicate that, comparatively, earnings are more sensitive to bad news ($\beta_3$) in firms with lower levels of institutional ownership. Interestingly, Column 2 shows that the parameter of the interacted term $\beta_7$ is significant while $\beta_3$ is not. This result indicates that the increase of conservatism is mostly driven by IFRS adoption process.

At medium and higher levels of institutional ownership, results support the "pricing" arguments. Firms with institutional investors adopt less conservative strategies in earnings, and IFRS adoption does affect earnings sensitivity to economic *Bad News* only when institutional ownership is high.

Table B2 compares the impact of IFRS adoption for firms with blockholders in their ownership. Again, we find that the effect of IFRS on earnings conservatism is significant in companies with no block holding investors, supporting "pricing" arguments.

**Table B1: OLS Regressions at different levels of Total Institutional Investor Ownership**

| | | Tertiles of Total Institutional Ownership | | | | | |
|---|---|---|---|---|---|---|---|
| | | Low | | Medium | | High | |
| VARIABLES | | (1) | (2) | (3) | (4) | (5) | (6) |
| $R_{i,t}$ | $\beta_1$ | 0.060** | 0.114*** | 0.062*** | 0.061** | 0.046*** | 0.058** |
| | | (0.030) | (0.027) | (0.023) | (0.025) | (0.014) | (0.028) |
| $DR_{i,t}$ | $\beta_2$ | -0.039* | -0.040 | 0.011 | 0.039 | -0.016 | -0.094** |
| | | (0.022) | (0.030) | (0.023) | (0.027) | (0.018) | (0.047) |
| $DR_{i,t} \cdot R_{i,t}$ | $\beta_3$ | 0.322*** | 0.138 | 0.213*** | 0.278*** | 0.169*** | 0.033 |
| | | (0.069) | (0.085) | (0.064) | (0.102) | (0.056) | (0.069) |
| $IFRS_{i,t}$ | $\beta_4$ | | 0.100* | | 0.003 | | 0.018 |
| | | | (0.052) | | (0.038) | | (0.043) |
| $DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_5$ | | -0.021 | | -0.040 | | 0.103** |
| | | | (0.043) | | (0.043) | | (0.050) |
| $R_{i,t} \cdot IFRS_{i,t}$ | $\beta_6$ | | -0.139** | | 0.003 | | -0.021 |
| | | | (0.063) | | (0.051) | | (0.031) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_7$ | | 0.324*** | | -0.092 | | 0.179** |
| | | | (0.125) | | (0.129) | | (0.089) |
| Constant | $\beta_0$ | 0.055 | 0.043 | 0.113*** | 0.092*** | 0.027 | 0.055 |
| | | (0.062) | (0.061) | (0.019) | (0.022) | (0.161) | (0.161) |
| Observations | | 1,530 | 1,530 | 1,149 | 1,149 | 1,309 | 1,309 |
| R-squared | | 0.200 | 0.210 | 0.168 | 0.170 | 0.200 | 0.206 |
| Adj. R2 | | 0.169 | 0.177 | 0.134 | 0.132 | 0.163 | 0.167 |
| Year-Country FE | | Yes | Yes | Yes | Yes | Yes | Yes |
| Marginal Effect | | | | | | | |
| $\beta_1 + \beta_3 \cdot D_{i,t}$ | | 0.382*** | 0.252*** | 0.275*** | 0.340*** | 0.214*** | 0.0913 |
| | | (0.0613) | (0.0804) | (0.0613) | (0.101) | (0.0542) | (0.0642) |
| $\beta_3 + \beta_7 \cdot IFRS_{i,t}$ | | | 0.463*** | | 0.186** | | 0.213*** |
| | | | (0.0972) | | (0.0839) | | (0.0649) |

| Diff. Coeff. (*Chi-Sq.*) (DR x R) | |
|---|---|
| (1) Vs. (3) | 1.43 |
| (1) Vs. (5) | 4.09** |
| (3) Vs. (5) | 0.65 |

