

CEO's Financial Experience and Accounting Information Reliability

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Abstract: In this paper, 150 listed companies in Shanghai and Shenzhen were randomly selected by industry for the 10 years from 2008 to 2018, and the relevant variable data were obtained from the CSMAR database and various economic news websites. After using SPSS19.0 statistical software to describe the relationship between the quality reliability of accounting information and the CEO's financial experience, and regression analysis, the results show that the CEO's financial experience is positively correlated with non-manipulative accrued profit, which in turn affects the accrual quality in earnings management and the earnings level of listed companies, so as to ultimately reflect the reliability of accounting information quality. This leads to the CEO's appointment and provides reference for external users of accounting information.

1. Introduction

"Heaven is not afraid, not afraid, is afraid of CFO as CEO", this is a sentence that Jack Ma has said, followed by September 10, 2019, Alibaba Group Chief Financial Officer Zhang Yong replaced Jack Ma as chairman and CEO of the board of directors of enterprises, the same year December 18, Lenovo CFO Ningyi and Liu Chuanzhi new and old handover, as CEO[1]. In one of his articles, Mr. Jiang noted that "in recent years, more and more companies have tended to hire executives with financial experience as CEOs", and statistics from abroad show that between 1993 and 2004, the proportion of CEOs with financial experience in companies with financial experience was 22 percent[2]. Among them, the proportion of new CEOs in U.S. public companies with financial experience increased from 15.48 percent before the Sarbanes Act to 33.33 percent after the Sarbanes Act was passed between 2001 and 2004[3]. As far as Listed companies in China are concerned, the proportion of CEOs with financial experience has been rising steadily, from 0.9% in 1995 to 5.71% in 2002, and remained above 5% between 2003 and 2010, reaching 6.59% in 2010[4]. So the question that's worth pondering is, what impact does a financially experienced CEO have on the company, and how does it work?[5] In this regard, many scholars at home and abroad have studied the impact of CEOs with financial experience. Most of the previous research is based on the company's perspective, so this paper decided to discuss the relationship between the CEO's financial experience and the reliability of accounting information quality and the principle of action from the perspective of accounting information users.

2. Theory and Hypothesis

In 2006, China promulgated a new set of accounting standards, recorded as CAS2006[6], to replace the 2001 implementation of the accounting standards, the drastic changes in the standards caused a new round of research on the impact of accounting information quality. I read the new accounting standards[7], and I think that the focus of this standard is to pay attention to the authenticity of the surplus level of listed companies, the authenticity of the surplus level and then reflect the reliability of accounting information quality, so this paper focuses on the reliability of accounting information. In earnings management, the quality of accrual is mainly examined[8], so

this paper focuses on the selection of accounting information quality reliability indicators can reflect the quality of surplus indicators, in view of this goal, found a revised Jones model to calculate non-controllable accrued profit, and then reflects the level of the company's earnings management, that is, the reliability of accounting information. The corrected Jones model formula is as follows[9]:

$$NDA_t = \alpha_1 \left(\frac{1}{A_t} - 1 \right) + \alpha_2 \left(\frac{\Delta REV_t}{A_{t-1}} \right) + \left(\frac{PPE_t}{A_{t-1}} \right) \quad (1)$$

Where NDA_t represents the non-manipulative accrual portion adjusted for total assets at time t , REV_t represents the value of income changes from $t-1$ to t -year, PPE_t represents the original value of fixed assets at the end of t - year, A_{t-1} represents total assets at the end of $t-1$, and REC represents changes in accounts receivable from $t-1$ to t -year.

Therefore, this paper puts forward the assumption that H_0 , the CEO's financial experience affects the non-manipulative accrued profit NDA , may have a positive or negative role in promoting, and thus affect the quality and reliability of accounting information[10].