*Notes*: Estimated results of equation (1) by levels of investment total institutional investor ownership. The dependent variable is earnings per share over stock price at the beginning of the period. Among the independent variables, we include *R*, which represents annual stock return. *DR* is a dummy variable that takes the value 1 if annual return is negative, and 0 otherwise. *IFRS* is a dummy variable that takes the value 1 if firms report their financial statements under IFRS standards, and 0 otherwise. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

## Table B2: OLS Regressions - Blockholding Institutional Investors

| | | Institutional Blockholders | | | |
|---|---|---|---|---|---|
| | | $BIOwn = 0$ | | $BIOwn > 0$ | |
| VARIABLES | | (1) | (2) | (3) | (4) |
| $R_{i,t}$ | $\beta_1$ | 0.064*** | 0.102*** | 0.043*** | 0.053** |
| | | (0.021) | (0.020) | (0.016) | (0.027) |
| $DR_{i,t}$ | $\beta_2$ | -0.023 | -0.022 | -0.010 | -0.088* |
| | | (0.015) | (0.021) | (0.019) | (0.049) |
| $DR_{i,t} \cdot R_{i,t}$ | $\beta_3$ | 0.274*** | 0.142** | 0.159*** | 0.069 |
| | | (0.050) | (0.059) | (0.056) | (0.081) |
| $IFRS_{i,t}$ | $\beta_4$ | | 0.083** | | -0.017 |
| | | | (0.037) | | (0.052) |
| $DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_5$ | | -0.011 | | 0.099* |
| | | | (0.030) | | (0.052) |
| $R_{i,t} \cdot IFRS_{i,t}$ | $\beta_6$ | | -0.091** | | -0.019 |
| | | | (0.044) | | (0.031) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_7$ | | 0.225** | | 0.120 |
| | | | (0.089) | | (0.096) |
| Constant | $\beta_0$ | 0.040 | 0.030 | 0.127 | 0.150 |
| | | (0.057) | (0.056) | (0.435) | (0.439) |
| Observations | | 2,919 | 2,919 | 1,069 | 1,069 |
| R-squared | | 0.166 | 0.172 | 0.192 | 0.197 |
| Adj. R2 | | 0.149 | 0.154 | 0.149 | 0.152 |
| Year-Country FE | | Yes | Yes | Yes | Yes |
| Marginal Effect | | | | | |
| $\beta_1 + \beta_3 \cdot DR_{i,t}$ | | 0.338*** | 0.243*** | 0.202*** | 0.122 |
| | | (0.0448) | (0.0549) | (0.0542) | (0.0806) |
| $\beta_3 + \beta_7 \cdot IFRS_{i,t}$ | | | 0.367*** | | 0.190*** |
| | | | (0.0697) | | (0.0630) |

*Notes*: Estimated results of equation (1) by the existence of blockholder's institutional investors in ownership. The dependent variable is earnings per share over stock price at the beginning of the period. Among the independent variables, we include *R*, which represents annual stock return. *DR* is a dummy variable that takes the value 1 if annual return is negative, and 0 otherwise. *IFRS* is a dummy variable that takes the value 1 if firms report their financial statements under IFRS standards, and 0 otherwise. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

Similar results are presented in Table B3, where we split the sample for companies with independent institutional investors. Again, the evidence suggests that this type of investor also curves management incentives for adopting more aggressive earnings strategies, in line with "pricing" incentives.

## Table B3: OLS Regressions - Independent Institutional Investors

| | | Independent Institutional Investors | | | |
|---|---|---|---|---|---|
| | | $IndIO = 0$ | | $IndIO > 0$ | |
| VARIABLES | | (1) | (2) | (3) | (4) |
| $R_{i,t}$ | $\beta_1$ | 0.060** | 0.114*** | 0.055*** | 0.062*** |
| | | (0.030) | (0.027) | (0.013) | (0.019) |
| $DR_{i,t}$ | $\beta_2$ | -0.039* | -0.039 | -0.004 | -0.031 |
| | | (0.022) | (0.030) | (0.014) | (0.026) |
| $DR_{i,t} \cdot R_{i,t}$ | $\beta_3$ | 0.322*** | 0.140 | 0.173*** | 0.123** |
| | | (0.069) | (0.085) | (0.043) | (0.051) |
| $IFRS_{i,t}$ | $\beta_4$ | | 0.099* | | 0.013 |
| | | | (0.051) | | (0.027) |
| $DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_5$ | | -0.022 | | 0.036 |
| | | | (0.043) | | (0.031) |
| $R_{i,t} \cdot IFRS_{i,t}$ | $\beta_6$ | | -0.139** | | -0.014 |
| | | | (0.063) | | (0.024) |
| $R_{i,t} \cdot DR_{i,t} \cdot IFRS_{i,t}$ | $\beta_7$ | | 0.322*** | | 0.072 |
| | | | (0.125) | | (0.070) |
| Constant | $\beta_0$ | 0.055 | 0.043 | 0.031 | 0.041 |
| | | (0.062) | (0.061) | (0.146) | (0.147) |
| Observations | | 1,760 | 1,760 | 2,228 | 2,228 |
| R-squared | | 0.191 | 0.201 | 0.171 | 0.172 |
| Adj. R2 | | 0.164 | 0.172 | 0.149 | 0.149 |
| Year-Country FE | | Yes | Yes | Yes | Yes |
| Marginal Effect | | | | | |
| $\beta_1 + \beta_3 \cdot DR_{i,t}$ | | 0.382*** | 0.253*** | 0.228*** | 0.184*** |
| | | (0.0613) | (0.0803) | (0.0413) | (0.0486) |
| $\beta_3 + \beta_7 \cdot IFRS_{i,t}$ | | | 0.462*** | | 0.195*** |
| | | | (0.0972) | | (0.0522) |

*Notes*: Estimated results of equation (1) by the existence of Independent institutional investors in ownership. The dependent variable is earnings per share over stock price at the beginning of the period. Among the independent variables, we include *R*, which represents annual stock return. *DR* is a dummy variable that takes the value 1 if annual return is negative, and 0 otherwise. *IFRS* is a dummy variable that takes the value 1 if firms report their financial statements under IFRS standards, and 0 otherwise. Standard errors are clustered at firm level and shown in parentheses. ***, **, and * represent a level of significance below 1%, 5%, and 10%, respectively.

## CONCLUSIÓN

La información financiera que reportan las empresas es utilizada por diferentes actores del mercado de capitales para tomar decisiones. Lo anterior supone que dicha información debe cumplir con altos estándares de calidad para mantener correctamente informados a los agentes y así puedan tomar las decisiones de inversión y financiamiento adecuadas. La calidad de la información financiera es especialmente importante cuando existe de la separación de control y propiedad en una institución, lo que casi inevitablemente generará problemas de agencia dada la diversidad de objetivos con la que operan los distintos actores.

En la literatura la calidad de las ganancias (*earnings quality*) se analiza en distintas dimensiones, argumentando que la utilidad de la información depende del usuario y contexto de la decisión a enfrentar. Es por esto, que esta tesis se enfoca en dos dimensiones: Reconocimiento asimétrico de los resultados (*timely loss recognition*) y Devengo (a*ccruals*).

El conservadurismo contable es el reconocimiento asimétrico de las utilidades, es decir, se exige un mayor grado de verificación a las ganancias que a las pérdidas para ser reconocidas en los estados financieros (Basu, 1997). Esta característica de la información financiera es una de las más importantes, porque funciona como medida de mitigación de los problemas de agencia que puede enfrentar una empresa (Zhong & Li, 2017; Sterling, 1970). El análisis de devengo o *accruals* busca identificar aquellas transacciones realizadas que no se condicen en el mismo periodo de tiempo con los movimientos de flujos de efectivos operacionales, por lo cual son susceptibles de manipulación dado que se debe realizar una estimación para su contabilización.