In this paper, the regression analysis model is constructed with NDA as the variable, whether the CEO has financial experience as the argument, and the company size, cash position, CEO's gender and age as the control variable

$$NDA = \beta_0 FIN + \beta_1 Dual + \beta_2 ROA + \beta_3 LEV + \beta_4 Gender + \beta_5 SIZE + \beta_6 GROWTH + \beta_7 Cash + \beta_8 Age + IDUI + YEAR + u \quad (2)$$

This model examines the impact of the CEO's financial experience on the quality and reliability of corporate accounting information and is used to test H_0 .

3. Research Design

3.1 Sample selection And Data Sources

This paper selects the data of 150 listed companies according to industry classification from the data of Shanghai and Shenzhen A-share listed companies from 2008 to 2018 as the initial research sample. The CEO's personal characteristics and the company's financial data are derived from the personal characteristics of the executives in the CSMAR database and the research part of the listed company, some of which have incomplete financial experience data, which are obtained from Sina News, Financial Evening News, Tidal News network and Baidu and other websites. The data obtained in this paper excludes financial and insurance categories, ST, ST, and PT shares, the missing sample of variable data, and manually filters out the CEO's financial experience from the CEO's resume. The statistical software used in this article is SPSS19.0. In addition, this paper has a 1% indentation of the selected continuous variable value. To sum up the statistics, this paper obtained a total of 8634 observations between 2008 and 2018. The CEO refers to the highest executive in the enterprise responsible for day-to-day business affairs, who has served in the finance department and is defined as having financial experience regardless of position.

3.2 Variable Definition and Modeling

3.2.1. Explained Variable - the Quality of Accounting Information

The measurement angles commonly used in China's empirical accounting research include accrued quality, accounting robustness, surplus disclosure quality and accounting information quality index, each of which contains several different measurement indicators. In this paper, the non-manipulative accrual profit (NDA) of the Jones model as amended in the accrual quality angle is used to measure the quality of accounting information. The robustness test is also carried out by controlling the year variables.

3.2.2. Explanatory Variables - CEO Financial Experience

According to the actual situation of China's listed companies and reference to relevant research, this paper will have served in the relevant part of the financial (no position high or low) defined as

financial experience. A value of 1 is assigned when the CEO has the above experience, otherwise it is 0.

3.2.3. Control Variables

In this paper, asset-liability ratio, total asset return, operating income growth rate, company size, cash flow status, two-job, CEO age, gender, year and industry variables as control variables, where the industry and year are dumb variables.

The table of specific variables is shown in Table 1.

Table 1. The variable table

The type of variable	The name of the variable	The variable symbol	The description of the variable
The explanatory variable	The quality of accounting information	NDA	Non-manipulative accrued profit with correction Jones
Explain the variable	CEO financial experience	FIN	1 when having financial experience, otherwise 0
Control variables	Asset-liability ratio	LEV	Total liabilities at the end of the period/total assets at the end of the period
	The return on total assets	ROA	The ratio of net profit to the average balance of assets
	Growth rate of operating income	GROWTH	(Operating income at the end of the period - operating income at the end of the last period) / Operating income at the end of the period
	The size of the company	SIZE	Ln (total assets at end of period)
	Cash flow status	Cash	Ln (end-of-term monetary funds)
	Two jobs in one	Dual	When the CEO and chairman are in one position, it is 1, otherwise it is 0
	CEO age	Age	CEO age
	CEO gender	Gender	1 when the CEO is male and 0 when female
	Annual	YEAR	Dumb variables
Industry	IDUI	Dumb variables	

4. Empirical Analysis

4.1 Descriptive Statistics

The descriptive statistical table of the main variables in this article is shown in Table 2.

Because of the nature of the variable itself, this paper will use the absolute value of NDA to explain the analysis results, that is, because the positive and negative sign of manipulative accrual profit represents an increase or decrease in the quality of the accrual, and for accounting information users, whether it is an increase or decrease in the quality of the accrual, is the manipulation of its real accounting information, that is, reflects the level of surplus management, the higher the level of earnings management, then the company's accounting information quality reliability is lower. The absolute size of the non-controllable accrual profit reacts to the size of the absolute value of the controllable accrual profit, and then reflects the level of earnings management, and finally reflects the reliability of accounting information.