El responsable final de la calidad de la información entregada al mercado financiero es el gobierno corporativo de la empresa, dado que su principal objetivo es implementar mecanismos de monitoreo que permitan proteger los intereses de inversionistas externos. Por esta razón, el foco principal de esta tesis es el impacto del gobierno corporativo en la calidad de la información financiera. Específicamente, se analizan las características de los directores de empresa y la participación accionaria de los inversionistas institucionales en el contexto latinoamericano.

En el segundo capítulo de esta tesis se analiza el impacto de la composición y caracterización de los directorios chilenos y el conservadurismo contable. Este estudio contribuye, a la literatura y reguladores, proporcionando evidencia relacionada con el género, independencia, nivel educativo, experiencia y nacionalidad de los directores en una economía emergente. Concretamente se entrega

evidencia de que la independencia del directorio tiene una influencia positiva en el conservadurismo contable, mientras que la inclusión de extranjeros y la participación de directores en múltiples cargos lo reducen. Por otro lado, no se encuentran resultados significativos en cuanto al nivel de formación del directorio y la presencia de mujeres. Los atributos analizados son necesarios para una mejor comprensión de la diversidad del directorio y su relación con el entorno financiero (Khatib, Abdullah, Elamer & Abueid, 2021).

En el artículo presentado en el tercer capítulo, se muestra evidencia que contribuye al conocimiento sobre las implicancias de la propiedad corporativa y los incentivos de los inversionistas en las estrategias contables de las empresas en mercados emergentes. En particular el estudio muestra como los inversionistas institucionales reducen el papel beneficioso de la adopción de las NIIF en el conservadurismo y la calidad de las ganancias, lo cual está en línea con los incentivos de precios a corto plazo. Sin embargo, al separar por tipo de inversionista, los inversionistas de bloque gris, tales como los fondos de pensiones privados, impulsan el conservadurismo de las ganancias cuando las empresas adoptan las NIIF, pero reducen la calidad de las ganancias. Los resultados destacan que no solo los inversionistas institucionales influyen fuertemente en el impacto de la adopción de las NIIF, en el contexto latinoamericano, sino que este efecto no es independiente del tipo de inversionista.

Los resultados obtenidos en esta tesis son importantes para entender el rol del gobierno corporativo, específicamente sobre la función de los directores de la empresa e inversionistas institucionales, y sus incentivos a monitorear y reducir la información asimétrica en los números contables. Esto es particularmente significativo en países de Latino América, ya que las compañías se caracterizan por tener una alta concentración de propiedad y los inversionistas tienen menor protección legal (La Porta et al, 1998).

En resumen, la presente tesis contribuye a la literatura en al menos tres dimensiones. Primero presenta nueva evidencia para entender cómo la composición del directorio afecta al reconocimiento asimétrico de los resultados contables, específicamente para compañias chilenas, debido a que existe poca evidencia aplicada a mercados emergentes que aborden de forma integral las características de los directorios. En segunda instancia, se analiza la importancia de los inversionistas institucionales en este tipo de mercados y como su influencia permite mejorar la divulgación de información financiera de las compañías. Finalmente, contribuye a entender la influencia de los inversionistas institucionales en la relación entre adopción de NIIF, conservadurismo contable y calidad de las ganancias en economías emergentes.

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## Anexo 1. Regulación relacionada a la composición de los directorios chilenos

Para un mejor entendimiento del artículo relacionado a las características y composición del directorio y su efecto en el conservadurismo contable, en esta sección se procederá a revisar brevemente las normas aplicables a las empresas objeto de estudio, sociedades anónimas abiertas, es decir aquellas que cotizan sus acciones en bolsa de valores o emiten títulos de deuda.

En Chile las sociedades anónimas abiertas se encuentran reguladas por la Ley Nº 18.046 de Sociedades Anónimas, emitida originalmente en 1981, y el Decreto Nº 702 "Aprueba nuevo Reglamento de Sociedades Anónimas"[17], promulgado en 2011. Estas normas regulan su constitución y funcionamiento. Los temas relacionados a Gobiernos Corporativos están regulados principalmente por la Comisión para el Mercado Financiero (CMF, ex Superintendencia de Valores y Seguros), organismo encargado de hacer cumplir las leyes y emitir normativa financiera-contable, entre otras.