Panel A shows that in the selected whole sample, the average non-controllable accrued profit (NDA) of listed companies is negative, and the standard deviation is 0.0642275, which indicates that the general situation of non-controllable accrual profit of listed companies in China is reduced, but its absolute value is small, the reduction is not large, which indicates that the average level of earnings management of listed companies in China is low, but still can affect the reliability of accounting information quality. Secondly, the average value of CEO's financial experience (FIN) is 0.12, which indicates that the CEO of listed companies in China has more than 10%, so it is of great

significance to study the relationship between CEO's financial experience and the reliability of accounting information quality.

Table 2. Descriptive statistics

Panel A: Full sample						
	N	Very small value	The great value	mean	standard deviation	variance
LEV	596	.074178	.926447	.51902839	.1743484	.030
GROWTH	596	-.9532	7.8000	.185401	.6895145	.475
ROA	596	-.277111	.259589	.03867280	.0461171	.002
NDA	596	-.4854	.4594	-.030662	.0642275	.004
SIZE	596	19.6399	28.0982	22.763808	1.501134	2.253
Cash	596	15.7126	25.8413	20.487583	1.500854	2.253
Dual	665	0	1	11	.315	.099
FIN	664	0	1	12	.322	.104
Gender	665	0	1	92	.266	.071
Age	665	29	67	49.04	6.417	41.178
Panel B: Distinguish whether you have financial experience						
	Financial experience			Non-financial experience		
	Mean	variance	standard deviation	mean	variance	standard deviation
LEV	.5332665	.18	.1335910	.5171975	.032	.1795129
GROWTH	.215416	.544	.7373504	.181228	.468	.6837595
ROA	.045430	.001	.036228	.0376964	.002	.0473347
NDA	-.013289	.002	.0437503	-.033168	.004	.0663434
SIZE	23.0927	2.356	1.535017	22.71684	2.230	1.493316
Cash	20.6120	2.595	1.6109883	20.470374	2.210	1.4867687
Dual	.03	.025	.159	.12	.108	.329
Gender	.92	.072	.268	.92	.071	.266
Age	49.77	25.297	5.030	48.96	43.220	6.574

Panel B descriptively counts the main variables with and without financial experience, respectively. The average non-manipulative accrued profit (NDA) with financial experience is -0.013289 and the average non-manipulative accrued profit (NDA) without financial experience is -0.0376964 2, indicating that the absolute value of non-controllable accrued profit (NDA) of a company managed by a CEO with financial experience is small, whereas the absolute value of controllable accrued profit (DA) is large, i.e. the relatively high level of earnings management will ultimately reduce the reliability of the company's accounting information. The hypothesis of this paper is initially validated.

4.2 Correlation Analysis

The correlation analysis results are shown in Table 3.

The data in the table show that the correlation coefficient between the CEO's financial experience (FIN) and non-manipulative accrued profit (NDA) is 0.102, and is significant at 5%, indicating a significant positive correlation between the CEO's financial experience and non-manipulative accrued profit, further validating the assumptions and revealing the positive effect of the CEO's financial experience on the non-manipulative accrued profit of the enterprise.

Table 3. Relevance analysis

	LEV	GROWTH	ROA	NDA	SIZE	Cash	Dual	FIN		
LEV	1									
GROWTH	.050	1								
ROA	-.300**	.218**	1							
NDA	-.023	.150**	.029	1						
SIZE	.397**	.002	.057	.002	1					
Cash	.248**	-.023	.126**	-.004	.846**	1				
Dual	.008	-.006	.021	.004	.035	.000	1			
FIN	.030	.016	.055	.102*	.083*	.031	-.099*	1		
Gender	.052	-.018	-.073	-.010	-.037	.054	-.186**	.000	1	
Age	.034	.003	.000	-.052	.166**	.148**	-.031	.041	.065	1
<p>** . Significant correlation on the .01 level (both sides).</p> <p>* . Significant correlation on the 0.05 level (both sides).</p>										

4.3 Regression Analysis

The regression results are shown in Table 4.

As can be known from Table 4, the regression coefficient of financial experience (FIN) is 0.02000 and the corresponding p-value is less than 0.01, indicating that financial experience (FIN) has a significant positive effect on non-manipulative accrued profits at least 1%. When the financial experience is increased by 1 unit, the increase is 0.020 units. The more financial experience you have, the higher the non-manipulation accrued profit. The model has R2 of 0.022 and a degree of interpretation of 2%. The F-value of the regression result is 2.515, and the corresponding p-value is less than 0.01, indicating that the model rejects the original assumption that there is no linear relationship at least at the 1% significant level. To sum up, this article assumes that it is true.

In addition, the effect of the main control variables on non-manipulative accrued profit regression results are as follows: total asset growth is significantly positively related to non-manipulative accrued profit.

Table 4. The regression results-

	FIN	ND A	GR OW TH	RO A	SIZ E	Cash	Dual	Gen der	AG E	IDU I	Year	N	R2	F
ND A	0.02 * (2.5 18)	-0.0 18 (-0.9 9)	0.01 5** (3.7 1)	-0.0 3800 (-0.5 94)	0.02 200 (0.2 71)	-0.0 030 (-0.0 45)	0.00 30 (0.3 63)	0.00 005 (0.0 05)	-0.0 0100 (-1.3 55)	Yes	Yes	596	0.02 2	2.51 5

Standard errors in parentheses * p < 0.1, ** p < 0.05, *** p < 0.01

4.4 The Test of Robustness

4.4.1. Control the Robustness Test of the Year Variable

The results of a direct analysis of the impact of financial experience on non-manipulative accrued profits are likely to be biased. Because there is endolytic possibility. Therefore, in order to eliminate the endo-natured problems in the study, the regression results after the control year show

that the results of this study have not changed significantly, and the results are still stable. The specific regression results are shown in Table 5:

4.4.2. Other Robustness Tests

In order to further ensure the robustness of the results of the study, the following robustness tests were also carried out: changing the measurement of the reliability of accounting information quality and replacing the revised Jones model, which measures the quality of surplus, with the Dechow and Dichev models. Because the above test results are basically consistent with the previous research conclusions, solid is not listed.

5. Conclusions and Revelations

Based on the perspective of branding theory, this paper randomly selects 8634 observation data from 150 listed companies in Shenzhen and Shanghai from 2008 to 2018 according to industry classification, and examines the relationship between financial experience and the reliability of accounting information quality. Conclusion: The absolute value of non-manipulative accrued profit of a company managed by a CEO with financial experience is small, which leads to an increase in the adjustment of manipulative accrued profit, i.e. an increase in the level of earnings management, which affects the reliability of the quality of accounting information; Regression analysis concludes that the CEO's financial experience has a significant positive effect on non-manipulative accrued profits, which ultimately affects the true accrual quality reporting and reduces the reliability of accounting information quality.

This paper has great enlightenment and reference significance for the selection of CEOs of listed companies, and also provides reference regulations for accounting information users to better understand the quality of corporate accounting information. In addition, the company should further improve the executive learning mechanism, through learning to break the mind-set, so that executives make more scientific and reasonable decisions.

Table 5. Robustness Test - Control year variables

	FIN	NDA	GRO WTH	ROA	SIZE	Cash	Dual	Gender	AGE	IDUI	Year	N	R2	F
NDA	0.017 0* (2.03 9)	-0 .0120 (-0.64 6)	0. 0180 ** (4.12 2)	0. 0540 (0.76 3)	0. 0170 (0.18 8)	-0 .0070 (-0.09 5)	0.007 0 (0.77 7)	0.002 0 (0.22 2)	-0.00 10(-1. 178)	Yes	Yes	540	0.048	2.985

Standard errors in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

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