Actualmente solo existen exigencias mínimas sobre la composición y caracterización del directorio. Se requiere un número mínimo de directores y la inclusión de directores independientes para ciertas sociedades (Ley Nº18.046); un director no puede participar simultáneamente en un mismo periodo en dos o más directorios de empresas competidoras[18] (Decreto Ley Nº 211).

La Ley Nº18.046 de Sociedades Anónimas, exige para las sociedades anónimas abiertas, constituir un directorio, elegido por la Junta de Accionistas, el cual debe estar compuesto por al menos cinco directores y en caso que deban constituir Comité de Directores este número aumenta a siete.

La Norma de Carácter General Nº 30 "Establece Normas de inscripción de emisores y valores de oferta pública en el Registro de Valores, su difusión, colocación, y obligaciones de información consiguientes", emitida por la Comisión para el Mercado Financiero en noviembre de 1989, solo requería a las empresas informar sobre la composición del directorio, es decir, indicar los nombres de los directores. Esta norma fue modificada por la Norma de Carácter General 386, emitida con 08 de junio de 2015, que exigió, entre otros temas, que las empresas entreguen la siguiente información en el apartado "Responsabilidad social y desarrollo sostenible – Diversidad en el directorio":

[17] El cual derogó al Decreto Nº 587 "Aprueba Reglamento de Sociedades Anónimas", publicado en 1982.

[18] Este requerimiento aplica tanto a directores como cargos ejecutivos relevantes, pero solo para aquellas empresas que pertenezcan a un grupo empresarial que tenga ingresos anuales superiores a 100.000UF (artículo 3, letra d) DL Nº 211 "Fija normas para la defensa de la libre competencia).

i. *Número de Personas por género*

*Se deberá especificar el número de directores y el número de directoras.*

ii. *Número de personas por Nacionalidad*

*Se deberá señalar el número de integrantes del directorio de nacionalidad chilena y el número de extranjeros.*

iii. *Número de personas por Rango de Edad*

*Se deberá señalar el número de integrantes del directorio cuya edad es inferior a 30 años, está entre 30 y 40 años, entre 41 y 50 años, entre 51 y 60 años, entre 61 y 70 y superior a 71 años.*

iv. *Número de personas por Antigüedad*

*Se deberá señalar el número de integrantes del directorio que hayan desempeñado el cargo de director o directora en la entidad por menos de 3 años, entre 3 y 6 años, más de 6 años y menos de 9 años, entre 9 y 12 años y más de 12 años.*

Como se puede desprender de lo anterior, se solicita revelar información sobre la diversidad de género, nacionalidad, edad y antigüedad de los directores. Sin existir requerimientos o exigencias, solo revelación.

El 12 de noviembre de 2021 la CMF emitió la Norma de Carácter General Nº 461 "Modifica la estructura y contenido de la memoria anual de los emisores de valores y modifica y deroga normas que indica", con la cual se realizarán importantes modificaciones a los requerimientos de revelación. En la sección "3.2. Directorio", punto i, la nueva normativa requiere informar:

a. *Identificación de cada uno de los integrantes*
b. *fecha de su nombramiento o última reelección, como también de su cesación en el cargo cuando proceda,*
c. *profesión u oficio de cada uno de los directores;*
d. *si detenta la calidad de presidente o vicepresidente;*
e. *si corresponde a un director independiente o no;*
f. *cuando corresponda, si su calidad de director es de titular o de suplente*

Adicionalmente en la sección "3.2. Directorio", punto xiii "Respecto a la conformación del Directorio" solicita reportar, entre otros:

a. *El número total de directores separados por hombres y mujeres, distinguiendo entre*

*directores titulares y suplentes.*

b. *El número de directores por nacionalidad, separados por hombres y mujeres, distinguiendo entre directores titulares y suplentes.*

c. *El número de directores según rango de edad de acuerdo a los rangos contemplados en la sección 5.1.3., separados por hombres y mujeres, distinguiendo entre directores titulares y suplentes.*

La emisión de la NCG Nº 461, incluye mayores requerimientos de información sobre el directorio, destacando que la información sea separada entre hombres y mujeres, explicitar la independencia de todo el directorio, no solo de los miembros del Comité de Directores. Adicionalmente, en línea con la investigación realizada se debe incluir la profesión u oficio de los directores.

Como se puede desprender de lo anterior, no existen requerimientos específicos respecto a las características de las y los directores, salvo en lo relacionado a lo independencia. La normativa vigente desde el 2015 y reforzada el 2021, solamente requiere informar sobre su caracterización. Para complementar el análisis, a continuación, se realizará una profundización de la normativa, proyectos de normas e iniciativas relacionadas a la independencia y diversidad de género del directorio.

***Independencia***

La Ley Nº19.705 emitida el 20 de diciembre de 2000, modifica la Ley N° 18.046, requiriendo que las sociedades anónimas que cumplan ciertos requisitos[19] deben obligatoriamente, a partir del 01 de enero de 2001, constituir un comité de directores. El objetivo de este comité es examinar los estados financieros, proponer los auditores externos, examinar los sistemas de remuneraciones y planes de compensación a los gerentes y ejecutivos principales, entre otras funciones.

El Comité de Directores, debe estar compuesto por tres miembros, los cuales deben ser en su mayoría independientes. El presidente del Directorio no puede integrar el comité de directores, salvo que sea independiente (Artículo 50 bis, Ley Nº 18.046).

[19] Los requisitos para constituir un comité de directores se incorporaron en el artículo Nº 50 bis de la Ley Nº 18.046, el cual indica:
- *sociedades anónimas abiertas que posean un patrimonio bursátil igual o superior a 1.500.000 Unidades Fomento, y*
- *a lo menos un 12,5% de sus acciones emitidas con derecho a voto, se encuentren en poder de accionistas que individualmente controlen o posean menos del 10% de tales acciones.*

Para analizar estos requisitos se consideran los antecedentes al año anterior, sin perjuicio que las sociedades voluntariamente pueden constituir el Comité de Directores.

Respecto de la definición de director independiente, hasta el año 2009 se calificaba cuando, al sustraer de su votación los votos provenientes del controlador o de sus personas relacionadas, hubiese resultado igualmente electo (Ley Nº 19.075). La Ley Nº20.382, emitida el 20 de octubre de 2009, con vigencia desde esa misma fecha, realiza una modificación respecto de las condiciones necesarias para ser considerado director independiente. Específicamente, indica que no se considerará independiente a quienes se hayan encontrado en cualquier momento dentro de los últimos dieciocho meses, en alguna de las siguientes circunstancias:

1) *Mantuvieren cualquier vinculación, interés o dependencia económica, profesional, crediticia o comercial, de una naturaleza y volumen relevante, con la sociedad, las demás sociedades del grupo del que ella forma parte, su controlador, ni con los ejecutivos principales de cualquiera de ellos, o hayan sido directores, gerentes, administradores, ejecutivos principales o asesores de éstas.*
2) *Mantuvieren una relación de parentesco hasta el segundo grado de consanguinidad o afinidad, con las personas indicadas en el número anterior.*
3) *Hubiesen sido directores, gerentes, administradores o ejecutivos principales de organizaciones sin fines de lucro que hayan recibido aportes, contribuciones o donaciones relevantes de las personas indicadas en el número 1).*
4) *Hubiesen sido socios o accionistas que hayan poseído o controlado, directa o indirectamente, 10% o más del capital; directores; gerentes; administradores o ejecutivos principales de entidades que han prestado servicios jurídicos o de consultoría, por montos relevantes, o de auditoría externa, a las personas indicadas en el número 1).*
5) *Hubiesen sido socios o accionistas que hayan poseído o controlado, directa o indirectamente, 10% o más del capital; directores; gerentes; administradores o ejecutivos principales de los principales competidores, proveedores o clientes de la sociedad.*

Adicionalmente, en la modificación introducida por la Ley N°20.382, se agrega que las compañías que cumplan con los requisitos para constituir un Comité de Directores, necesariamente deberán tener un director independiente en su directorio, así como también que los integrantes del Comité de Directores deben ser en su mayoría independientes, en caso que solo tengan uno, el director independiente podrá designar a los dos restantes.

Todas las modificaciones anteriormente nombradas, se encuentran hoy refundadas en el artículo 50 bis de la Ley 18.046.

***Diversidad de género***

Respecto de la diversidad de género, solo se han emitido regulaciones para algunas empresas del Estado, fuera del alcance del estudio. Para las sociedades anónimas abiertas, no existe legislación alguna al respecto, pero existen diversas iniciativas que promueven la igualdad de derechos entre los hombres y las mujeres, poniendo hoy en día este tema como uno de los relevantes de la contingencia nacional.

En septiembre de 2014 se presentó un primer proyecto de Ley (Boletín N° 9554-07[20]) que buscaba incorporar cuota de género, 30% mínimo de participación femenina, en los directorios de las empresas que transan valores y manejen un patrimonio bursátil igual o mayor a 1.500.000 U.F. En mayo de 2018 se ingresó un nuevo proyecto de ley (Boletín N° 11731-03[21]), el cual busca incorporar una cuota a todas las sociedades anónimas abiertas, requiriendo que en la conformación del directorio ninguno de los sexos supere el 60% de sus miembros. A la fecha, aún no se ha completado el trámite legislativo.

Si bien, no hay legislación para las sociedades anónimas abiertas, en agosto de 2019 se lanzó el Registro de Registro de Mujeres para Directorios[22], cuyo objetivo es aumentar la participación de mujeres en cargos de alta responsabilidad y visibilizar a mujeres disponibles para ejercer estos cargos. Actualmente, es posible acceder a  más de 350 registros de mujeres con potencial de ser directoras.

Como se mencionó anteriormente, solamente existe legislación aplicable a ciertas empresas del Estado. El 24 de junio de 2021 se publicó la Ley Nº 21.356: "Establece la representación de género en los directorios de las empresas públicas y sociedades del estado que indica" la cual requiere que la representación de un mismo género no exceda el 60% del directorio, y en el caso que esté compuesto solo por tres integrantes, las personas del mismo género no podrán exceder de dos. Ahora bien, esta Ley es aplicable solo para los directorios de determinadas empresas públicas creadas por ley o en las que el Estado posea una participación superior al 50%, a través de CORFO, esto quiere

[20]https://www.camara.cl/legislacion/ProyectosDeLey/tramitacion.aspx?prmID=9967&prmBOLETIN=9554-07
[21]https://www.camara.cl/legislacion/ProyectosDeLey/tramitacion.aspx?prmID=12250&prmBoletin=11731-03
[22] https://iniciativaparidadgenerochile.minmujeryeg.gob.cl/?p=6664

decir, que no es aplicable a todas las empresas estatales.

En el caso de las empresas SEP, tales como Metro, EFE, Correos de Chile, entre otras, que están fuera del alcance de esta nueva ley, sus directorios ya cumplen con la paridad de género. Estas poseen una política de inclusión de mujeres en directorios, implementada en el gobierno de la ex Presidenta Bachelet y que fue reafirmada por el gobierno del Presidente Piñera. Otro ejemplo de empresa fuera del alcance de la nueva ley, es Televisión Nacional de Chile (TVN). Esta empresa se rige por la Ley 19.132 "Crea empresa Televisión Nacional de Chile", la cual fue modificación en 2018 para requerir que la proposición de directores que realice el Presidente de la República debe contemplar la integración de directores de forma pluralista y paritaria en cuanto a sexo.